Portucel

Empresa Produtora de Pasta e Papel, S.A.

Public Company

Registered under no. 05888/20001204 at the Commercial Register of Setúbal
Share capital: €767,500,000
N.I.P.C. 503 025 798

CONSOLIDATED INTERIM FINANCIAL INFORMATION, 1st HALF OF 2006

BUSINESS TREND

PAPER

The market

Within a macroeconomic framework marked by the strengthening of economic growth in the eurozone, demand for uncoated woodfree papers (UWF) was positive throughout Western Europe (+2.5%); the cut-size paper and folio segments grew by approximately 3.8% and 3.5%, respectively.

Imports fell by 2% and accounted for 16% of consumption, with cut-size papers accounting for 70% of overall import volumes of UWF; eastern European suppliers continued to be the main source of these papers, although to a slightly lesser extent than in the same portion of the previous year.

Although there was a slight (1%) year-on-year decline in consumption in the US market, the decommissioning of installed capacity on a substantial scale led to the best operating rates since 1995.

Moreover, there was important growth in the economies of other markets (particularly in Asia); this provided outlets for new local producers (China).

Business

Overall sales of the Group grew by 2.6% year-on-year, to 495,000 tons during the 2006 first half.

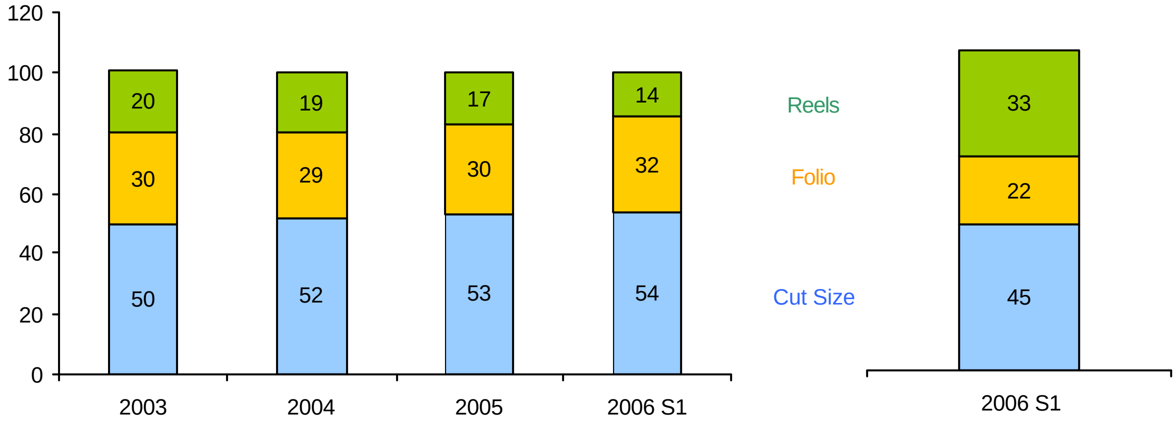
It should be emphasized that this increase in sales was achieved simultaneously with an improvement in the Group's paper product mix, with sales of premium products up by a record 8%.

Indeed, the weighting of premium products in the Group's paper sales volume increased by 3.6% (basis points), confirming the effectiveness of a consistent strategy, as well as the market's recognition of the quality of our papers.

Also in the segmentation by product type, there was a positive trend (highest-ever percentage of sheet paper), with a further 15,000 tons of cut-size papers and 11,000 tons produced in folio; at the same time, volume in reels was down by 12,000 tons.

These results now consolidate the trend begun in previous years, and compare very favourably with the pattern seen in the European market.

Trend in sales by product type (% sales volume)



Source: Cepifine

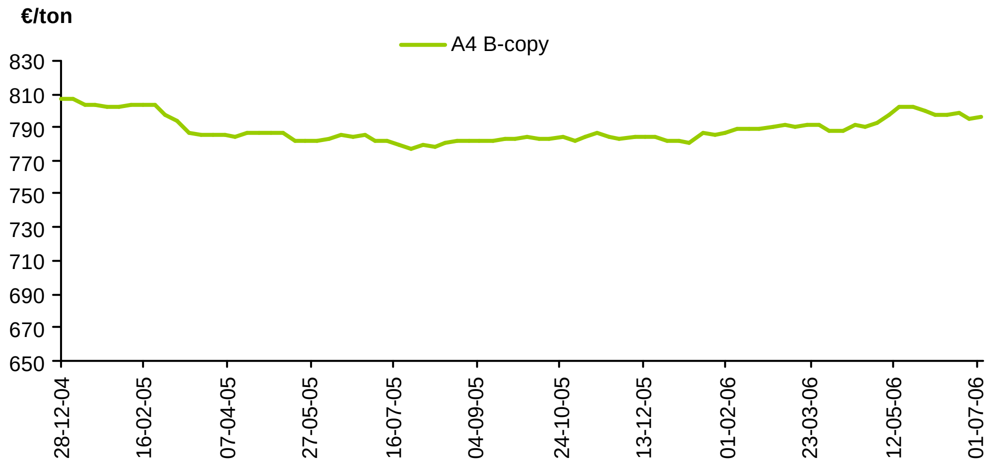
At the present time, the Group continues to sell most of its paper to Western Europe, while maintaining an appreciable presence in the US, where it accounts for more than half of European paper sales to that market.

The Group held on to its average market share of 12% in Eastern Europe (14% in the cut-size papers segment); its share in papers for the printing industry increased by 1% (basis points) to 18%.

Prices

Selling prices of UWF recovered from their downward trend over the past three years; the PIX index of "A4 – *copyB*" improved by 1.8% between December 2005 and June 2006.

Price index (PIX)



Source: Foex Indexes Ltd.

The Group's average selling price in the 1st half of the current year increased by 2.2% year-on-year, and by 3.6% compared to the 2nd half of 2005. However, these gains fell short of increases, during the same periods, in the costs associated with the productive process.

<u>Brands</u>

Own-brand sales during the period under review increased by 22% from the 2005 1st half, thus increasing their share in total sheet paper sales by more than 50%. The excellent reception accorded to the Group's brands can thus be measured by these results.

As seen from a recent independent market survey of distribution channels, the Navigator brand has succeeded once again in consolidating its leadership in terms of performance and recognition in the demanding European market, while the Group is in the front ranks of important suppliers to the cut-size paper market.

PULP

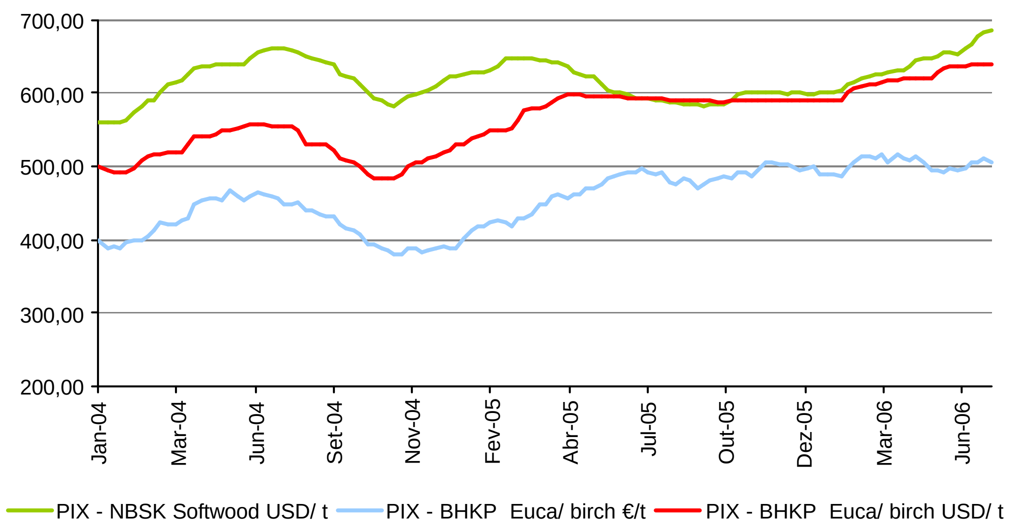
During the period under review, the pulp market enjoyed the benefit of capacity reductions and decommissioning in North America, this due to the decline in profitability brought about by an unfavourable exchange rate (in the case of Canada) and by increased raw materials and energy costs.

Demand remained at an attractive level, particularly in the Chinese market.

Thus, PIX long-fibre, the main beneficiary of this reduction in supply, increased by

12.2%, from US$ 599 to US$ 672 between December 2005 and June 2006, while PIX eucalyptus fibre was up 8.5%, from US$ 589 to US$ 639, over the same period.

Price index (PIX) – BHKP and NBSK



The favourable trend in US$ prices was largely offset by the strengthening of the euro against the US dollar, so that the price of PIX eucalyptus fibre rose only by 2.9% in euros over the same period

The Group sold 285,000 tons of bleached eucalyptus pulp during the 1st half, down 3.2% year-on-year. This decline in sales was due solely to the fact that all of the Group's production units – Cacia, Setúbal and Figueira da Foz – had shut down for their annual maintenance programs in the 1st half.

It should be noted that with the coming on stream of the new recovery boiler at the Cacia plant, the initial forecasts of increased production were exceeded, while energy efficiency was greatly improved.

The Group continues to give priority to sales in the European markets, where the producers of the highest quality papers, added value and high technical standards are located and, in which the intrinsic qualities of Group's *eucalyptus globulus* pulp create substantial added value.

At the logistics level, even though the Group has had to face substantial increases in costs and restrictions in supply, due to the increase in energy and fuel prices, the availability of the European markets as an outlet for Group products has enabled the offer of a package of flexible solutions, combining various alternative means of transportation and external logistical platforms, thus making for a personalized service of the highest quality.

EARNINGS ANALYSIS

(10³ ton)	Jun 06	Jun 05	2006/2005
Production			
Pulp	639,2	623,6	2,5%
Paper	502,3	490,2	2,5%
Sales			
Pulp	284,9	294,3	-3,2%
Paper	495,4	482,7	2,6%
Selling prices (2005= 100)*			
Pulp	111,3	100	
Paper	102,2	100	

10^6 euros	Jun 06	Jun 05		2006/2005
		Restated*	Published	
Sales	529,5	505,5	505,5	4,7%
EBITDA (1)	149,1	122,3	120,4	21,9%
EBITDA Margin	28,1%	24,2%	23,8%	+ 4 pp
Operating profit	100,3	57,5	57,8	74,5%
Financial costs	-16,0	-17,1	-16,4	-6,5%
Net profit	54,8	27,0	27,1	103,3%
Cash Flow	103,5	94,3	89,7	9,8%
Net debt	664,4	822,4	822,4	-19,2%
Investments	13,3	28,4	28,4	-53,2%
Equity ratio (2)	48%	46%	47%	
Net debt ratio (3)	0,63	0,82	0,82	

(1) Operating profit + depreciation + provisions

(2) (shareholders' equity + minorities) net assets

(3) net debt/ (shareholders' equity + minorities)

* During the period between January 1 and June 30 of 2006, the Group changed its accounting policies relative i) to recognition of CO_2 emission rights, in accordance with Technical Interpretation no. 4 of the Portuguese Accounting Standards Commission and ii) to the recognition of contracts involving a location in accordance with Interpretation IFRIC 4.

In this context, consolidated sales totalled €529.5 million, €24 million more than in 2005, of which 69% was in paper and 24% in pulp.

Paper sales grew by 4.8% year-on-year, due to the increase in sales volume and the positive trend in the average prices of this product.

In turn, despite the above-mentioned reduction in volume, pulp sales grew by 7.7% from the same period in the preceding year, due to an approximate 11.3% increase in the average price posted in the 2006 first half.

The Group continued to invest in efficiency improvements and cost reductions, which reflected, for the most part, a significant reduction in variable unit of production and maintenance costs.

During this period, pension costs weighed heavily on personnel expense, as did the accrual, in 2006 of estimated costs based on the variable component of wages. These factors more than offset the reduction of costs shown under the current headings.

Costs during this period were further burdened by higher transportation expenses, due to major increases in fuel prices, as well as the setting up of special provisions in the amount of approximately €10.5 million, in turn due mainly to tax VAT contingencies relating to the years between 1998 and 2003. These contingencies relate mainly to the Group's sales of goods stored in warehouses in Germany during the period mentioned, and if an additional tax assessment is produced, it will be subject to review and possible challenge by the company.

During the 2006 first half, following a study carried out by a specialist entity, the company carried out a review of the remaining life of its assets, which in average terms came out at an estimated 14 years after December 31, 2005. In consequence, the depreciation rates on assets were recalculated for the purpose of the consolidated financial statements, which resulted in a decline of approximately 24.4 million euros in depreciation from the level that would have been shown if the mentioned review had not been carried out.

The Group generated a consolidated EBITDA of €149.1 million, up 21.9% on the 2005 first half, and a 28.1% EBITDA/Sales margin.

In turn, operating profit was €100.3 million, up 74.5% year-on-year. This growth in operating profit was boosted by the mentioned adjustment to the depreciation account; without this effect, operating profit would have been €76.0 million.

Financial earnings were a negative €16.0 million, down 6.5% year-on-year. These include approximately €1.7 million in losses from fluctuations in exchange rates and hedging operations of exchange rates and pulp prices.

Accordingly, consolidated net profit for the period stood at €54.8 million, up 103.3% on the prior year.

CAPITAL EXPENDITURE

During the 2006 first half, capital expenditure totalled approximately €13.3 million, of which the major portion was accounted for by the completion of the new recovery boiler at the Cacia plant, which came on stream in February of this year.

This level of capital expenditure reflects the conclusion of a selective and integrated analysis and the approval of investment in property, plant and equipment, with the aim of ensuring the full competitiveness of the industrial assets.

DEBT

Group debt fell by €158 million from the end of the 2005 first half, and by a further €72 million in the 2006 first half. This result was due to a strong cash flow, together with careful management of working capital. At the same time, there was sufficient cash left over for a €40.3 million dividend payout and the mentioned capital expenditures.

The net debt structure as of June 30, 2006 was as follows:

Debt Structure (000's €)	June, 06	December, 05
Medium & long-term	**738.061**	**747.420**
Bonds	693.607	693.059
Other loans	44.454	54.361
Commercial paper	0	63.998
Medium & long-term loans due within 1 year	10.308	14.242
Total debt	**748.369**	**825.660**
Cash and banks	83.921	89.521
Total net debt	**664.448**	**736.139**

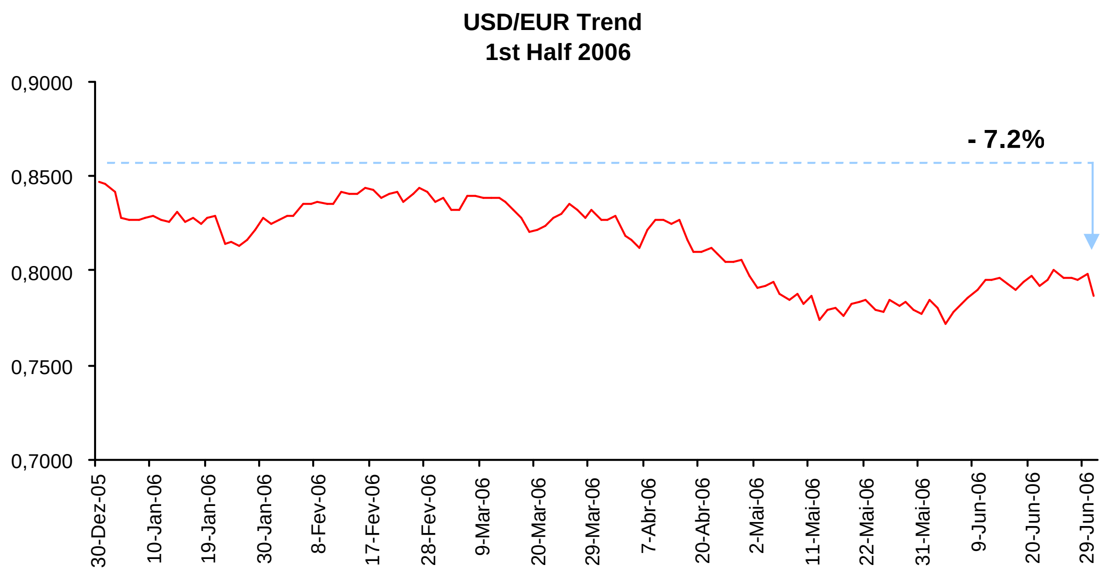
RISK MANAGEMENT

As shown in note 2 of the notes to the accounts, the Group's activities are exposed to a variety of financial and operational risk factors. The Group has maintained a high profile in risk management, seeking to minimize the threats, specifically foreign exchange, interest rate, credit and liquidity risks and fluctuations in the price of pulp.

Exchange risk

The US dollar declined by 7.2% against the euro during the first half of 2006.

Because the sales are heavily exposed to exchange risks, particularly against the US dollar, the Group took on a package of financial instruments to protect from exchange fluctuations, hedging some 80% of sales sensitive to exchange risks during this period, and practically all balance sheet items denominated in foreign currencies.



Interest rate risk

Nearly all of the financial debt is indexed to short-term reference rates – generally 6-month euribor. To cover unfavourable fluctuations in interest rates, the Group decided to fix the rates on part of the medium and long-term loans by taking out interest rate swaps.

At the end of the half-year, about 48% of the medium and long-term debt was hedged against interest rate risks.

Credit risk

The Group is exposed to customer credit risk, but covers as much of it as possible through credit insurance. Sales not covered by credit insurance are governed by rules designed to ensure that such sales are made only to customers who represent an acceptable level of risk and in which exposure is limited to maximum pre-authorized lines of credit approved for each customer.

Liquidity risk

The Group manages its liquidity risks in two ways: it ensures that its financial debt is weighted heavily toward the medium and long-term, with maturities appropriate to its industry, while keeping open credit facilities that can be drawn on at any time. To implement this policy, the Group has obtained commitments from a broad array of credit institutions, from which a substantial total of credit lines is available on a short-term basis.

Pulp price risk

To reduce the risk associated with sharp fluctuations in the price of pulp, the Group hedged part of its sales, thereby enabling to limit the effect of price fluctuations within a defined interval.

INDUSTRIAL ACTIVITY

At the end of the 2006 first half, the total output of pulp and paper of the Portucel Soporcel Group stood at 639,000 and 502,000 tons, up by 16,000 and 12,000 tons respectively on the same period last year. To emphasize this positive assessment of the performance of the plants, it would note that while the pulp mill at Figueira da Foz was in continuous operation during the 2005 first half, it was shut down for maintenance during part of the first half of this year.

The performance of the Cacia plant was a decisive factor in the growth of pulp production, following the coming on stream of the new recovery boiler. The completion of this investment made for an important improvement in the regularity and reliability of the plant's operating conditions, sustaining a faster pace of operation and making possible, in particular, a favourable trend in the energy balance and a reduction of certain variable cost elements represented by consumables.

In terms of paper, the increase in output was based mainly on the increase in efficiency at the Figueira da Foz plant, which offset the slight reduction in the number of days available for production.

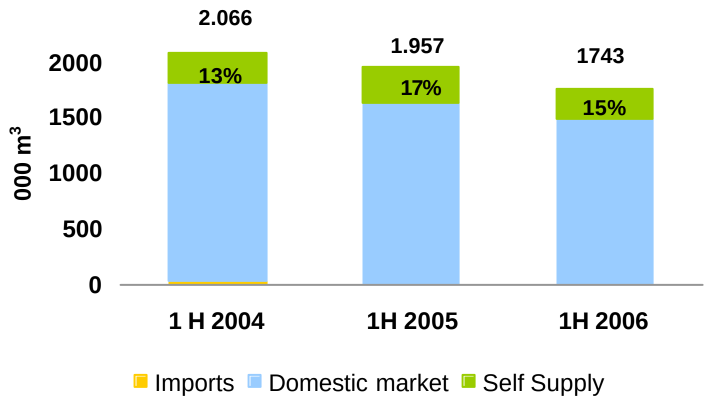
At the same time, the Group continued to reduce variable costs, which reflected an important decline in the variable production cost of pulp as compared with the same period in 2005.

Within the highly sophisticated technological climate that characterizes the Group's industrial complexes, the quest for cutting the costs of paper production has led to a gradual decline in the use of long-fibre pulp and the adoption of renewed chemical processes, one example of which is the use of surface starch converted enzymatically *in situ.*

Well worth noting is the evidence of the results obtained from the restructuring of the engineering and maintenance area that began at year-end 2005. The change consisted of setting up a central coordination hierarchy that enabled to take advantage of as many synergies as possible while making the most of the technical and organizational competences within the Group. As a result of this reorganization, it was possible, in the 2006 first half, to benefit from an important cost reduction in this area.

RESOURCES AND SUPPORTING FUNCTIONS

Forestry activities and wood procurement



During the first half of the year, the overall consumption of wood fell 11% from the same period last year, to 1,743,000 m³. The recourse to market wood was down 9%, while use of own wood fell by 22%, without any recourse to imported wood.

The FSC system certified the Group's chain of custody in its supply activities at the start of the year, thus enabling it to receive certified wood.

The supply policy is constrained by the availability of eucalyptus wood from own lands, which is difficult to evaluate with any precision at this time, since the last woodland inventory was taken from aerial photography and camp work dating back to 1995, while in recent years the country has suffered from a disturbing increase in the incidence of forest fires.

Once the results of the current woodland inventory are known, it may become necessary to remodel the rationale and methods by which the Group obtains the future wood supply.

The growing requirements of the international markets for products marketed by the Group in relation to the certification of Portuguese eucalyptus forests, and the incipient stage at which this process now remains because of the lack of decisive action by both the competent authorities and the logging operators could also have an impact on the methods and models that will ensure the supply of eucalyptus logs in the future.

It should be noted the very real concern that utilization by burning, with the sole aim of producing energy, from wood susceptible to vertical integration in the industrial process, may generate distortions in the market for eucalyptus wood.

Energy

The activities of the Portucel Soporcel Group are based on the strategic principle that pulp and paper are produced with recourse to renewable energies, based mainly on biomass.

In the 2006 first half, the Group's total production of electric energy was 454 GWh. Out of this total, some 91% was obtained from forest biomass and its derivatives. This energy production is obtained from co-generation, combining electric and thermal energy, a process a great deal more efficient than conventional production that relies solely on electric energy. During the same period in 2005, was generated a total of 496GWh in electric energy. The reduction in energy production, by approximately 8%, was due mainly to concentration of annual maintenance shutdowns of the plants during the first half of the year, the reduction of production based on fossil fuels, and management of the supply of biomass from debarking, particularly at the start of the half year.

The Cacia plant increased its production while using its energy sparingly. This was due to the start-up of the new recovery boiler in February of this year, which made for greater reliability, availability and greater energy efficiency.

This increase in energy efficiency in paper production, despite having already reached highly exacting benchmark numbers, was reflected in the specific consumption of electric energy (kwh/ton of product), with a reduction of more than 3% in the 2006 first half as compared with the same period in 2005.

Environmental matters

The reduction of emissions with greenhouse effect has been a commitment to sustainability assumed by the Portucel Soporcel Group, which has worked consistently towards minimizing the use of fossil fuels and adopting best practice to counter the effects of climate change arising from the concentration of greenhouse emissions.

As a result of investment in equipment and improvement of manufacturing process, by using the best available techniques, environmental indicators point to a consistently good performance at all plants, including an improvement over that of 2005.

Due to the measures put in place, namely with the start-up of the recovery boiler at the Cacia plant in February, and the improvement in the water and recovery system at the Figueira da Foz and Setúbal plants, the Group reduced water consumption and increased the production of energy derived from biomass.

At all plants, gaseous emissions and liquid effluents were confined to levels well below the legal limits, with improvements in SO_2 emissions and particles and solids in the effluents at the paper mills, as compared with 2005.

The 2006 first half saw the preparation of the dossier to accompany an application for an Environmental License for the Cacia plant; the Group plans to submit this to the competent bodies in August, thus coming well within the legal deadline for same (October 2007).

Management systems

With certification of the safety management systems at the Figueira da Foz and Setúbal mills (based on standards NP 4397 and OHSAS 18001), this certification was extended to include the Cacia plant; the respective internal audit is planned for November of this year.

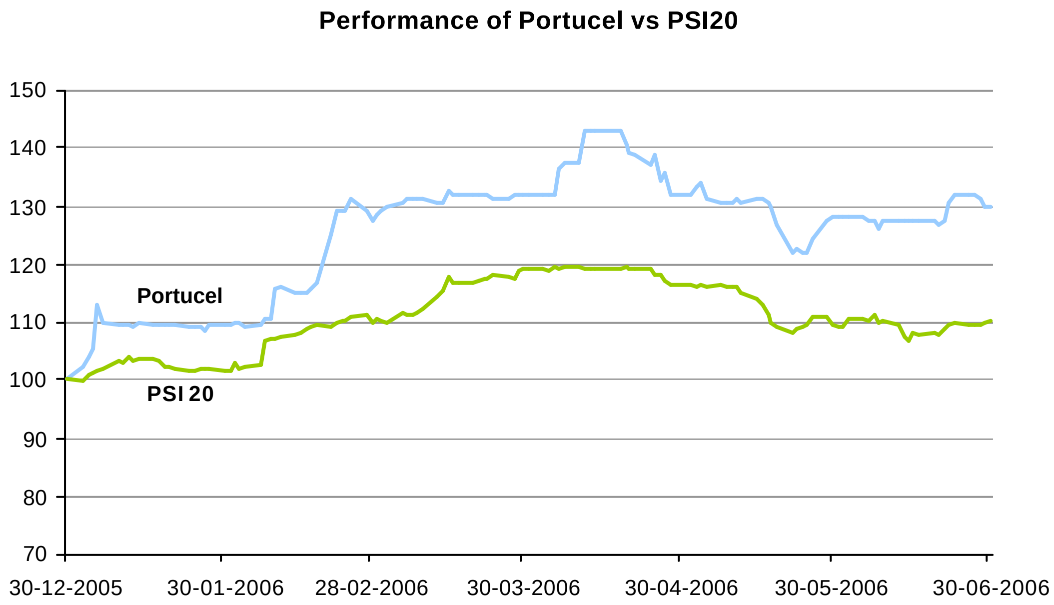
In the first half of 2006, the Smartwood Program of the Rainforest Alliance issued the Responsibility Chain certificates in accordance with reference FSC-STD-40-004 of the Forest Stewardship Council (FSC) for the Group's three plants, together with external stands of wood; the external audit for the extension of the certificate obtained for a new product line and the approval of the packaging of the certified products was carried out in June, 2006. The sale of certified products from the Setúbal and Figueira da Foz mills with the FSC logo is planned for the second half of this year.

In the first half of this year, it was prepared the chain of responsibility system for certification in accordance with the standard reference Programme for the Endorsement of Forest Certification (PEFC); the audit for certification of the mills and external parks by APCER is planned for September, 2006.

Once the first half year's external audits were completed, the environmental management systems, now implemented at the 3 plants, were transposed to the new reference standard.

		2006			
		Figueira Foz	***Cacia***	***Setúbal***	***Wood yard***
Certifications	**Quality**	ISO 9001:2000	ISO 9001:2000	ISO 9001:2000	
	Environment	ISO 14001:2004	ISO 14001:2004	ISO 14001:2004	
	Safety	OHSAS 18001:1999 & NP 4397:2001		OHSAS 18001:1999 & NP 4397:2001	
	Chain of Responsibility	Chain of Responsibility FSC-STD-40-004			
Accreditation	**Laboratory**	ISO/IEC 17025	ISO/IEC 17025	ISO/IEC 17025	

PERFORMANCE OF SHARE PRICE IN THE CAPITAL MARKETS



The main EU markets put in a satisfactory performance during the 2006 first half. The Paris CAC 40, and the Frankfurt GDAX, indices showed gains slightly in excess of 5%, while the Madrid IBEX gained 7.6%.

The Portucel share price was up by approximately 30%, beating the performance of the PSI 20 (+10.3%). It closed the half year at €2.18 after having reached a peak of €2.4 and a low of €1.7.

This progression must be seen in the context of a limited free float in the market and the resulting low liquidity of the share.

PROSPECTS FOR THE 2nd HALF

Prospects for the 2006 second half can be seen as moderately positive, possibly foreseeing some stability in paper prices and the continuation of the positive momentum currently characterizing the pulp market.

Concerns and uncertainties continue relative to the international economy, affected by a sharp slowdown in the US economy and the persistence of acute tensions in sensitive parts of the world. These factors should continue to have a negative impact on the cost of petroleum and derivative products, with direct repercussions on the costs of energy, logistics and chemical products required by the Group's activities.

Furthermore, the factors that put upward pressure on the euro against the dollar are persistent, a variable that weighs heavily on the company's business, not only because of the high proportion of the sales that involve exposure to the dollar exchange rate, but also affects the competitiveness *vis a vis* competitors outside the eurozone. Inflationary pressures also continue, which must lead to further increases in interest rates.

Thus, in the absence of significant changes in the business outlook of the main economies and the present euro/dollar exchange rate, it cannot be foreseen any significant change in the company's performance in the immediate future.

The Board of Directors of the Portucel Soporcel Group decided to go ahead with the new paper mill project at its Setúbal complex, with a nominal annual capacity of 500,000 tons, representing an investment of some €490 million.

This project will enable to boost the competitiveness in the paper market and assume a position of leadership in Europe in the uncoated fine papers market. It is expected that this new plant to come on stream in the 2008 second half.

Setúbal, September 26, 2006

The Board of Directors

Pedro Mendonça de Queiroz Pereira - President

José Alfredo de Almeida Honório

Luís Alberto Caldeira Deslandes

Manuel Maria Pimenta Gil Mata

Manuel Soares Ferreira Regalado

Álvaro Roque de Pinho Bissaia Barreto

Carlos Eduardo Coelho Alves

INFORMATION REQUIRED BY LAW

NUMBER OF SHARES HELD BY MEMBERS OF THE CORPORATE BODIES AS OF JUNE 30, 2006

(as per article 447 of the CSC (Portuguese Corporate Law) and article 9 of CMVM (Stock Market Commission) Regulation no. 04/2004).

Mr. José Alfredo de Almeida Honório holds 20,000 shares of Semapa – Sociedade de Investimento e Gestão, SGPS, SA.

Neither the above-mentioned member of the corporate bodies, nor the other members of the corporate bodies of the company and of the companies in which they hold a position of significant influence are holders of other negotiable securities issued by the same companies, nor did they trade in any other negotiable securities issued by those companies in the first half of 2006.

LIST OF QUALIFIED HOLDINGS AS OF JUNE 30, 2006

(as per article 8 of CMVM Regulation no. 04/2004)

Shareholders	No. Shares	% share capital	% voting rights
Semapa – Sociedade de Investimento e Gestão SGPS, SA*	**514.964.433**	**67,09634%**	**67,10163%**
Semapa- Investments, BV	284.712.433	37,09608%	37,09901%
Seinpart – Participações, SGPS, SA	230.250.000	30,0000%	30,00237%
Semapa – Sociedade de Investimento e Gestão SGPS, SA	1.000	0,00013%	0,00013%
Seminv – Investimentos, SGPS, SA	1.000	0,00013%	0,00013%
Parpública – Participações Públicas (SGPS), S.A.	**197.432.769**	**25,7241%**	**25,7262%**
Santander Pensões – Soc. Gest. Fundos de Pensões SA	**31.199.399**	**4,0651%**	**4,0654%**
Fundo de Pensões Crédito Predial Português SA	15.916.388	2,07380%	2,07396%
All other funds under management	15.283.011	1,99127%	1,99143%

* The Company's by-laws limit voting rights to 25%

EXEMPTION OF ACCOUNTS PUBLICATION

The Securities Market Commission (CMVM), in accordance with paragraph 3 of the article 250 of the Securities Market Code, exempted the Company from the publication of individual accounts.

The accounts subject to this exemption are available for consultation, together with the other accounts, in Company's head office.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2006

CONSOLIDATED INCOME STATEMENT
AS OF JUNE 30, 2006 AND 2005

Amounts in euros (€)	Note	30/06/2006	Restated 30/06/2005	30/06/2005
Revenues	4	529,512,006	505,512,015	505,512,015
Other operating income	5	11,634,646	9,737,932	6,585,671
Costs	6			
Inventories sold and consumed		(179,880,120)	(169,747,472)	(169,747,472)
Increase/(decrease) of inventories (finished products)		(2,031,661)	(14,935,089)	(14,935,089)
Consumed materials and services		(143,347,403)	(138,866,990)	(140,926,923)
Payroll costs		(58,064,998)	(52,156,134)	(52,156,133)
Other operating costs		(20,064,754)	(17,963,035)	(13,907,091)
Depreciation, amortization and impairment losses	8	(37,414,793)	(64,093,134)	(62,626,335)
Operating profit		**100,342,923**	**57,488,093**	**57,798,642**
Share of results of associates and joint ventures	9	-	(124,182)	(124,182)
Financial costs - net	10	(16,001,900)	(17,112,597)	(16,357,480)
Profit before income tax		**84,341,023**	**40,251,314**	**41,316,980**
Income tax	11	(29,476,347)	(13,353,437)	(14,301,665)
Net profit for the period		**54,864,676**	**26,897,877**	**27,015,315**
Minority interests	13	(25,983)	70,440	70,440
Net profit for the period attributable to equity holders		**54,838,693**	**26,968,317**	**27,085,755**
Earnings per share				
Basic earnings per share (euros)	12	0.071	0.035	0.035
Diluted earnings per share (euros)	12	0.071	0.035	0.035

CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

Amounts in euros (€)	Note	30/06/2006	Restated 31/12/2005	31/12/2005
Assets				
Non-current assets				
Goodwill	15	376,756,384	376,756,384	376,756,384
Other intangible assets	16	18,632,194	13,243,277	29,085
Property, plant and equipment	17	1,124,132,786	1,153,312,405	1,126,910,035
Biological assets	18	135,728,313	136,238,875	136,238,875
Investments in associates and joint ventures	19	504,091	357,526	357,526
Deferred tax assets	26	63,175,521	63,739,216	62,731,837
		1,718,929,289	**1,743,647,683**	**1,703,023,742**
Current assets				
Inventories	20	118,663,521	131,112,525	131,112,525
Receivables and other current assets	21	244,517,792	226,498,001	226,498,001
State and other public entities	22	35,494,517	36,132,119	36,132,119
Cash and cash equivalents	29	83,921,169	89,521,261	89,521,261
		482,596,999	**483,263,906**	**483,263,906**
Total assets		**2,201,526,288**	**2,226,911,589**	**2,186,287,648**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	24	767,500,000	767,500,000	767,500,000
Treasury shares		(53,679)	(53,679)	(53,679)
Fair value reserve	25	6,226,447	(1,506,493)	(1,506,493)
Other reserves	25	76,185,581	67,602,274	67,602,274
Currency translation reserve	25	45,899	(77,735)	(77,735)
Retained earnings: prior years	25	147,316,455	135,028,647	137,449,591
Retained earnings for the year		54,838,693	63,291,261	63,526,136
		1,052,059,396	**1,031,784,275**	**1,034,440,094**
Minority interests	13	199,374	170,796	170,796
Total equity		**1,052,258,770**	**1,031,955,071**	**1,034,610,890**
Non-current liabilities				
Deferred tax liabilities	26	96,538,133	88,003,675	88,003,675
Retirement benefit obligations	27	43,730,306	36,464,019	36,464,019
Provisions	28	13,249,547	1,954,010	1,954,010
Interest-bearing liabilities	29	738,061,453	747,419,828	747,419,828
Other liabilities	1.2	25,892,092	32,675,200	-
		917,471,531	**906,516,732**	**873,841,532**
Current liabilities				
Interest-bearing liabilities	29	10,307,726	78,239,599	78,239,599
Payables and other current liabilities	30	168,849,303	182,463,641	171,859,081
State and other public entities	22	52,638,958	27,736,546	27,736,546
		231,795,987	**288,439,786**	**277,835,226**
Total liabilities		**1,149,267,518**	**1,194,956,518**	**1,151,676,758**
Total equity and liabilities		**2,201,526,288**	**2,226,911,589**	**2,186,287,648**

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
AS OF JUNE 30, 2006 AND 2005

Amounts in euros (€)	30/06/2006	Restated 30/06/2005	30/06/2005
Fair value of derivative financial instruments	10,666,124	(10,872,948)	(10,872,948)
Actuarial gains and losses	(3,195,584)	(3,448,754)	-
Tax on items taken directly to or transferred from equity	(2,054,398)	3,938,468	2,990,061
Net profit/(loss) directly recognised in equity	**5,416,141**	**(10,383,234)**	**(7,882,887)**
Profit for the year before minority interest	54,864,677	26,897,876	27,015,315
Total recognised income and expense for the period	**60,280,818**	**16,514,642**	**19,132,428**
Attributable to:			
Equity holders of the company	60,252,240	16,585,082	19,202,868
Minority interest	28,578	(70,440)	(70,440)
	60,280,818	**16,514,642**	**19,132,428**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FROM JANUARY 1, 2005 TO JUNE 30, 2006

Amounts in euros (€)	Share capital	Treasury shares	Fair value reserve	Other reserves	Currency translation reserve	Retained earnings	Net profit	Total	Minority interests	Total
December 31, 2004 (Restated)	**767.500.000**	**(53.679)**	**209.714**	**62.737.335**	**(25.382)**	**124.878.116**	**50.960.176**	**1.006.206.280**	**204.875**	**1.006.411.155**
Fair value of financial instruments	-	-	(7.882.887)	-	-	-	-	(7.882.887)	-	(7.882.887)
Actuarial gains and losses	-	-	-	-	-	(2.490.900)	-	(2.490.900)	-	(2.490.900)
- Transfer to legal reserve	-	-	-	1.666.847	-	(1.666.847)	-	-	-	-
- Transfer to statutory reserve	-	-	-	3.198.092	-	(3.198.092)	-	-	-	-
- Dividends paid	-	-	-	-	-	(28.472.005)	-	(28.472.005)	-	(28.472.005)
Currency translation reserve	-	-	-	-	(10.109)	-	-	(10.109)	-	(10.109)
Net profit for the prior period	-	-	-	-	-	50.960.176	(50.960.176)	-	-	-
Net profit for the period	-	-	-	-	-	-	26.968.317	26.968.317	(70.440)	26.897.877
June 30, 2005 (Restated)	**767.500.000**	**(53.679)**	**(7.673.173)**	**67.602.274**	**(35.491)**	**140.010.448**	**26.968.317**	**994.318.696**	**134.435**	**994.453.131**
Fair value of financial instruments	-	-	6.166.680	-	-	-	-	6.166.680	-	6.166.680
Actuarial gains and losses	-	-	-	-	-	(4.981.800)	-	(4.981.800)	(28.342)	(5.010.142)
Currency translation reserve	-	-	-	-	(42.244)	-	-	(42.244)	-	(42.244)
Net profit for the period	-	-	-	-	-	-	36.322.943	36.322.943	64.703	36.387.646
December 31, 2005 (Restated)	**767.500.000**	**(53.679)**	**(1.506.493)**	**67.602.274**	**(77.735)**	**135.028.648**	**63.291.260**	**1.031.784.276**	**170.796**	**1.031.955.071**
Fair value of financial instruments	-	-	7.732.940	-	-	-	-	7.732.940	-	7.732.940
Actuarial gains and losses	-	-	-	-	-	(2.316.796)	-	(2.316.796)	-	(2.316.796)
- Transfer to legal reserve	-	-	-	2.959.761	-	(2.959.761)	-	-	-	-
- Transfer to statutory reserve	-	-	-	5.623.546	-	(5.623.546)	-	-	-	-
- Dividends paid	-	-	-	-	-	(40.290.574)	-	(40.290.574)	-	(40.290.574)
Currency translation reserve	-	-	-	-	123.634	-	-	123.634	-	123.634
Other movements	-	-	-	-	-	187.223	-	187.223	2.595	189.818
Net profit for the prior period	-	-	-	-	-	63.291.261	(63.291.261)	-	-	-
Net profit for the period	-	-	-	-	-	-	54.838.694	54.838.694	25.983	54.864.677
June 30, 2006	**767.500.000**	**(53.679)**	**6.226.447**	**76.185.581**	**45.899**	**147.316.455**	**54.838.693**	**1.052.059.396**	**199.374**	**1.052.258.770**

CONSOLIDATED CASH FLOW STATEMENT
AS OF JUNE 30, 2006 AND 2005

Amounts in euros (€)	Note	30/06/2006	30/06/2005
Operation activities			
Received from customers		522,410,408	486,589,065
Payments to suppliers		338,914,848	329,835,151
Payments to employees		57,145,842	52,522,549
Cash generated from operating activities		126,349,718	104,231,366
(Payments)/receipts from income tax		4,555,607	12,341,137
Other (payments)/receipts from operating activities		25,240,316	40,405,483
Cash flows from operating activities (1)		**156,145,641**	**156,977,987**
INVESTMENT ACTIVITIES			
Receipts relating to:			
Property, plant and equipment		2,114,315	967,465
Subsidies to investment		-	1,065,397
Interest and similar income		5,779,311	1,734,051
Dividends		-	154,800
Cash flows from activities (A)		7,893,626	3,921,713
Payments relating to:			
Financial investments		-	335,806
Property, plant and equipment		32,545,845	71,824,510
Cash flows from activities (B)		32,545,845	72,160,316
Cash flows from investment activities (2 = A - B)		**(24,652,219)**	**(68,238,603)**
FINANCING ACTIVITIES			
Receipts relating to:			
Borrowings		-	527,505,736
Cash flows from activities (C)		-	527,505,736
Payments relating to:			
Borrowings		77,582,187	641,669,021
Lease contracts		241,530	31,830
Interest and similar expense		18,979,223	17,492,575
Dividends (Note 14)		40,290,574	28,472,005
Cash flows from activities (D)		137,093,514	687,665,432
Cash flows from financing activities (3 = C - D)		**(137,093,514)**	**(160,159,696)**
CHANGES IN CASH AND CASH EQUIVALENTS (1) + (2) + (3)		(5,600,092)	(71,420,312)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		89,521,261	76,546,530
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**29**	**83,921,169**	**5,126,218**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2006

(Amounts expressed in euros unless indicated otherwise)

The Portucel Soporcel Group or the Group comprises Portucel – Empresa Produtora de Pasta e Papel, SA (hereafter referred to as the Company or Portucel) and subsidiaries. Portucel is a corporation formed on May 31, 1993, in accordance with Decree-Law no. 39/93, February 13, following the restructuring of Portucel – Empresa de Celulose e Papel de Portugal, SA.

Registered Office: Mitrena, 2901-861 Setúbal
Share Capital: €767,500,000
N.I.P.C.: 503 025 798

The main business of the Company and of its subsidiaries is the production and sale of cellulose pulp, paper and related products, the purchase of wood and forest and agricultural products, the cutting of timber and the sale of electric and thermal energy.

The consolidated financial statements have been approved by the Board of Directors on September 26, 2006.

1. Summary of main accounting policies

The main accounting policies applied in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

The interim consolidated financial statements on June 30, 2006 and 2005 were prepared in accordance with the IAS 34 – Interim Financial Reporting.

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements.

The International Financial Reporting Standards (IFRS) have been first adopted in 2005, so that the date of transition of Portuguese accounting principles (Portuguese GAAP) to that standard was January 1, 2004, as established by IFRS 1 - First-time Adoption of the International Financial Reporting Standards.

The attached interim consolidated financial statements were prepared on the assumption of continuity of operations, from the accounting books and records of the companies included in the consolidation (Note 40), and based on historic cost, except for derivative financial instruments and biological assets that are shown at fair value (Notes 31 and 18).

The preparation of the financial statements requires the use of estimates and relevant judgements when implementing the Group's accounting policies. The main assertions, involving a higher degree of judgement or complexity, or the most significant assumptions and estimates used in the preparation of the underlying financial statements, are disclosed in Note 3.

1.2 Changes in accounting policies

Over the six-month period between January 1 and June 30, 2006, the Group changed its accounting policies with regard to i) recognition of C02 emission rights in accordance with Technical Interpretation no. 4 of the Portuguese Accounting Standards Committee and ii) recognition of leasing contracts in accordance with Interpretation IFRIC 4 - Determining whether an Arrangement contains a Lease.

IFRIC 4 was applied to the agreement regarding the supply of energy made by the subsidiary Soporcel with Soporgen (company in which the Group holds a 8% stake), a cogeneration company of EDP Group formed in 1999, with the purpose of ensuring the supply of electricity and steam to the mentioned subsidiary.

On December 31, 2005 the impact of restating the consolidated balance sheet is as follows:

Amounts in €	Soporgen (IFRIC 4)	CO2 licenses	Total
Total assets	-	-	**2.186.287.648**
Other intangible assets	-	13.214.192	13.214.192
Property, plant and equipment	26.402.370	-	26.402.370
Deferred tax assets	1.007.379	-	1.007.379
Total assets (restated)	**27.409.749**	**13.214.192**	**2.226.911.589**
Equity	-	-	**1.034.440.094**
Minority interests	-	-	170.796
Total equity	-	-	**1.034.610.890**
Retained earnings: prior years	(2.420.944)	-	(2.420.944)
Retained earnings for the year	(234.875)	-	(234.875)
Minority interests	-	-	-
Total equity (Restated)	**(2.655.819)**	**-**	**1.031.955.071**
Total liabilities	-	-	**1.151.676.758**
Other liabilities	32.675.200	-	32.675.200
Payables and other current liabilities	(2.609.632)	13.214.192	10.604.560
Total liabilities (Restated)	**30.065.568**	**13.214.192**	**1.194.956.518**

On June 30, 2005 the impacts of restating Consolidated Income statement are as follows:

Amounts in €	Soporgen (IFRIC 4)	CO2 licenses	Total
Net profit for the period	-	-	**27,085,755**
Other operating income	-	4,055,944	4,055,944
Costs			
Inventories sold and consumed	2,059,933	-	2,059,933
Other operating costs	-	(4,055,944)	(4,055,944)
Depreciation, amortization and impairment losses	(1,466,799)	-	(1,466,799)
Financial costs - net	(755,117)	-	(755,117)
Income tax	44,545	-	44,545
Net profit for the period (Restated)	**(117,438)**	**-**	**26,968,317**

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power of decision on all financial and operating policies, generally accompanying a shareholding of more than 50% of voting rights.

The existence and the effect of potential voting rights, whether exercisable or convertible are taken into consideration when it is determined whether the Group exercises control over another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date on which control ceases.

The shareholders' equity and net earnings of these companies that are attributable to the holdings of third parties are shown in shareholders' equity on the consolidated balance sheet and on the consolidated income statement, respectively, under the minority interest headings. Companies included in the consolidated financial statements are disclosed in Note 41.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchanges, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill, itemized in Note 15.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired (negative goodwill), the difference is recognised directly in the income statement.

Inter-company transactions, balances, unrealised gains on transactions and dividends paid between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Certain financial investments in subsidiaries because they are considered immaterial are recorded by the equity method.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

1.3.2 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method.

According to the equity method, financial holdings are recognised at acquisition cost, adjusted by the amount corresponding to the Group's share of changes in shareholders' equity (including net profit) of the associates, as an offset to the profits or losses of the period or to shareholders' equity, and by the dividends received.

The differences between the acquisition cost and fair value of the assets and liabilities attributable to the associate on acquisition date, if positive, are recognized as goodwill and are retained under the Investments in associates heading. If goodwill is negative, it is recorded as income for the period under the Share of results of associates and joint ventures heading.

Investments in associated companies are subject to valuation when there are indications that the asset could be impaired; the impairment losses then shown to exist are recorded as costs.

When impairment losses recognized in prior periods cease to exist they are subject to reversal, except in the case of Goodwill (Note 1.7).

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

Unrealized gains in transactions with associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.4 Segmental reporting

A *business segment* is a group of assets and operations of the Group that are subject to risks and returns, that are different from those of other business segments.

Four business segments have been identified: production of printing and writing papers, production of cellulose pulp, forestry and power generation.

Pulp is produced in three plants, located in Setúbal, Cacia and Figueira da Foz, and paper is produced in Setúbal and Figueira da Foz at plants located near the pulp mills.

Internal wood supply is from woodlands owned or leased by the Group, in Portuguese territory. Wood grown is mainly consumed in the production of pulp.

A significant portion of the Group's own pulp production is consumed in the production of paper. Sales of both products (pulp and paper) are mainly to the export market.

Power generation is mainly from cogeneration of vapour, consumed by the Group, and electricity that is sold to REN – Rede Eléctrica Nacional, SA.

A *geographical segment* is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The accounting policies for segmental reporting are consistent with the Group's policies. All intersegmental sales and services rendered are marked-to-market and eliminated in the consolidation.

The segment information is disclosed in Note 4.

1.5 Foreign currency translation

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated financial statements are presented in euros, which is the Group's functional and presentation currency.

1.5.2 Balances and transactions expressed in foreign currencies

All Group assets and liabilities expressed in foreign currencies have been translated to euros at the rates of exchange prevailing on balance sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement for the period.

1.5.3. Group companies

The results and financial position of all Group entities that have a functional currency different from the Group presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) Income and expenses for each income statement are translated at the average exchange rate (unless this average exchange rate is not a reasonable approximation of the cumulative effect of rates prevailing on transaction dates, in which case the income and expenses are translated at the dates of the transactions)

(iii) All resulting exchange differences are recognised as a separate equity component, under the exchange translation reserves heading.

1.6 Intangible assets

With the exception of CO2 emission rights, intangible assets are recognized at acquisition cost, less amortization by the straight line method over a period varying between 3 and 5 years and impairment losses.

1.6.1 CO2 emission rights

C02 emission licenses assigned to the Group within the framework of the National Plan for the Assignment of C02 Emission Licenses on a gratuitous basis, are recorded in accordance with Technical Interpretation no. 4 of the Portuguese Accounting Standard Committee; that is to say, under the intangible assets heading at market value as of date of assignment, by offset to a liability, under the Deferred income – subsidies heading, in the same amount.

For the Group's C02 emissions, an operating cost is posted as an offset to a liability and an item of operating income arising from recognition of that portion of the respective subsidy.

Sales of emission rights give rise to a profit or loss, representing the difference between the value on realization and the respective purchase price, less the respective State subsidy, which is recorded as Other operating income and gains or Other operating costs, respectively.

1.6.2 Brands

Whenever brands are identified in a concentration of business activities, the Group accords them separate recognition in the consolidated statement as an asset valued at cost, which represents their fair value on date of acquisition.

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

Own brands are not shown in the Group's financial statements, since they represent internally generated intangible assets.

1.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is not amortized and is tested annually for impairment. Impairment losses relative to goodwill cannot be reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

1.8 Property, plant and equipment

Property, plant and equipment are recorded at the acquisition cost or the revaluated acquisition cost, in accordance with the accounting principles generally accepted in Portugal until January 1, 2004 (transition date to IFRS), deducted from depreciations and impairment losses.

Property, plant and equipment acquired after transition date are shown at cost, less depreciation and impairment losses. Acquisition cost includes all expenditures directly attributable to the acquisition of the assets.

Subsequent costs are included in asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the respective cost can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on acquisition cost, mainly using the straight line method from the date of the assets' entry into service, at rates that best reflect their estimated useful life, as follows:

	Average years of useful life
Land	14
Buildings and other constructions	12- 30
Equipment:	
Machinery and equipment	6 – 25
Transportation equipment	5 - 9
Tools and utensils	2 - 8
Office equipment	4 - 8
Returnable containers	6
Other property, plant and equipment	4-10

The assets' residual values and useful lives are reviewed, and adjusted if appropriated, at each balance sheet date.

If the assets' carrying amount exceeds the recoverable value of the asset, is written down to the estimated recoverable value through impairment losses (Note 1.9).

Gains or losses arising from write-downs or disposals are determined by the difference between the proceeds of disposals and the asset's book value and are recognized in the income statement as other operating income or costs.

1.9 Impairment of non-current assets

Non-current assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-flow generating units), when it is not possible to do so for each asset on an individual basis.

Impairment losses recognized in prior periods are reversed when it is determined that the recognised impairment losses no longer exist or that they have diminished (excepting goodwill impairment – see Note 1.7). This analysis is made whenever there are indications that the impairment loss formerly recognised has been reversed.

The reversal of impairment losses is recognised in the income statement under the Other operating income heading, unless the asset has been revalued, in which situation the reversal will represent a portion or the total of the revaluation amount. However, an impairment loss is reversed up to the limit of the amount that will be recognized (net of amortization or depreciation) if it had not been recognized in prior years.

1.10 Biological assets

Biological assets are measured at fair value, less estimated selling costs at the time of harvesting. The Group's Biological assets comprise the forests held for the production of timber, capable of incorporating the pulp production process.

When calculating the fair value of the forests, the Group used the discounted cash flows (expected) method, based on a model which was developed in house, and which took into account assumptions about the nature of the assets being valued, namely, the expected yield of the forests, the timber selling price deducted by costs relating to felling and transportation, and also considered plantation costs, maintenance costs and a discount rate.

The discount rate was determined on the basis of the Group's expected rate of return on its forests.

Fair value adjustments resulting in changes in estimates of growth, logging period, price, cost and other assumptions are recognized as operating income/ costs.

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

1.11 Financial Investments

The Group classifies its investments in the following categories: loans and receivables, financial assets at fair value through profit and loss, held-to-maturity investments, and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

All acquisitions and disposals of these investments are recognised on the date of signature of the respective contracts of purchase and sale, regardless of the date of settlement.

Investments are first recognised at their acquisition cost; the fair value is equal to the price paid, including transaction costs. Thereafter, measurement will depend on the category in which the investment is placed, as follows:

1.11.1 Loans and receivables

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

They are included in current assets, except for maturity greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans granted and receivables are included in Receivables and other current assets in the balance sheet (Note 21).

1.11.2 Financial assets at fair value through profit or loss

This category has two sub-categories: (i) financial assets held for trading, and (ii) assets designated at fair value through profit or loss at inception. A financial asset is classified under this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. These assets are measured at fair value through the income statement.

1.11.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Investments in this category are recorded at amortised cost using the effective interest rate method.

1.11.4 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories. They are included in non-current assets, unless management intend to dispose of the investment within 12 months of the balance sheet date.

These financial investments are recognised at market value, as quoted on balance sheet date.

If the market of a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash-flows analysis and option pricing models refined to reflect issuer's specific circumstances.

Potential gains and losses thus resulting are recorded directly in fair value reserve until the financial investment is sold, received, or disposed of in any way, at which time the accumulated gain or loss formerly reflected in shareholders' equity is taken to the income statement.

If there is no market value or if it is not possible to determine one, the investments in question are held at acquisition cost. They are provisioned against loss of value when justified.

The Group assesses at each balance sheet date whether there is objective evidence that the financial asset or group of financial assets is impaired. If a prolonged decline in fair value of the available-for-sale financial assets takes place, then the cumulative loss – measured as the difference between acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

A recognised impairment loss on available-for-sale financial assets is reversed if the loss was caused by specific external events of an exceptional nature that are not expected to recur but which subsequent external events have reversed; under these circumstances, reversal does not affect the income statement, the asset's subsequent positive fluctuation thus being taken to the fair value reserve.

1.12 Derivative financial instruments

The Group uses derivative financial instruments with the aim of managing the financial risks to which it is exposed.

Whenever expectations of changes in interest or exchange rates so justify, the Group seeks to hedge against adverse movements through derivative instruments, such as interest rate swaps (IRS), caps and floors, forwards, options, etc.

In the selection of derivative financial instruments, it is their economic aspects that are the main focus of assessment.

Transactions that qualify as cash-flow hedges are recognised in the balance sheet at fair value.

To the extent that they are considered efficacious hedges, changes in the fair value of IRS are initially recorded as an offset to shareholders' equity and subsequently reclassified under the Financial costs heading.

Accordingly, in net terms, costs associated with hedged financings are accrued at the inherent hedging transaction rate contracted. Gains or losses arising from the premature rescission of this type of instrument are taken to the income statement at the time they arise.

Although the derivatives contracted by the Group represent effective instruments for the coverage of business risks, not all of them qualify as hedging instruments in accounting terms to satisfy the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments in accounting terms are stated on the balance sheet at fair value and changes in same are recognized in financial costs.

Whenever possible, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions.

The fair value of the derivatives financial instruments is included in Receivables and other current assets and Payables and other current liabilities.

1.13 Income tax

Income tax includes current and deferred taxes. Current income tax is determined on the basis of net profit, adjusted in accordance with tax law prevailing on balance sheet date; for interim periods the expected annual effective tax rate is used.

Deferred tax is calculated on the basis of the liability shown on the balance sheet, on temporary differences between the book value of assets and liabilities and the respective tax base. To determine the deferred tax, the tax rate used is that expected to prevail in the period during which the temporary differences will reverse.

Deferred tax assets are recognised as assets whenever there is a reasonable assurance that earnings will be generated in the future, against which they can be used. Deferred tax assets are reviewed periodically and revised downwards whenever it no longer appears probable that they can be used.

Deferred taxes are recorded as a cost or profit for the period, except if they arise from amounts recorded directly in the equity, in which case the deferred tax is also recorded under the same heading.

1.14 Inventories

Inventories are valued according to the following criteria:

i) Goods and raw materials

Goods and raw materials are valued at the lower of acquisition cost and net realizable value. Acquisition cost includes expenses incurred up to arrival of goods at the warehouse, using the weighted average cost as the method of costing.

ii) Finished and intermediate products and work in progress

Finished and intermediate products and work in progress are valued at the lower of production cost (which includes the cost of raw materials, labour and general factory costs, based on the normal production level) and the net realizable value.

The net realizable value represents the estimated selling price less estimated finishing and marketing costs. Differences between cost and net realizable value, if the latter is lower, are recorded as operating costs.

1.15 Receivables and other current assets

Receivables and other current assets are recorded at nominal value less impairment losses necessary to place them at their expected net realizable value.

Impaiment losses are recorded when there is objective evidence that the Group will not receive all amounts owed in accordance with the original conditions of the receivables.

1.16 Cash and cash equivalents

The cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term investments with original maturities of 3 months or less, which can be mobilized immediately without any significant risk of fluctuations in value.

1.17 Share capital and treasury shares

Ordinary shares are classified as equity.

Incremental costs directly attributed to the issue of new shares or other equity instruments are shown in equity as a deduction, net of tax, from the value received as a result of the issuance.

Costs directly imputable to the issuance of new shares or options, for the acquisition of a business are included in the acquisition cost, as a part of the value of the acquisition.

When a Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of.

When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is reflected in equity.

1.18 Interest-bearing liabilities

Interest-bearing liabilities are recognized initially at fair value, net of transaction costs incurred.

Interest-bearing liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the debt, using the effective interest rate method.

Interest-bearing liabilities are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.19 Financial costs and loans

Loan related financial costs are generally recognized as financial costs, in accordance with the accrual principle and the effective interest rate method.

Financial costs on loans directly related to the acquisition, construction, or fixed assets production, are capitalized, to form part of the asset's cost. Capitalization of these charges begins once preparations are started for the construction or development of the asset and is suspended after its utilization begins or when the respective project is suspended.

Any financial income generated by loans that are directly associated with a specific investment is subtracted from financial costs eligible for capitalization.

1.20 Provisions

Provisions are recognised whenever the Group has a present legal or constructive obligation, as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for future operating losses are not recognised. Provisions are reviewed on balance sheet date and are adjusted to reflect the best estimate at that date.

The Group incurs expenditure and assumes liabilities of an environmental nature. Accordingly, expenditures on equipment and operating techniques that ensure compliance with applicable legislation and regulations (as well as on the reduction of environmental impacts to levels that do not exceed those representing a viable application of the best available technologies, on those related to minimizing energy consumption, atmospheric emissions, the production of residues and noise, those established for the execution of plans for the removal of eyesores from the landscape) are capitalized when they are intended to serve the Group's business in a durable way, as well as those associated with future economic benefits and which serve to prolong life expectancy, increase capacity or improve the safety or efficiency of other assets in Group ownership.

1.21 Pensions and other employee allowances

1.21.1 <u>Pension obligations – defined benefit plans</u>

Some Group subsidiaries have undertaken to make payments to their employees under the heading of retirement pension supplements covering old age, disability, early retirement and survivors' benefits, setting up defined benefit pension plans.

These also assumed liability for pre-retirement payments, under the terms of agreements with various employees, up the time of their entry into retirement on social security. These monthly payments represent the respective portion of the employee's salary as of his pre-retirement date. The present value of liabilities for future pre-retirement payments is determined on an actuarial basis and recorded as a cost of the period in which the pre-retirement contract is signed.

As mentioned in Note 27, the Group has set up autonomous pension funds as a way to finance in part its liabilities for those payments.

In accordance with IAS 19, companies with pension plans recognise the costs of providing these benefits *pari passu* with the services provided by the beneficiaries in their employment. In this way, the total liability is estimated separately for each plan at least once every six months, on the date of closing of the interim and annual accounts, by a specialized and independent entity in accordance with the projected unit credit method.

Past service costs resulting from the implementation of a new plan, or increases in benefits attributed are recognised immediately in situations where the benefits are to be paid or are past due.

The liability thus determined is stated on the balance sheet, less the market value of the funds set up and past service liabilities not yet recognized, under the Retirement benefits obligations heading in non-current liabilities, when insufficient, and in non-current assets in situations of over-funding.

Actuarial variances arising from the differences between the assumptions used for the purpose of determining liabilities and those which effectively occurred (as well as of changes made to same and the difference between the expected return on the assets of the funds and their actual yield) are recognized directly on equity when incurred.

Gains and losses generated on a curtailment or settlement of a defined benefit pension plan are recognised in the income statement when the curtailment or settlement occurs.

A curtailment occurs when there is a material reduction in the number of employees or when the plan is modified in a way that the benefits are materially reduced.

1.21.2 Holidays, holidays allowances and bonus

In accordance with prevailing legislation, workers are entitled to 25 days holiday each year, as well as one month of holiday allowances, the right to which is acquired in the year preceding payment.

In accordance with the Management performance system, workers are entitled to a compensation benefit defined in the annual objectives, the right to which is acquired in the year preceding payment.

Hence, these liabilities are recorded in the period during which workers acquire the respective entitlement, irrespective of the date of payment, and the balance to be paid as of balance sheet date is shown under the Payables and other current liabilities.

1.22 Payables and other current liabilities

The balances of Payables and other current liabilities are stated at their nominal value.

1.23 Government grants

Government grants are recognised only after it becomes certain that the Group will comply with the respective conditions and that the same will be received.

Operating government grants, received for the purpose of compensating the Group for costs incurred, are recorded systematically on the income statement during the periods in which the costs that those grants are intended to cover are recognised.

Government grants related to biological assets carried at fair value, in accordance with IAS 41, are recognised in the income statement when the terms and conditions of the award of the government grant are met.

The investment government grants that the Group receives to compensate it for capital expenditures are included in Payables and other current liabilities and are recognised in the income statement throughout the estimated useful life of the respective subsidized asset.

1.24 Leases

Property, plant and equipment acquired under financial leases, as well as the respective liabilities are booked by the financial method.

Under this method, the asset is recorded under the Property, plant and equipment heading, the respective liability is recorded in liabilities under the Interest-bearing liabilities heading; the interest component of lease payments and depreciation of the asset, calculated as described in Note 1.8, are recognised as costs of the respective period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, the Group being the lessee, are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement over the period of the lease.

1.24.1 Leases included in arrangements as defined in IFRIC 4

The Group recognises an operating or financial lease whenever entering into an arrangement, comprising a transaction or a series of related transactions, which my not assume the legal form of a lease, that transmits the right to use the asset in return for a payment or series of payments.

1.25 Dividend distribution

Dividend distribution to Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, up to the time of payment.

1.26 Revenue recognition and the accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent in the ownership of the respective assets are transferred to the purchaser and the income can be reasonably quantified.

Sales are recognized net of taxes, discounts and other costs inherent to their completion, at the fair value of the sum received or receivable.

Income from services rendered is recognised in the consolidated income statement by reference to the phase of fulfilment of service contracts at balance sheet date.

Dividend income is recognised when the owners or shareholders entitlement to receive payment is established.

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

Group companies record their costs and income according to the accrual principle, so that costs and income are recognised as they are generated, irrespective of the time at which they are paid or received.

The differences between amounts received and paid and the respective costs and income are stated under the Receivables and other current assets and Payables and other current liabilities headings (Notes 21 and 30, respectively).

1.27 Contingent assets and contingent liabilities

Contingent liabilities relative to which an outflow of funds to the detriment of future economic benefits is improbable are not recognised in the consolidated; they are disclosed in the notes to the consolidated financial statements unless the possibility of an actual outflow of funds is a remote one, in which case they are not disclosed. Provisions against contingent liabilities that satisfy the conditions foreseen in Note 1.20 are recognised.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes to the consolidated financial statements when a future economic benefit is probable (see Note 37).

1.28 Subsequent events

Events subsequent to balance sheet date that provide additional information of conditions existing at balance sheet date are reflected in the consolidated financial statements.

Events subsequent to balance sheet date that provide information on conditions that arose after balance sheet date are disclosed in the notes to the consolidated financial statement, if material.

1.29 New IFRS and IFRIC and amendments

1.29.1 New standards and amendments with impact on the consolidated financial statements of the Group

IFRIC 4

The European Commission regulation nº 1910/2005, of November 8 adopted IFRIC 4 – Determining whether an arrangement contains a lease interpretation, giving orientation on how to evaluate if an agreement contains a lease, effective from January 1, 2006.

The impact of the adoption of IFRIC 4 in the consolidated interim financial statements for the period ended on June 30, 2006, result from its application to the agreement regarding the supply of energy made by the subsidiary Soporcel with Soporgen (company in which the Group holds a 8% stake), a cogeneration company of EDP Group formed in 1999, with the purpose of ensuring the supply of electricity and steam to the mentioned subsidiary.

Accordingly, the assets of Soporgen, associated with this agreement, were retrospectively recorded in the December 31, 2005 and June 30, 2006 financial statements as a financial lease (Note 1.2).

Changes to IAS 19

On December 16, 2004, IASB issued an amendment to IAS 19, introducing an option regarding the recognition of actuarial gains and losses of defined benefit plans.

This change, that will allow to directly recognise actuarial gains and losses under an equity heading outside net income, was adopted by the European Union in the second half of 2005, in accordance with the European Commission regulation nº 1910/2005, of November 8.

The Group adopted this amendment in 2005, thus, directly recognising actuarial gains and losses under equity, in retained earnings, retrospectively to January 1, 2004.

1.29.2 New standards and amendments with no mandatory adoption as of June 30, 2006

The European Commission regulations nº 108/2006 and nº 708/2006 of January 11 and May 8, respectively, adopted IFRS 7 and IFRIC 7 and have introduced amendments to IAS 1, whose application is not mandatory as of June 30, 2006. Up to date, the Group has not adopted these new directives or changes to directives already in force, nor would their application have a material impact in the present financial statements.

2. Risk management

2.1 Financial risk factors

The Group's activities are exposed to a variety of financial risk factors: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group maintains a program for the management of risk which centres its attention on the financial markets and seeks to minimize the potential adverse effects on its financial performance.

Risk management falls within the domain of the finance department in accordance with policies approved by the board of directors. The financial department assesses and covers financial risks in close collaboration with the Group's operating units.

The board of directors provides principles of risk management as a whole and policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivatives and other non-derivate financial instruments and the investment of excess liquidity.

2.1.1 Foreign exchange risk

Fluctuations in the euro exchange rate against other currencies can affect the Company's revenues in a number of ways. On the one hand, it is customary to set the price of pulp on the world market in US dollars, so that the trend of the euro against the dollar can have an impact on the Company's future sales even though sales are priced in euros or another currency. On the other hand, a significant portion of paper sales is priced in currencies other than the euro, again with special emphasis on the US dollar. The euro's trend *vis a vis* these currencies can also have an impact on the Company's future sales.

Furthermore, once a sale is made in a currency other than the euro, the Company assumes an exchange risk up to the time it receives the proceeds of that sale. Hence the Company's assets will always have a significant component of receivables subject to foreign exchange risk. The Group does not hold investments in any materially relevant operations with liquid assets exposed to foreign exchange risk.

The Group manages foreign exchange risks through the use of derivative financial instruments, in accordance with a policy that is subject to periodic review, the prime purpose of which is to limit the exchange risk associated with future sales and the exchange risk associated with accounts receivable priced in currencies other than the euro.

2.1.2 Interest rate risk

The cost of nearly all of the Group's financial debt is indexed to short-term reference rates, which are reviewed more than once a year (generally every six months for medium and long-term debt). Hence, changes in interest rates can have an impact on the Company's earnings.

Interest rate risks are managed through derivative financial instruments, namely interest-rate swaps, the purpose of which is to set the interest rate on the Group's borrowings within certain parameters.

2.1.3 Credit risk

Because the Group is exposed to risk in the credit it grants to its customers it has adopted a policy of maximizing its risk coverage by means of credit insurance.

Sales not covered by credit insurance are subject to rules that ensure that sales are made to customers with a satisfactory credit history and which limit exposure to predefined maximum amounts that must be approved for each customer.

2.1.4 Liquidity risk

The Group manages liquidity risk in two ways: firstly by ensuring that its financial debt has a substantial medium and long-term component, with maturities appropriate to the characteristics of the industry of which it forms a part.

In addition, it obtained from financial institutions credit facilities that are available at all times and in such amounts as to ensure that it has sufficient liquidity.

2.2 Operating risk factors

2.2.1 Supply of raw materials

The supply of wood, namely eucalyptus wood, is subject to price fluctuations and difficulties encountered in the supply of raw materials that could have a heavy impact on the production costs of companies producing BEKP.

The planting of new eucalyptus stands is subject to the authorization of the competent entities, so that increases in areas planted, or the replacement of some of the present areas do not depend on producers of cellulose. If domestic production were to prove insufficient, the Group would have to place greater reliance on imports.

Furthermore, since 1995, the competent authorities have not updated their inventory of the national forestry stock – an inventory that is of importance to the group in that it needs to assess the sustainability of its business and of its value chain, while aware that the real situation poses a clear threat to the group, such as recurring outbreaks of forest fires and the competition of other activities that have a bearing on the forest economy, such as the generation of energy from biomass.

2.2.2 Market prices of pulp and paper

The market prices of pulp and paper move in cycles, with a marked impact on the Group's revenues and on its profitability. Cyclical fluctuations in pulp prices arise mainly from changes in installed production capacity at the world level, creating imbalances in supply in the face of market demand.

With the aim of limiting the risk associated with fluctuations in the price of pulp in the short term, the Group carried out some hedging operations through forward sales.

2.2.3 Demand for the Group's products

Any decline in the demand for BEKP, printing and uncoated writing papers in the EU and US markets could have a severe impact on the company's sales. Moreover, demand for pulp produced by the Group depends on the growth of installed capacity for the production of paper at the world level, since the paper-makers are our main customers.

2.2.4 Competition

Increased competition in the pulp and paper markets could have an important impact on prices and hence on the Group's profitability. The pulp and paper markets are highly competitive, so that the coming on stream of new capacity could have a strong influence on prices at the world level.

These factors have forced the group to make important capital expenditures for the sake of keeping its costs at a competitive level and for making products of the highest quality. It can be expected that this pressure of competition will continue unabated.

2.2.5 Environmental legislation

In recent years, legislation in the EU has increased its constraints relative to the control of effluents, bearing in mind the environmental impact caused by the production of pulp. The companies of the Group conform to the prevailing legislation, having incurred major capital expenditures over the past few years. Although no important changes in present legislation are expected in the near future, there is always the possibility that the Group may need to spend more in this area, in order to comply with any new limits that may come into force.

2.2.6 Context costs

The lack of efficiency in the Portuguese economy, which exercises a negative effect on the Group's ability to compete, continues to deserve special attention, particularly, although not exclusively, in the following areas:

i) Ports and railroads;
ii) Roads, particularly those providing access to the Group's plants;
iii) Rules relating to territory and forest fires;
iv) Low productivity of the country's forests.

3. Important accounting estimates and judgments

The preparation of consolidated financial statements requires the Group's management to make judgements and estimates with a bearing on revenues, costs, assets, liabilities and disclosures on balance sheet date.

These estimates are determined by the judgment of the Group's management, based (i) on the best information on and knowledge of present events and in some cases, on the reports of independent experts and (ii) on the actions that the Company believes it is able to carry out in the future. However, actual transaction results may differ from estimates.

The estimates and assumptions that present a significant risk that a material adjustment to the book value of the assets and liabilities will be needed in the next year are shown below:

3.1 Estimate of Goodwill impairment

Each year, the Group tests whether there is impairment of goodwill, in accordance with the accounting policy described in Note 1.9. Recoverable amounts from the cash generating units are determined on the basis of calculation of values in use. These calculations require the use of estimates.

3.2 Income tax

The Group recognises liabilities for additional tax assessments that may arise from reviews by the tax authorities. When the final result of these reviews differs from the amounts initially recorded, the differences will have an impact on income tax and on the provisions for deferred taxes during the period in which such differences are detected.

3.3 Actuarial assumptions

Liabilities for defined benefits are calculated on the basis of certain actuarial assumptions. Changes in these assumptions may have a significant impact on those liabilities.

3.4 Useful life of property, plant and equipment

The useful life of an asset is the period during which an entity expects it to be available for use. This should be subject to review at least once at the end of each year and if estimates differ from previous estimates, the change should only be made for the future, with the adoption of such changes in depreciation rates that are needed to ensure that the asset is fully depreciated (by the straight-line method) by the end of is useful life.

During the first half of 2006, with the aid of an independent external entity, the Group carried out a review of the economic life of its property, plant and equipment, specifically that of its industrial assets,

Accordingly, the consolidated financial statements of June 30, 2006 reflect the impact of an extension of the useful life of those assets to an average period of 14 years.

4. Segment information

Segment information is shown as they relate to the identified business segments, namely Pulp, Paper, Wood and forest and Energy. The earnings, assets and liabilities of each segment correspond to those directly allocated to them, as well as to those that can be attributed to them on a reasonable basis.

Financial data by business segment for the periods ended June 30, 2006 and 2005 is shown as follows:

	JUNE /2006					
	FOREST	**PULP**	**PAPER**	**ENERGY**	**ELIMINATIONS**	**TOTAL**
REVENUES						
Sales and services - external	4,612,514	129,131,513	364,681,871	31,086,108	-	529,512,006
Sales and services - intersegmental	20,609,261	57,599,781	-	25,559,562	(103,768,605)	-
Total Revenues	**25,221,775**	**186,731,294**	**364,681,871**	**56,645,670**	**(103,768,605)**	**529,512,006**
PROFIT/(LOSS)						
Segmental profit	1,374,793	30,643,617	50,485,620	327,911	-	**82,831,941**
Costs unallocated	-	-	-	-	-	17,510,982
Operating profit	-	-	-	-	-	**100,342,923**
Financing costs-net	-	-	-	-	-	(16,001,900)
Income tax	-	-	-	-	-	(29,476,347)
Net profit before minority interest	-	-	-	-	-	**54,864,676**
Minority interest	-	-	-	-	-	(25,983)
Net profit	-	-	-	-	-	**54,838,693**

	JUNE /2005					
	FOREST	**PULP**	**PAPER**	**ENERGY**	**ELIMINATIONS**	**TOTAL**
REVENUES						
Sales and services - external	1,846,074	119,462,836	351,003,938	29,796,587	-	502,109,435
Sales and services - intersegmental	7,215,222	82,178,398	-	18,001,082	(107,394,702)	-
Sales and services - unallocated	-	-	-	-	-	3,402,580
Total Revenues	**9,061,296**	**201,641,234**	**351,003,938**	**47,797,669**	**(107,394,702)**	**505,512,015**
PROFIT/(LOSS)						
Segmental profit	1,349,282	23,202,123	45,864,978	342,214	-	**70,758,597**
Costs unallocated	-	-	-	-	-	(13,270,504)
Operating profit	-	-	-	-	-	**57,488,093**
Financing costs-net	-	-	-	-	-	(17,112,597)
Profit/Loss in subsidiaries and associates	-	-	-	-	-	(124,182)
Income tax	-	-	-	-	-	(13,353,436)
Net profit before minority interest	-	-	-	-	-	**26,897,877**
Minority interest	-	-	-	-	-	70,440
Net profit	-	-	-	-	-	**26,968,317**

Sales and services rendered by country of destination

	PULP		PAPER		TOTAL	
	06/2006	**06/2005**	**06/2006**	**06/2005**	**06/2006**	**06/2005**
Sales and services rendered						
Germany	28,262,091	32,001,450	46,943,690	41,343,811	75,205,781	73,345,261
Spain	17,943,078	20,192,503	50,531,010	43,886,676	68,474,088	64,079,179
France	10,996,020	8,465,007	52,005,394	51,608,552	63,001,414	60,073,559
UK	3,421,874	4,574,368	28,821,236	27,768,770	32,243,110	32,343,138
Italy	10,046,713	12,172,366	39,165,189	44,231,391	49,211,902	56,403,757
Portugal	4,218,812	4,468,643	27,226,572	28,707,430	31,445,384	33,176,073
Netherlands	25,145,294	6,884,276	21,565,041	17,342,160	46,710,335	24,226,436
USA	-	-	37,287,647	35,112,903	37,287,647	35,112,903
Others	29,097,631	30,704,223	61,136,092	61,002,245	90,233,723	91,706,468
	129,131,513	**119,462,836**	**364,681,871**	**351,003,938**	**493,813,384**	**470,466,775**

The domestic market absorbed all sales and services of the forest and energy segments.

5. Other operating income

On June 30, 2006 and 2005 the Other operating income was as follows:

Amounts in €	30-06-2006	Restated 30-06-2005
Adjustments reversal	177.985	-
Provisions reversal	-	2.534.442
Change in the fair value of biological assets	(510.562)	(1.110.037)
Supplementary income	3.099.821	1.343.191
Gains on inventories	403.961	1.003.642
Gains on the disposal of non-current assets	1.994.649	125.258
Subsidies - CO2 emission licenses (Note 30)	3.121.020	4.055.944
Subsidies - Investment (Note 30)	1.913.602	73.972
Other operating income	1.434.170	1.711.520
	11.634.646	**9.737.932**

Other operating income refers mainly to costs with electricity, water and salvage goods from Prolunp project, amounting to €1,983,024, €432,638 and €436,363, respectively.

6. Costs

On June 30, 2006 and 2005 the costs were made up as follows:

Amounts in €	30-06-2006	Restated 30-06-2005
Cost of inventories sold and consumed	(179.880.120)	(169.747.472)
Increase/decrease of inventories (finished products)	(2.031.661)	(14.935.089)
Consumed material and services		
Energy	(40.086.652)	(34.481.444)
Leases	(2.224.092)	(2.396.425)
Insurance costs	(8.404.055)	(8.513.523)
Maintenance costs	(14.467.602)	(11.835.050)
Transportation costs	(37.998.477)	(31.772.881)
Other consumed material and services	(40.166.525)	(49.867.667)
	(143.347.403)	(138.866.990)
Payroll costs		
Remunerations		
Corporate bodies	(2.381.235)	(1.181.796)
Other remunerations	(33.817.441)	(36.394.082)
	(36.198.676)	(37.575.878)
Social charges		
Pension costs - defined benefit plans (Note 26)	(4.230.136)	(2.417.722)
Other payroll costs	(17.636.186)	(12.162.534)
	(21.866.322)	(14.580.256)
	(58.064.998)	(52.156.134)
Other operating costs		
Recovery of costs related to capital expenditure	322.281	412.457
Subscription dues	(621.452)	(700.825)
Research and development	(1.990.085)	(1.748.809)
Inventory Losses	(330.759)	(962.579)
Adjustments to debt receivable (Note 23)	(45.324)	(273.459)
Adjustments to inventories (Note 23)	(670.970)	-
Provisions (Note 28)	(11.295.537)	(3.251.796)
Indirect taxes	(985.646)	(2.039.111)
CO2 emission costs	(3.121.020)	(4.055.944)
Other operating costs	(1.326.242)	(5.342.968)
	(20.064.754)	(17.963.034)
Total costs	**(403.388.936)**	**(393.668.719)**

The Other payroll costs heading includes an amount of €2,389,684 related to compensations paid to employees for termination of employment contracts by mutual agreement during 2006 (2005: €1,859,833 for the equivalent period and €16,332,619 at the year end).

The Other payroll costs heading also includes an amount of €5,279,726 (2005: €321,098) related to payable bonus.

7. Remuneration of members of the corporate bodies

On June 30, 2006 and 2005 the Remuneration of the members of the corporate bodies was as follows:

Amounts in €	30/06/2006	30/06/2005
Board of directors		
Portucel, S.A.	503,526	118,701
Board members of Portucel in other companies	1,311,732	832,110
Corporate bodies of other Group companies	501,122	156,233
Statutory Auditor (Note 34)	64,855	74,752
	2,381,235	**1,181,796**

In the first half of 2006, the remuneration of corporate bodies includes an amount of €345,732 (2005: €530,600) corresponding to remunerations of four Board members directly paid by the shareholder Semapa and subsequently charged to Portucel.

8. Depreciation, amortization and impairment losses

On June 30, 2006 and 2005 the depreciation, amortization and impairment losses was as follows:

Amounts in €	30/06/2006	Restated 30/06/2005
Property, plant and equipment depreciation		
Land	(16,830)	(16,830)
Buildings and other constructions	(9,076,882)	(9,138,540)
Equipments	(24,928,384)	(51,136,356)
Other tangible assets	(3,339,034)	(3,746,852)
	(37,361,130)	(64,038,578)
Other intangible assets amortization		
Industrial property and other rights	(53,663)	(54,556)
	(53,663)	(54,556)
	(37,414,793)	**(64,093,134)**

As a consequence of review of the asset useful lives, estimated at 14 years from December 31, 2005 onwards, the depreciation rates where revised downwards. If the depreciation rates were the same as those applied in 2005 the depreciation for the first half of 2006 would have been €61,804,836. The values presented above include €1,466,798 related to the depreciation of Soporgen's equipment (2005: €1,466,798), which were recorded in the consolidated balance sheet under the IFRIC 4 at an amount of €24,935,573 (December 31, 2005: €26,402,370).

9. Share of results of associates and joint ventures

Amounts in €	30/06/2006	30/06/2005
Portucel International Trading, SA	-	(124,182)
	-	**(124,182)**

Portucel International Trading, SA is carried under the Investments in associates and joint ventures heading, valued by the equity method; the choice of this method is explained by the fact that the company is now in liquidation process.

10. Financial costs (net)

On June 30, 2006 and 2005 the financial costs showed the following breakdown:

Amounts in €	30/06/2006	30/06/2005
Interest paid on loans	(14,844,873)	(14,153,103)
Other interest earned	966,368	1,250,186
Income from marketable securities	-	154,800
Foreign exchange differences	(782,522)	(1,946,194)
Losses on derivative financial instruments	(1,686,153)	(5,974,987)
Gains on derivative financial instruments	347,527	-
Other financial costs	(2,247)	-
Other financial income	-	3,556,701
	(16,001,900)	**(17,112,597)**

The amount of €1,686,153 recorded in Losses on derivative financial instruments includes €1,088,493, transferred from shareholders' equity to costs as result of the maturity of the associated hedge instrument. This amount also includes €439,566 related to interest rate swaps.

11. Income Tax

11. 1 Income tax expense

Effective January 1, 2003, Portucel has been subject to the special tax regime applicable to groups of companies made up of those held as to 90% or more and which meet the conditions foreseen in article 63 *et seq* of the Portuguese Corporate Tax Code (Código do Imposto sobre o Rendimento de Pessoas Colectivas).

Companies included in the group of companies subject to this regime, determine and record income tax as though they were taxed on an individual basis. If gains are determined on the application of this regime, they are recorded as an income of the holding company (Portucel).

In accordance with prevailing legislation, the gains and losses from Group companies and associates that arise from the application of the equity method are deducted or added, respectively, from or to the profit for the period when determining the taxable income for the period.

Dividends are considered when determining the taxable income in the year in which they are received, if holdings are less than 10% or if the assets are held for less than one year, unless the acquisition costs exceeds €20,000,000.

On June 30, 2006 and 2005, income tax can be analysed as follows:

Amounts in €	30/06/2006	30/06/2005
Current tax	17,989,630	11,357,326
Tax loss for the period to be used		
under the Group income tax	-	(138,779)
Current tax provision	4,768,694	1,586,509
Surplus in tax estimate	(368,984)	(903,683)
Deferred tax	7,087,007	1,452,064
	29,476,347	**13,353,437**

In the six month period ended June 30, 2006, the effective income tax rate reconciliation was as follows:

Amounts in €		30-06-2005
Profit before tax		84.341.023
Expected income tax	27,50%	23.193.781
Differences (a)	2,64%	2.226.814
Tax losses brought forward	0,00%	-
Current tax provision	5,65%	4.768.694
Tax benefits	(0,87%)	(729.977)
Adjustments to current tax	0,02%	17.035
	34,95%	**29.476.347**

(a) This amount is made up essentially of:

	30-06-2005
Amortization of "goodwill" (Note 15)	-
Capital gains/losses for accounting purposes	-
Taxable provisions (Note 28)	11.295.537
Contributions for pensions funds	-
Other	(2.860.665)
	8.097.507
Tax effect (27.50%)	2.226.814

11. 2 Income tax provision

During the first half of 2003, the tax authorities carried out an inspection which included a review of all aspects related to the Soporcel tax incentive referred in Note 36.

Following this inspection, the tax authorities presented additional amounts due, related to the fiscal years of 1998 to 2001, against which Soporcel took legal action in 2003, amounting to some €11,493,349, including penalty interest, related mainly with tax deductions from this tax incentive.

As of December 31, 2005, the provision for this tax contingency, including penalty interests, was €18,556,390 and increased in the period by €2,188,360, thus amounting to €20,744,750 at June 30, 2006. The remaining value (€2,580,334) of the increase relates essentially to the tax inspection of Soporcel income tax of 2002 (already concluded and paid in July, €270,025) and of 2003 (in progress).

Annual income tax returns are subject to review and potential adjustment by the tax authorities for a period of up to 4 years. However, if tax losses are utilised, these may be subject to review by the tax authorities for a period of up to 6 years.

In other countries where the Group operates, the deadlines are different and in most of the cases higher.

The Board of Directors believes that, despite the fact that the 2002 and 2003 returns of Portucel and Soporcel have already been reviewed, any adjustments to those returns, that result from reviews/inspections by the tax authorities, will not have a material effect on the consolidated financial statements as of June 30, 2006.

12. Earnings per share

Amounts in €	30-06-2006	30-06-2005
Profit attributable to equity holders of the company	54.838.693	26.968.317
Weighted average number of ordinary shares in issue	767.500.000	767.500.000
Basic net earnings per share	0,071	0,035

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

13. Minority interests

Amounts in €	30/06/2006	31/12/2005
Opening balance	170,796	204,875
Changes in the period	2,595	(28,341)
Income for the balance	25,983	(5,737)
Closing balance	**199,374**	**170,796**

Minority interests relate to Raiz – Instituto de Investigação Florestal e Papel (woodland and paper research institute).

14. Application of the preceding year's earnings

Amounts in €	2005	2004
Dividends distribution	40.290.574	28.472.004
Legal reserves	2.959.761	1.666.847
Other reserves	5.623.546	3.198.092
Retained earnings	14.417.380	17.946.533
	63.291.261	**51.283.476**

The resolution for the application of 2005 earnings, passed at Portucel's General Meeting on April 17, 2006, was based on the net profit for the year as defined by the accounting principles generally accepted in Portugal (Portuguese GAAP). The difference in earnings between the two standards, totalling €4,096,045 (2004: €17,946,533) was transferred to retained earnings.

15. Goodwill

Changes in Goodwill were as follows:

Amounts in €	30/06/2006	31/12/2005
Acquisition cost		
Opening balance	428,132,254	428,132,254
Acquisitions	-	-
Disposals	-	-
Adjustments	-	-
Closing balance	**428,132,254**	**428,132,254**
Accumulated amortization and impairment losses		
Opening balance	(51,375,870)	(51,375,870)
Amortizations and impairment losses	-	-
Disposals	-	-
Exchange rate fluctuations	-	-
Closing balance	**(51,375,870)**	**(51,375,870)**
Book value - opening balance	376,756,384	376,756,384
Book value - closing balance	376,756,384	376,756,384
	-	-

Entity	Year of acquisition	30/06/2006	31/12/2005
Soporcel, S.A.	2001	376,756,384	376,756,384

Following the acquisition of 100% of the share capital of Soporcel – Sociedade Portuguesa de Papel, SA, for €1,154,842,000, goodwill was determined, representing the difference between acquisition cost of the holding and the respective shareholders' equity as of the date of the first consolidation, retroactive to January 1, 2001, adjusted by the effect of attribution of fair value to Soporcel's property, plant and equipment.

The goodwill was amortized up to December 31, 2003 (transition date), having been replaced by annual test to determine impairment losses.

Accordingly, every year the Group calculates the recoverable amount of Soporcel assets (to which the goodwill recorded in the consolidated financial statements is associated), based on value-in-use calculations, in accordance with the Discounted Cash Flow method. The calculations are based on past performance and business expectations with the actual production structure, having used the budget for the next year and a cash flow estimate for the next 14 year period based on a constant sales volume. As a result of the calculations, no impairment losses have been identified.

The main assumptions for the above-mentioned calculation were as follows:

Inflation rate	2%
Discount rate	7%
Production growth	0%

16. Other intangible assets

Over the six-month period ended June 30, 2006 and 2005, changes in Other intangible assets were as follows:

Amounts in €	Research and development expenses	Industrial property and other rights	CO2 emission licenses	Intangible assets in progress	Total
			Restated		
Acquisition cost					
Amount as of January 1, 2005	**5,428,336**	**2,436,554**	**-**	**122,021**	**7,986,911**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	7,656	13,214,192	-	13,221,848
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	(1,137,177)	-	-	211,702	(925,475)
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2005	**4,291,159**	**2,444,210**	**13,214,192**	**333,723**	**20,283,284**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	3,988	-	286,269	290,257
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	-	(95,608)	-	(619,992)	(715,600)
Exchange rate adjustments	-	-	-	-	-
Amount as of December 31, 2005	**4,291,159**	**2,352,590**	**13,214,192**	**-**	**19,857,941**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	-	12,370,788	23,755	12,394,543
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	-	120,185	(7,090,551)	18,402	(6,951,964)
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2006	**4,291,159**	**2,472,775**	**18,494,429**	**42,157**	**25,300,520**
Accumulated amortizations and impairment losses					
Amount as of January 1, 2005	**(4,988,078)**	**(2,213,997)**	**-**	**-**	**(7,202,075)**
Changes in the perimeter	-	-	-	-	-
Amortizations and impairment losses	-	(54,953)	-	-	(54,953)
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	696,919	-	-	-	696,919
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2005	**(4,291,159)**	**(2,268,950)**	**-**	**-**	**(6,560,109)**
Changes in the perimeter	-	-	-	-	-
Amortizations and impairment losses	-	(54,555)	-	-	(54,555)
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	-	-	-	-	-
Exchange rate adjustments	-	-	-	-	-
Amount as of December 31, 2005	**(4,291,159)**	**(2,323,505)**	**-**	**-**	**(6,614,664)**
Changes in the perimeter	-	-	-	-	-
Amortizations and impairment losses	-	(53,662)	-	-	(53,662)
Disposals	-	-	-	-	-
Adjustments, transfers and write-off´s	-	-	-	-	-
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2006	**(4,291,159)**	**(2,377,167)**	**-**	**-**	**(6,668,326)**
Amount as of January 1, 2005	440,258	222,557	-	122,021	784,836
Net book value as of June 30, 2005	**-**	**175,260**	**13,214,192**	**333,723**	**13,723,175**
Net book value as of December 31, 2005	-	29,085	13,214,192	-	13,243,277
Net book value as of June 30, 2006	**-**	**95,608**	**18,494,429**	**42,157**	**18,632,194**

17. Property, plant and equipment

Over the six-month period ended June 30, 2006 and 2005, changes in Property, plant and equipment accounts, as well as the respective depreciations and impairment losses, were as follows:

Amounts in €	Land	Buildings and other constructions	Equipment and other tangibles *Restated*	Construction in progress	Total
Acquisition cost					
Amount as of January 1, 2005	**100,652,351**	**378,550,228**	**2,425,604,555**	**88,843,848**	**2,993,650,982**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	190,992	2,291,393	25,242,315	27,724,700
Disposals	(3,246)	-	(734,840)	-	(738,086)
Adjustments, transfers and write-off´s	-	831,204	9,181,802	(1,596,016)	8,416,990
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2005	**100,649,105**	**379,572,424**	**2,436,342,910**	**112,490,147**	**3,029,054,586**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	307,770	7,684,185	7,610,801	15,602,756
Disposals	(60,760)	-	(3,890,560)	-	(3,951,320)
Adjustments, transfers and write-off´s	568,975	6,090,129	37,904,889	(44,407,067)	156,926
Exchange rate adjustments	-	-	-	-	-
Amount as of December 31, 2005	**101,157,320**	**385,970,323**	**2,478,041,424**	**75,693,881**	**3,040,862,948**
Changes in the perimeter	-	-	-	-	-
Acquisitions	-	27,992	10,556,775	3,212,528	13,797,295
Disposals	(972,122)	(1,276,041)	(1,169,015)	-	(3,417,179)
Adjustments, transfers and write-off´s	-	(769,826)	37,007,267	(37,323,021)	(1,085,580)
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2006	**100,185,198**	**383,952,447**	**2,524,436,451**	**41,583,388**	**3,050,157,484**
Accumulated depreciations and impairment losses					
Amount as of January 1, 2005	**(194,086)**	**(190,262,001)**	**(1,558,750,943)**	**-**	**(1,749,207,030)**
Changes in the perimeter	-	-	-	-	-
Depreciations and impairment losses	(16,830)	(9,138,540)	(54,883,209)	-	(64,038,579)
Disposals	-	-	1,702,737	-	1,702,737
Adjustments, transfers and write-off´s	-	1,392,471	(14,931,201)	-	(13,538,730)
Exchange rate adjustments	-	-	-	-	-
Amount as of June 30, 2005	**(210,916)**	**(198,008,070)**	**(1,626,862,616)**	**-**	**(1,825,081,602)**
Changes in the perimeter	-	-	-	-	-
Depreciations and impairment losses	(16,829)	(9,248,048)	(58,767,857)	-	(68,032,734)
Disposals	-	-	2,038,554	-	2,038,554
Adjustments, transfers and write-off´s	-	(1,796,968)	5,322,207	-	3,525,239
Exchange rate adjustments	-	-	-	-	-
Amount as of December 31, 2005	**(227,745)**	**(209,053,086)**	**(1,678,269,712)**	**-**	**(1,887,550,543)**
Changes in the perimeter	-	-	-	-	-
Depreciations and impairment losses	(16,830)	(9,076,882)	(28,267,419)	-	(37,361,130)
Disposals	270,305	350,040	270,905	-	891,250
Adjustments, transfers and write-off´s	-	1,672,207	(3,676,482)	-	(2,004,275)
Exchange rate adjustments	-	-		-	-
Amount as of June 30, 2006	**25,730**	**(216,107,721)**	**(1,709,942,708)**	**-**	**(1,926,024,698)**
Net book value as of January 1, 2005	100,458,265	188,288,227	866,853,612	88,843,848	1,244,443,952
Net book value as of June 30, 2005	**100,438,189**	**181,564,354**	**809,480,294**	**112,490,147**	**1,203,972,984**
Net book value as of December 31, 2005	100,929,575	176,917,237	799,771,712	75,693,881	1,153,312,405
Net book value as of June 30, 2006	**100,210,928**	**167,844,726**	**814,493,743**	**41,583,388**	**1,124,132,786**

As mentioned in Note 1.2, the Group applied retroactively the interpretation IFRIC 4. By virtue of the adoption of this standard, the Property, plant and equipment – equipment and other tangible heading was increased by €44,003,950, from which the respective accumulated depreciation in the amount of €17,601,580 was deducted as of December 31, 2005. On June 30, 2006, the net book value of this equipment was €24,939,572.

18. Biological assets

Over the six-month period ended June 30, 2006 and the year ended December 31, 2005, changes in biological assets were as follows:

Amounts in €	30/06/2006	31/12/2005
Gross values		
Amount as of January 1	136,238,875	134,025,278
Changes in fair value (Note 5)	(510,562)	2,213,597
	135,728,313	**136,238,875**

During the first half of 2006, the value of lumbered wood amounts to €6,131,689 (June 30, 2005: €8,707,516)

On June 30, 2006, Biological assets include an amount of €6,146,676 related to assets for which there is an expectation of their realization within a period of 6 months, if the forests are not significantly affected by the fire risk.

19. Investments in associates and joint ventures

As of June 30, 2006 and December 31, 2005, Investments in associates and other investments comprised the following:

Associates and other investments	% held	30/06/2006	31/12/2005
Equipar	-	32,423	32,423
Lusitaniagas	-	5,267	5,267
IBET	-	39,963	39,963
Soset	-	24,939	24,939
Portucel International Trading, SA	80%	386,234	239,669
Soporgen	8%	4,000	4,000
TASC	-	11,223	11,223
Other	-	42	42
		504,091	**357,526**

Changes under this heading during the six-month period ended June 30, 2006 and during 2005 were as follows:

Amounts in €	30/06/2006	31/12/2005
Acquisition cost at the beginning of the period	357,526	815,594
Acquisitions	-	-
Disposals	-	-
Share of results	-	(124,179)
Subsidiaries transference	146,565	(333,889)
	504,091	**357,526**

20. Inventories

As of June 30, 2006 and December 31, 2005, Inventories comprised the following:

Amounts in €	30/06/2006	31/12/2005
Raw materials	80,304,414	89,257,482
Work in progress	11,832,594	13,679,225
Byproducts and waste	939,921	311,581
Finished and intermediate products	24,738,228	26,954,373
Merchandise	180,159	222,411
Advances to suppliers of inventories	668,205	687,453
	118,663,521	**131,112,525**

21. Receivables and other current assets

As of June 30, 2006 and December 31, 2005, Receivables and other current assets showed the following breakdown:

Amounts in €	30/06/2006	31/12/2005
Clients	216,022,447	210,633,761
Clients - associated companies (Note 32)	474,121	1,473,622
Derivative financial instruments (Note 31)	16,178,836	5,172,157
Accrued income	1,645,943	2,425,895
Other receivables	2,207,685	3,051,346
Deferred costs	7,988,760	3,741,220
	244,517,792	**226,498,001**

Receivables showed above have been deducted of impairment losses, in accordance with the policies described in the Note 1.15, whose details are presented in Note 23.

As of June 30, 2006 and December 31, 2005, other receivables, can be analysed as follows:

Amounts in €	30/06/2006	31/12/2005
Shareholders and associates		
Shareholders	(1,239)	(1,239)
Associates - receivables (Note 32)	361,379	813,370
	360,140	**812,131**
Others		
Advances to staff	204,295	163,165
Other debtors	1,643,250	2,076,050
	1,847,545	**2,239,215**
	2,207,685	**3,051,346**

As of June 30, 2006 and December 31, 2005, Accrued income and Deferred costs, can be analysed as follows:

Amounts in €	30-06-2006	31-12-2005
Accrued income		
Interest receivable	324.728	28.485
Discounts in acquisitions	26.587	26.735
Subsidies	16.936	973.421
Compensations	-	858.406
Others	1.277.692	538.848
	1.645.943	**2.425.895**
Deferred costs		
Interests with bank loans	-	152.444
Insurance costs	3.245.716	-
Major repairs	3.732.384	566.746
Costs with inventories	727.265	2.582.615
Others	283.395	439.414
	7.988.760	**3.741.220**
	9.634.703	**6.167.115**

22. State and other public entities

As of June 30, 2006 and December 31, 2005, there were no debts in arrears to the state and other public entities. Balances with these entities were as follows:

Current assets

Amounts in €	30/06/2006	31/12/2005
State and other public entities		
Corporate income tax	5,098,855	6,138,119
Value added tax	3,762,080	5,801,927
Value added tax - refunds requested	26,633,582	24,192,073
Other	-	-
	35,494,517	36,132,119

Current Liabilities

Amounts in €	30/06/2006	31/12/2005
State and other public entities		
Corporate income tax	17,684,303	2,721,988
Salaries income tax - withholdings	1,509,697	904,997
Value added tax	4,248,295	3,513,140
Social security	2,988,038	1,981,671
Tax provisions	26,155,005	18,556,390
Other	53,620	58,360
	52,638,958	27,736,546

The amount within corporate income tax includes a provision amounting to €20,744,750 to cover contingencies associated with the tax litigation referred to in Note 11 (December 31, 2005: €18,556,390).

23. Impairments

During the first half of 2006 and 2005 changes in Impairments were as follows:

Amounts in €	Property, plant and equipment	Inventories	Clients	Other debtors	Total
Opening balances*	(19.357.083)	(25.053)	(4.979.778)	(444.055)	(24.805.969)
Changes in the perimeter	-	-	-	-	-
Exchange rate adjustmer	-	-	-	-	-
Increases (Note 6)	-	(670.970)	(45.324)	-	(716.294)
Decreases (Note 5)	-	-	1.570	176.415	177.985
Transfers	-	-	-	-	-
Closing balance*	**(19.357.083)**	**(696.023)**	**(5.023.532)**	**(267.640)**	**(25.344.278)**

The impairment in Tangible fixed assets includes impairment losses in fixed assets withheld by SPCG in the amount of €12,931,625, whose net booking value after impairment is €7,294,638.

24. Share capital and treasury shares

Portucel is a public corporation with shares quoted on Euronext Lisbon.

As of June 30, 2006, the share capital of Portucel was fully subscribed and paid in; it is represented by 767,500,000 shares with nominal value of €1 each, of which 60,500 are held as treasury shares (nominal value).

There were no changes under these headings during 2005 and first half of 2006.

As of June 30, 2006, shareholders with significant positions in the Company's equity were as follows:

Entities	Nº of shares	%
Semapa Investments, BV	284,712,433	37.10%
Seinpart - Participações, SGPS, S.A.	230,250,000	30.00%
Parpública - Participações Públicas (SGPS), S.A.	197,432,769	25.72%
Santander Pensões	31,199,399	4.07%
Other shareholders	23,905,399	3.11%
	767,500,000	**100.00%**

As of June 30, the shares representing the Share Capital were quoted at €2.18 each. This value corresponds to a market value of €1,673,150,000.

25. Reserves

As of June 30, 2006 and December 31, 2005, the Fair value reserve and Other reserves showed the following breakdown:

Amounts in €	30/06/2006	31/12/2005
Fair value reserve	6,226,447	(1,506,495)
Statutory reserve	52,934,256	47,310,710
Legal reserve	26,254,372	23,294,613
Merger reserve	(3,003,047)	(3,003,047)
	76,185,581	**67,602,276**
Currency translation reserve	45,899	(77,735)
Retained earnings: prior years	147,316,455	135,028,647
	229,774,382	**201,046,693**

Fair value reserve

As of June 30, 2006, €6,226,447, net of deferred taxes, shown under Fair value reserve, represents the fair value of financial hedging instruments in the amount of €12,821,601 (Note 31), recorded as described in note 1.12.

Legal reserve

Under Commercial law, at least 5% of each year's net profit must be applied to supplement the legal reserve until it reaches at least 20% of capital. This reserve cannot be distributed unless Portucel is liquidated but can be drawn on to absorb losses, after other reserves are exhausted, or incorporated in the share capital.

Merger reserve

This heading represents the negative difference of €3,003,047 determined on January 1, 2000, between the acquisition value of Papéis Inapa, SA and its adjusted shareholders' equity, which after the merger was classified as a merger reserve.

Currency translation reserve

This heading includes the exchange differences arising as a result of the conversion of all assets and liabilities of the Group expressed in foreign currency to euros, at the rates of exchange prevailing on balance sheet date.

The Currency translation reserve refers to Soporcel UK (GBP) and Soporcel North America (USD). In the first half of 2006 the reserve includes Soporcel UK €39,313, negative, and Soporcel NA €85.215 (2005: €35,388 and €42,347, both negative, respectively).

26. Deferred taxes

As of June 30, 2006 and December 31, 2005, changes in assets and liabilities as a result of deferred taxes were as follows:

Amounts in €	*Restated* As of January 1, 2006	Income statement Increases	Income statement Decreases	Equity	As of June 30, 2006
Temporary differences originating deferred tax assets					
Tax losses deductible in the future	123.858	-	(73.577)	157.283	207.564
Intangible assets adjustments	7.394.291	-	(4.129.874)	-	3.264.417
Taxable provisions	8.870.178	1.080.000	(29.758)	-	9.920.420
Tangible fixed assets adjustments	15.400.681	-	(634.435)	-	14.766.246
Retirement benefits obligations	37.589.072	3.867.572	-	3.187.874	44.644.518
Financial instruments	2.077.924	-	-	(2.077.924)	-
Deferred gains in inter-group transactions	4.200.155	642.900	-	-	4.843.055
Forest valuation	93.336.338	208.168	(21.488.255)	-	72.056.251
Forest costs update	59.123.273	17.142.219	-	-	76.265.491
Depreciation of assets under IFRIC 4	3.663.197	98.009	-	-	3.761.206
	231.778.968	23.038.868	(26.355.900)	1.267.232	229.729.168
Temporary differences originating deferred tax liabilities					
Revaluation of fixed assets	(34.055.387)	(221.078)	1.461.209	-	(32.815.256)
Retirement benefits obligations	(1.018.029)	(25)	203.160	7.704	(807.190)
Financial instruments	-	-	-	(8.588.198)	(8.588.198)
Fair value of fixed assets	(247.887.582)	-	546.534	-	(247.341.048)
Extension of the useful life of tangible fixed assets	-	(24.443.706)	-	-	(24.443.706)
Deferred losses in inter-group transactions	(37.052.365)	-	-	-	(37.052.365)
	(320.013.364)	(24.664.809)	2.210.903	(8.580.494)	(351.047.764)
Amounts presented on the balance sheet					
Deferred tax assets	63.739.216	6.335.689	(7.247.872)	348.489	63.175.521
Deferred tax liabilities	(88.003.675)	(6.782.823)	607.998	(2.359.636)	(96.538.133)

Amounts in €	As of January 1 , 2005	Income statement Increases	Income statement Decreases	Equity	*Restated* As of June 30, 2005
Temporary differences originating deferred tax assets					
Tax losses deductible in the future	1.924.144	-	(1.800.286)	-	123.858
Taxable provisions	16.393.212	12.733.209	(8.419.295)	(4.442.657)	16.264.469
Fixed assets adjustments	15.512.496	524.652	(636.467)	-	15.400.681
Retirement benefits obligations	37.867.614	2.855.065	(17.339.628)	14.206.022	37.589.072
Financial instruments	-	1.164.262	-	913.662	2.077.924
Deferred gains in inter-group transactions	-	4.200.155	-	-	4.200.155
Forest valuations	139.805.552	3.751.980	(50.221.193)	-	93.336.338
Forest costs update	43.933.738	17.495.227	(2.305.693)	-	59.123.273
Depreciation of assets under IFRIC 4	3.339.233	323.964	-	-	3.663.197
	258.775.990	43.048.513	(80.722.563)	10.677.026	231.778.968
Temporary differences originating deferred tax liabilities					
Revaluation of fixed assets	(38.131.551)	4.250.370	(174.206)	-	(34.055.387)
Retirement benefits obligations	(873.803)	(260.487)	2.587	113.674	(1.018.029)
Financial instruments	(1.669.238)	-	-	1.669.238	-
Fair value of fixed assets	(244.195.901)	-	(3.691.681)	-	(247.887.582)
Deferred losses in inter-group transactions	-	-	(37.052.365)	-	(37.052.365)
	(284.870.494)	3.989.883	(40.915.665)	1.782.912	(320.013.364)
Amounts presented on the balance sheet					
Deferred tax assets	71.163.397	11.838.341	(22.198.705)	2.936.182	63.739.216
Deferred tax liabilities	(78.339.386)	1.097.218	(11.251.808)	490.301	(88.003.675)

Deferred taxes assets on tax losses

Deferred taxes assets on tax losses are recognized to the extent that it is probable that the respective tax benefit will be realized through future taxable earnings. The Group recognized deferred tax assets in the amount of €57,080 relative to €207,564 of tax losses that can be deducted from future taxable earnings. These are itemized below:

Amounts in €	30/06/2006	31/12/2005	Expiry date
Sociedade de Vinhos da Herdade de Espirra	50,281	95,030	2010
Setipel – Serviços Técnicos para a Indústria Papeleira, S.A.	-	28,828	2009
Raiz - Instituto de Investigação da Floresta e Papel	157,283	-	2011
	207,564	**123,858**	

Reported tax losses without deferred taxes assets

Tax losses as of June 30, 2006 and December 31, 2005 that the Group considers there is, at this date, no capability to realize through future taxable earnings (with the limit of 6 years) and therefore without deferred taxes assets, are itemized as follows:

Amounts in €		30/06/2006	31/12/2005	2006	2007	2008	2009	2010	2011
Portucel Florestal, S.A.		**20,738,255**	**20,738,255**						
	2000	3,332,223	3,332,223	3,332,223	-	-	-	-	-
	2001	3,491,014	3,491,014	-	3,491,014	-	-	-	-
	2002	5,989,592	5,989,592	-	-	5,989,592	-	-	-
	2003	7,925,426	7,925,426	-	-	-	7,925,426	-	-
Aliança Florestal, SA		**259,285**	**259,285**						
	2000	228,236	228,236	228,236	-	-	-	-	-
	2001	31,049	31,049	-	31,049	-	-	-	-
PortucelSoporcel Abastecimento, S.A		**133,842**	**174,094**						
	2001	133,842	174,094	-	133,842	-	-	-	-
Aflomec, SA		**7,956**	**12,144**						
	2002	7,956	12,144	-	-	7,956	-	-	-
Socortel, SA		**-**	**8,173**						
	2002	-	8,173	-	-	-	-	-	-
Cofotrans, SA		**-**	**9,403**						
	2003	-	9,403	-	-	-	-	-	-
Aflotrans, Lda		**8,127**	**-**						
	2005	8,127	-	-	-	-	-	-	8,127
SPCG, S.A.		**1,470,659**	**1,470,659**						
	2000	1,211,605	1,211,605	1,211,605	-	-	-	-	-
	2001	259,054	259,054	-	259,054	-	-	-	-
Tecnipapel, Lda		**215,426**	**215,426**						
	2000	12,561	12,561	12,561	-	-	-	-	-
	2001	50,816	50,816	-	50,816	-	-	-	-
	2002	152,048	152,048	-	-	152,048	-	-	-
EMA21, S.A.		**1,270**	**-**						
	2005	1,270	-	-	-	-	-	-	1,270
		22,834,819	**22,887,438**	**4,784,625**	**3,965,775**	**6,149,597**	**7,925,426**	**-**	**9,397**

27. Retirement benefits obligations

Retirement and survivors' pension supplements

At present there are various retirement and survivors' pension supplement plans in force at the companies included in the consolidation. For some categories of workers there are plans in addition to the ones described below, also with independent funds to cover these additional liabilities.

(i) Under the prevailing Social Benefit Regulation, permanent employees of Portucel and its subsidiaries (excluding Soporcel and its subsidiaries) with more than five years' service are entitled after retirement or disability to a monthly retirement pension or disability supplement (Portucel Plan). This supplement is calculated according to a formula which takes into account the beneficiary's gross monthly compensation updated to the employee's occupational category on the date of his retirement and number of years of service, up to a limit of 30; survivors' pensions to spouse and direct descendants are also guaranteed.

To cover this liability, an independent pension fund designated as the Portucel Pension Fund was formed under the management of an external entity.

(ii) The employees of Soporcel – Sociedade Portuguesa de Papel (Soporcel) and its subsidiaries with more than ten years' service are entitled after their retirement or becoming disabled to a monthly retirement or disability pension supplement; survivors' pensions are also guaranteed to them. (Soporcel Plan).

To cover this liability, externally managed pension funds were set up, and the funds' assets are apportioned between each of the companies.

Actuarial studies carried out by an independent entity for the purpose of determining the accumulated liabilities as of June 30, 2006 and December 31, 2005 were based on the following assumptions:

	30/06/2006	31/12/2005	30/06/2005
Disability table	EKV 80	EKV 80	EKV 80
Mortality table	TV 88/90	TV 88/90	TV 88/90
Future salary increases	2.50%	2.50%	3.30%
Discount rate	4.50%	4.50%	5.32%
Future pension increases	2.25%	2.25%	2.25%

In the last quarter of 2005, the Group changed some of the assumptions used in the calculation of obligations with retirement pension supplements, namely the discount rate and the rate of future salary increases by considering being these the assumptions that best reflect the present financial and economic reality of the Group.

In addition, and in accordance with note 1.29.1, the Group adopted the amendment to IAS 19, in December 2005, in what concerns the possibility of directly recognising in equity actuarial gains and losses.

As of June 30, 2006 and December 31, 2005, coverage of the companies' liabilities by the assets of the funds was as follows:

Amounts in €	30/06/2006	31/12/2005
Liabilities for past services		
- Active employees	111,812,354	107,787,252
- Early retirement	2,139,750	2,294,030
- Retired employees	32,351,378	30,451,248
Market value of the pension fund	(102,573,176)	(104,068,511)
	43,730,306	36,464,019

Amounts recognised in the income statement

Amounts in €	30/06/2006	30/06/2005
Current services	2,532,072	2,394,915
Interest expenses	3,303,440	3,379,224
Expected return on the plan assets	(1,909,404)	(4,292,690)
Transfers and adjustments	150,000	31,319
Actuarial gains/losses	-	774,319
Other changes	(5,420)	-
	4,070,688	2,287,087
Other pension costs	159,448	130,635
	4,230,136	2,417,722

Movements in liabilities recognised in the balance sheet

Amounts in €	30/06/2006	31/12/2005
Amount at the beginning of the period	140,532,530	123,126,128
Change of assumptions	-	11,750,894
(Profit)/Loss recognised in the income stateme	5,835,512	3,509,179
Pensions paid	(966,619)	(1,872,662)
Actuarial gains and losses	902,059	1,986,879
Other changes	-	2,032,112
	146,303,482	140,532,530

Movements in the pension Fund

Amounts in €	30/06/2006	31/12/2005
Amount at the beginning of the period	104,068,511	86,601,539
Contributions made in the period	-	9,070,172
Expected return in the period	1,909,404	4,845,838
Actuarial gains/losses (differential between actual and expected return)	(2,288,120)	4,055,811
Pensions paid	(966,619)	(1,872,662)
Other changes	(150,000)	1,367,813
	102,573,176	104,068,511

Fund assets decomposition

Amounts in €	30/06/2006	31/12/2005
Shares	31,030,805	29,752,882
Bonds	63,145,402	66,960,371
Other applications - short term	8,396,970	7,355,258
	102,573,176	104,068,511

28. Provisions

During the first half of 2006 and 2005 changes in Provisions were as follows:

Amounts in Euros	Legal claims	Tax claims	Others	Total
Opening balance as of January 1, 2005	**965,272**	**-**	**153,146**	**1,118,418**
Increases	718,753	-	-	718,753
Decreases	(2,750)	-	(25,504)	(28,254)
Replacements	(12,250)	-	-	(12,250)
Balance as of June 30, 2005	**1,669,025**	**-**	**127,642**	**1,796,667**
Increases	779,762	-	-	779,762
Decreases	(623,005)	-	25,504	(597,501)
Replacements	(24,918)	-	-	(24,918)
Opening balance as of January 1, 2006	**1,800,864**	**-**	**153,146**	**1,954,010**
Increases (Note 6)	314,860	10,480,677	500,000	11,295,537
Decreases	-	-	-	-
Replacements (Note 5)	-	-	-	-
Closing balance as of June 30, 2006	**2,115,724**	**10,480,677**	**653,146**	**13,249,547**

Provisions for fiscal proceedings relate to tax contingencies other than those relative to income, in particular those relative to the tax inspection at Soporcel in 2003 and from 1998 to 2003 relative to sales made by Portucel from goods in warehouses located in Germany.

The contingency relative to Portugal concerns the capital increase of Lazer e Floresta through contribution of assets (lands and forests) of Soporcel in 2003 and the subsequent disposal of the equity holding thus acquired, within the context of the restructuring of the group's forest assets (this process was in accordance with the strategic guidelines within the framework of the State's exercise of its function as a shareholder, with a joint order of the Finance and Economy Ministers).

29. Interest-bearing liabilities

As of June 30, 2006 and December 31, 2005, non-current interest-bearing debt consisted of the following:

Amounts in €	30-06-2006	31-12-2005
Non-current		
Bond loans	700.000.000	700.000.000
Loans from financial institutions	44.366.865	54.050.298
	744.366.865	**754.050.298**
Financial leases	232.992	439.148
Expenses with bond loans issuance	(6.392.824)	(6.940.689)
Expenses with other loans issuance	(145.580)	(128.929)
	(6.538.404)	**(7.069.618)**
Non-current Interest-bearing debt	**738.061.453**	**747.419.828**

As of June 30, 2006 and December 31, 2005, current interest-bearing debt of the Group was as follows:

Amounts in €	30/06/2006	31/12/2005
Current		
Bank borrowings - short term	9,868,659	77,767,413
Financial leases	439,067	474,441
Expense with loans issuance	-	(2,255)
Current Interest-bearing debt	**10,307,726**	**78,239,599**

As of June 30, 2006 and December 31, 2005, net debt of the Group was as follows:

	30/06/2006	31/12/2005
Interest-bearing liabilities		
Non-current	738,061,453	747,419,828
Current	10,307,726	78,239,599
	748,369,179	**825,659,427**
Cash and cash equivalents		
Cash in hand	40,649	40,346
Short-term bank deposits	9,880,520	5,980,915
Other treasury applications	74,000,000	83,500,000
	83,921,169	**89,521,261**
Interest-bearing net debt	**664,448,010**	**736,138,166**

As of June 30, 2006 total interest-bearing liabilities consisted of the following:

	30/06/2006	
Amounts in €	Medium/ long-term	Short-term
EFTA	-	144,651
PEDIP	81,151	81,150
EIB (European Investment bank)	19,285,714	9,642,858
Bond loans	693,607,176	-
Financial leases	232,992	439,067
Other banks	24,854,420	-
Interest-bearing liabilities	**738,061,453**	**10,307,726**

	31/12/2005	
Amounts in €	Medium/ long-term	Short-term
Commercial paper	-	63,997,745
EFTA	-	286,808
PEDIP	121,726	81,150
EIB (European Investment bank)	28,928,571	10,742,857
Bond loans	693,059,311	-
Overdrafts	-	2,656,598
Financial leases	439,148	474,441
Other banks	24,871,071	-
Interest-bearing liabilities	**747,419,828**	**78,239,599**

Commercial paper

As of June 30, 2006 there was only a program of commercial paper, with guaranteed subscription, amounting to €50,000,000, however no amount was used.

EFTA Fund/BPI loan

This loan was extended to Portucel by the EFTA Fund for the Industrial Development in Portugal (presently held by BPI after extinction of EFTA Fund), for the purpose of modernising plant facilities and for the development of specific projects within the scope of the Company's activities. This loan, amounting to €998,000 was taken out on July 12, 2001, and bears interest payable semi-annually and in arrears, at Annual Base Rate multiplied by 1.1 and deducted by 15%. This loan is repayable in seven successive semi-annual instalments, the first of which was due on July 12, 2003 and the last on July 12, 2006.

IAPMEI Loan

This loan was granted within the scope of PEDIP to Portucel and had an initial amount of €406,000, repayable in equal semi-annual instalments in the period between 2003 and 2008, and does not bear interest.

EIB loan

These loans were granted by the European Investment Bank (EIB) to Soporcel and bear interest at Euribor for three months.

The amount recorded under medium and long-term will be repaid in three equal annual instalments of €9,642,857, in 2007, 2008 and 2009.

Bond loans

During 2005, the Group issued five bond loans through private subscription in the total amount of €700,000,000. These loans will be repaid in a single instalment as follows:

Amounts in €	Amount	Maturity	Reference rate
Portucel 2005 / 2010	300,000,000	March, 2010	Euribor 6m
Portucel 2005 / 2013	200,000,000	May, 2013	Euribor 6m
Portucel 2005 / 2012	150,000,000	October, 2012	Euribor 6m
Portucel 2005 / 2008	25,000,000	December 2008	Euribor 6m
Portucel 2005 / 2010 II	25,000,000	December, 2010	Euribor 6m
Total	**700,000,000**		

The loans amounting to €300 and €150 million are quoted in Euronext Lisbon under the designation of "Obrigações Portucel 2005/2010" and "Obrigações Portucel 2005/2012". As of June 30 the value of each bond was €100.00 and €100.26, respectively.

Medium and long-term loan – Other banks

A bank loan was contracted in January 2005 by Portucel in the amount of €25,000,000 and for a period of seven years. The loan will be repaid in 8 semi-annual instalments, the first of which will be due in July 2008. The loan bears interest at Euribor for six months plus a market spread.

Repayment terms related to the medium and long-term loans show the following maturity profile:

Amounts in €	30/06/2006	31/12/2005
1 to 2 years	81,149	9,724,007
2 to3 years	37,767,858	37,808,433
3 to 4 years	15,892,858	15,892,858
4 to 5 years	331,250,000	331,250,000
More than 5 years	359,375,000	359,375,000
Interest-bearing liabilities	**744,366,865**	**754,050,298**

As of June 30, 2006 and December 31, 2005, the Group as the following equipments under financial lease plans:

Amounts in €	30/06/2006 Acquisition amount	Accumulated amortization	Net book value
Equipment	298,115	248,429	49,686
Soporgen equipment	44,003,950	19,068,378	24,935,572
Transportation equipment	1,476,094	1,054,341	421,753
Financial lease equipment	**45,778,159**	**20,371,148**	**25,407,011**

Amounts in €	31/12/2005 Acquisition amount	Accumulated amortization	Net book value
Equipment	298,115	198,743	99,372
Soporgen equipment	44,003,950	17,601,580	26,402,370
Transportation equipment	1,519,150	918,622	600,528
Financial lease equipment	**45,821,215**	**18,718,945**	**27,102,270**

As of June 30, 2006 and December 31, 2005, the Group's indebtedness under financial lease plans, except Soporgen equipment, was itemized as follows:

Amounts in €	30/06/2006	31/12/2005
Less than 1 year	439,067	474,441
1 to 2 years	232,992	303,584
2 to 3 years	-	135,564
3 to 4 years	-	-
4 to 5 years	-	-
More than 5 years	-	-
	672,059	**913,589**
Future interest	18,167	41,217
Present value of financial lease	**690,226**	**954,806**

30. Payables and other current liabilities

As of June 30, 2006 and December 31, 2005, Payables and other current liabilities showed the following breakdown:

Amounts in €	30/06/2006	*Restated* 31/12/2005
Accounts payable to suppliers	101,909,508	122,547,780
Accounts payable to associated companies (Note 32)	2,971,883	2,441,401
Accounts payable to fixed assets suppliers	6,336,503	4,199,671
Derivate financial instruments (Note 31)	2,430,316	2,448,464
Other creditors	5,770,635	13,072,641
Accrued costs	29,442,979	25,346,770
Deferred income	19,987,479	12,406,914
	168,849,303	**182,463,641**

As of June 30, 2006 and December 31, 2005, Accrued costs and Deferred income showed the following breakdown:

Amounts in €	30-06-2006	*Restated* 31-12-2005
Accrued costs		
Payroll costs	15.184.521	16.514.459
Interest payable	5.136.326	6.749.574
Others	9.122.132	2.082.737
	29.442.979	**25.346.770**
Deferred income		
Investment subsidies	4.522.421	6.283.144
Subsidies - CO2 emission licenses	15.373.409	6.123.641
Others	91.649	129
	19.987.479	**12.406.914**

During the first half of 2006 and 2005, Investment subsidies showed the following movements:

Amounts in €	30/06/2006	Restated 31/12/2005
Investment subsidies		
Opening balance	6,283,144	7,734,639
Decrease	(1,913,602)	(2,417,101)
Increase	152,879	965,606
Closing balance	**4,522,421**	**6,283,144**

The amounts presented in Investment subsidies heading relate mainly to subsidies obtained by Portucel and by the subsidiaries Soporcel and Portucel Florestal and are recognized in accordance with the accounting policy referred in Note 1.23.

During the first half of 2006 and 2005, Subsidies – CO2 emission licenses showed the following movements:

Amounts in €	30-06-2006	Restated 31-12-2005
Subsidies - CO2 emission licenses		
Opening balance	6.123.641	-
Decrease	(3.121.020)	(7.090.551)
Increase	12.370.788	13.214.192
Closing balance	**15.373.409**	**6.123.641**

Units: CO2 tons	30-06-2006	31-12-2005
Opening balance	261.359	-
Licenses obtained	563.986	563.986
Licenses consumed	(139.643)	(302.627)
Disposals	(10.000)	-
	675.702	**261.359**

As of June 30, 2006 the CO2 per ton was quoted at €15.69, therefore the market value of the withheld CO2 emission licenses is €10,601,764.

31. Derivative financial instruments

To manage the exchange rate risk associated with collections from customers, on December 31, 2005, the Group entered into forward rate agreements which expire during 2006.

In order to prevent from exchange rate fluctuations several options were contracted at the end of 2005 and 2006 to manage the exchange rate risk of the 2006 and 2007 estimated sales.

In 2005 and 2006, to hedge against the risk associated with fluctuations in the prices of pulp for sales contemplated in 2006 and 2007, the Group entered into forward contracts that expire throughout that period.

As of June 30, 2006 and December 31, 2005, the fair value of derivative financial instruments (Note 1.12) showed the following breakdown:

	30/06/2006				31/12/2005
Amounts in €	Notional	Positives	Negatives	Net	Net
Hedging					
Interest rate swaps	337,500,000	6,288,158	-	6,288,158	(184,070)
Hedging (sales and pulp prices)	211,465,421	8,960,248	(2,426,804)	6,533,443	3,707,106
	548,965,421	**15,248,405**	**(2,426,804)**	**12,821,601**	**3,523,036**
Trading					
Cap (interest rate)	112,500,000	-	(3,512)	(3,512)	(5,703)
Foreign exchange forwards (Note 10)	76,023,064	930,431	-	930,431	(793,640)
	188,523,064	**930,431**	**(3,512)**	**926,919**	**(799,343)**
	737,488,485	**16,178,836**	**(2,430,316)**	**13,748,520**	**2,723,693**

The fair value of derivative financial instruments is included in Receivables and other current assets and Payables and other current liabilities headings.

32. Balances and transactions with related parties

The following is a breakdown of related companies' balances as of June 30, 2006 and December 31, 2005:

	06/2006		
	Assets		Liabilities
Amounts in €	Clients	Related entities	Accounts payable
Semapa	-	-	2,165,299
Asip, ACE	-	-	-
Afocelca, ACE	-	-	59,739
Soporgen	-	319,992	-
Cutpaper, ACE	474,121	38,075	746,845
Micep, ACE	-	569	-
TASC	-	2,743	-
	474,121	**361,379**	**2,971,883**

	12/2005		
	Assets		Liabilities
Amounts in €	Clients	Related entities	Accounts payable
Semapa	-	-	372,680
Asip, ACE	1,162,512	-	1,478,599
Afocelca, ACE	400	431,931	47,698
Soporgen	-	319,992	-
Cutpaper, ACE	310,710	58,704	542,424
TASC	-	2,743	-
	1,473,622	**813,370**	**2,441,401**

In the six month period ended June 30, 2006 and 2005, transactions with related companies were as follows:

	06/2006		
Amounts in €	Sales and services	Consumed material and services	Interest income
Semapa	-	1.800.310	-
Asip, ACE	68.083	180.978	-
Afocelca, ACE	5.585	307.858	-
Cutpaper, ACE	1.639.428	2.858.649	726
	1.713.096	**5.147.795**	**726**

	12/2005		
Amounts in €	Sales and services	Consumed material and services	Interest income
Semapa	-	3.416.177	-
Asip, ACE	1.825.430	4.187.951	-
Afocelca, ACE	-	368.576	3.279
Cutpaper	1.497.112	2.687.050	3.630
	3.322.542	**10.659.754**	**6.909**

33. Expenditures on environmental safeguards

Environmental costs

In the development of its activity the Group supported several environmental charges which, in accordance with their nature, are capitalised or recognised as costs in the operating profit for the period.

Environmental expenses incurred by the Group in order to preserve resources or avoid or reduce future damages, are capitalised when they are expected to extend life or increase the capacity, safety or efficiency of other assets held by the Group.

The expenditures capitalized and expensed on June 30, 2006 and 2005 were as follows:

Amounts capitalised in the period

Amounts in €	30-06-2006	31-12-2005
Recovery boiler	8.272.665	26.874.031
Demineralization	22.286	-
Other	239.708	1.487.257
	8.534.659	**28.361.288**

Costs recognised in the period

Amounts in €	30-06-2006	30-06-2005
Liquid effluent treatment	3.559.315	2.814.146
Recycling fo residues and scrap	285.699	310.432
Expenditures with electro filters	347.887	16.547
Sewage network	73.566	70.588
Solid waste embankment	164.271	120.119
Other	173.712	107.796
	4.604.450	**3.439.628**

CO2 emission licenses

As part of the Kyoto Protocol, the European Union has committed itself to reduce gas emissions which produce the greenhouse effect. Within this context, a Community Directive was issued that foresees the commercialization of CO2 emission licenses. This Directive has been transposed to the Portuguese legislation, with effect from January 1, 2005, and impacting amongst other industries, on the pulp and paper industry (Note 30).

34. Audit fees

As of June 30, 2006 and 2005, expenses with statutory audits and other services provided were as follows:

Amounts in €	30/06/2006	30/06/2005
Statutory audit services	64,855	74,752
Tax consultancy services and other	72,370	94,580
	137,225	**169,332**

35. Average number of employees

As of June 30, 2006, the average number of employees in the service of the various Group companies was 1,959 (December 31, 2005: 1,986).

36. Commitments

As of June 30, 2006 and December 31, 2005, commitments assumed by the Group were as follows:

Amounts in €	30/06/2006	31/12/2005
Guarantees in favour of associated companies		
Guarantees		
Soporgen, S.A.	1,222,222	2,000,000
	1,222,222	2,000,000
Guarantees in favour of third parties		
Guarantees		
DGCI	15,677,315	15,677,315
IAPMEI	1,343,343	1,343,343
Simria	514,361	514,361
IFADAP	201,744	201,744
Others	1,088,542	826,409
	18,825,305	18,563,172
Other commitments		
Purchases	8,090,522	8,110,808
Other	-	-
	8,090,522	8,110,808
	28,138,049	**28,673,980**

On May 3, 2000, Soporcel, entered into a joint, but several, guarantee with a financial institution under which Soporcel guarantees the full and timely compliance with all financial and monetary obligations to that institution assumed by Soporgen – Sociedade Portuguesa de Geração de Electricidade e Calor, S.A. Accordingly, the institution can claim repayment of up to 8% of Soporgen's debt to it under that guarantee whenever it is enforced.

As of December 31, 2005, the respective financing, amounting to €25,000,000, was fully drawn down; Soporcel's guarantee thus corresponded to €2,000,000, having been reduced in the first half of 2006 as a result of the loan reduction.

Guarantees extended to third parties, amounting to €18,563,172 includes €15,677,315 representing two guarantees extended to the tax authorities (DGCI) by Soporcel in consequence of the litigation initiated during the first half of 2004, in the context of the income tax incentive process, related with the acquisition of the second paper machine (see Note 11.2).

Also included is €1,343,342 relative to guarantees extended in favour of IAPMEI – Instituto de Apoio às Pequenas e Médias Empresas, arising from financial incentives granted under the aegis of a business modernization incentive system (Programa Operacional de Economia – Sistema de Incentivos à Modernização Empresarial).

Purchase commitments assumed with suppliers are related with the purchase of property, plant and equipment.

37. Contingent assets

37.1 Withholding tax

ENCE – Empresa Nacional de Celulose, SA, company in which Portucel held 8% of share capital until 2004, paid, between 2001 and 2004, dividends in the global amount of €3,444,862, that have been subject to Spanish withholding tax amounting to €516,729.

The Spanish withholding tax amount has been contested by Portucel based on the violation of the treaty of Rome regarding free capital flows (the same dividends paid to an entity resident in Spain would not be subject to withholding tax).

Furthermore, during this period, the European Commission made a formal request to Spain to change its law regulating withholdings at source from non-residents, specifically those relative to dividend payments. This violates community law because it is a discriminatory rule *vis a vis* that which regulates the taxation of income of the same nature, when paid between companies domiciled in Spain for tax purposes.

37.2 Tax benefits

In 1998, Soporcel, a subsidiary, entered into a contract with the Portuguese state for a tax incentive, which includes a reduction of certain amounts of the income tax charges in the years from 1998 to 2007, determined and allocated to each year in accordance with the financial effort on eligible investments in tangible assets.

From its estimated income tax for the period ended June 30, 2006, Soporcel deducted €729,977 (December 31, 2005: €1,459,954).

The difference between the tax deduction taken up to 2000 and the tax deduction based on the final amount of eligible investments amounts to €2,453,785.

From 2002 this difference is being systematically adjusted in the deductions to be taken through 2007. As of June 30, 2006, the adjustment to be taken was €334,470 and the unused tax deduction amounts to €2,189,931, which was already reduced by the amount to be adjusted.

37.3 2001 Income tax

In May, 2005, at the time it was undergoing a tax inspection for 2002, Portucel received a notification of the adjustments arising from the IRC internal analysis of 2001. This in turn gave rise to an additional assessment of IRC, which was paid in the meantime, with penalty interest of €314,339.62. However, this assessment was informally appealed on the grounds that the tax authorities had failed to comply with the legal formalities, as the absence of a prior hearing and the expiration of the right of assessment since March 18, 2004 because the inspection for 2001 have been already carried out by the Tax authorities and had already given rise to an additional assessment by the IRC in 2003, which had also already been paid.

38. Exchange rates

The assets and liabilities of the foreign subsidiaries and associated companies were translated to euros at the exchange rate prevailing on June 30, 2006. The income statement headings for the period were translated at the average rate for the period. The differences arising from the application of these rates as compared with prior amounts were reflected under the Currency translation reserve heading in the shareholders' equity accounts.

The rates used on June 30, 2006 and December 31, 2005 against the euro, were as follows:

	30/06/2006	2005	Increase (decrease)
GDP			
Average rate for period	0.6872	0.6839	(0,47%)
Rate at end of period	0.6921	0.6853	(0,99%)
USD			
Average exchange rate	1.2296	1.2441	1.17%
Closing exchange rate	1.2713	1.1797	(7,76%)

39. Subsequent events

39.1 Investment contracts

On July 12, 2006, Soporcel and API – Agência Portuguesa para o Investimento (Portuguese Investment Agency) entered into an investment contract. This is now in force, to be completed by June 30, 2008. It covers tax and financial incentives amounting to €22,480,095 and €46,833,530, respectively, of which 15% to be received in 2006 and 2007, 20% in 2008 and 25% in 2009 and 2010.

On the same date, Portucel entered into a similar contract under the same conditions but for associated financial incentives only, to be received between 2007 and 2009, in the amount of €36,957,224.

This made for a total Group investment of €980 million (jointly with those preceding); additional contracts were entered into with Portucel and About the Future, with tax and financial incentives for investments to be started after the mentioned date of signature of the contracts.

The contracts are subject to the approval of the European Commission, which is expected before the end of 2006.

39.2 Fires

Unfortunately, the summer of 2006 saw once again the outbreak of fires in the country's forests, and particularly in those of the Group, namely at Serra da Ossa, where it has not yet been possible to quantify the resulting losses.

40. Privatization process

With the publication of Decree-Law 6/2003, January 15, the Portuguese government set the model for the second phase of the reprivatization of the Company, foreseeing its completion in two stages.

The first segment, which took place in May of 2004, consisted of a public tender for the sale of a single indivisible lot of shares, representing 30% of Portucel's share capital. The winning bidder was the Semapa Group, which acquired this holding through Seinpart – Participações, SGPS, SA (see Note 24).

The above-mentioned decree-law also contemplated a second segment, which was the direct sale of up to 115,125,000 of the Company's shares to a syndicate of financial institutions, for subsequent distribution to institutional investors.

With Decree-Law 143/2006, published on July 28, the State disclosed the model for the third phase of the Company's reprivatization. This consists of the disposal of shares representing up to 25.72% of the Company's equity. It is expected that this will be accomplished in one or more of the following ways:

i) Public Offering for sale, of an obligatory nature;

ii) Direct sale to financial institutions;

iii) Issuance by Parpublica – Participações Públicas, SGPS, SA of bonds that will have the respective underlying purpose, and which may be either redeemed or convertible, shares representing the Company's share capita.

The final conditions of this phase will be determined by the Council of Ministers through the approval of the necessary resolutions.

41. Consolidated companies

Company	Head Office	Percentage of capital held by companies of the group – Directly	Indirectly	Total
Parent company				
Portucel – Empresa Produtora de Pasta e Papel, SA	Setúbal	-	-	-
Subsidiaries				
Soporcel - Sociedade Portuguesa de Papel, SA	Figueira da Foz	100.00	-	100.00
Tecnipapel – Sociedade de Transformação e Distribuição de Papel, Lda	Setúbal	100.00	-	100.00
Portucel Pasta y Papel, SA	Spain	100.00	-	100.00
Soporcel España, SA	Spain	-	100.00	100.00
Soporcel International, BV	Netherlands	-	100.00	100.00
Soporcel France, EURL	France	-	100.00	100.00
Soporcel United Kingdom, Ltd	United Kingdom	-	100.00	100.00
Soporcel Italia, SRL	Italy	-	100.00	100.00
Soporcel 2000 - Serviços Comerciais de Papel, Soc. Unipessoal, Lda	Figueira da Foz	-	100.00	100.00
Soporcel North America Inc.	USA	-	100.00	100.00
Soporcel Deutschland, GmbH	Germany	-	100.00	100.00
Soporcel Handels, GmbH	Austria	-	100.00	100.00
Portucel Florestal – Empresa de Desenvolvimento Agro-Florestal, SA	Lisbon	-	100.00	100.00
Aliança Florestal – Sociedade para o Desenvolvimento Agro-Florestal, SA	Lisbon	-	100.00	100.00
Arboser – Serviços Agro-Industriais, SA	Setúbal	100.00	-	100.00
PortucelSoporcel Abastecimento - Empresa de Abastecimento, Logística e Comercialização de Madeiras, SA	Setúbal	-	100.00	100.00
Sociedade de Vinhos da Herdade de Espirra - Produção e Comercialização de Vinhos, SA	Lisbon	-	100.00	100.00
Viveiros Aliança - Empresa Produtora de Plantas, SA	Lisbon	-	100.00	100.00
Aflomec - Empresa de Exploração Florestal, SA	Lisbon	-	100.00	100.00
Cofotrans - Empresa de Exploração Florestal, SA	Figueira da Foz	-	100.00	100.00
SPCG – Sociedade Portuguesa de Co-Geração Eléctrica, SA	Setúbal	100.00	-	100.00
Enerpulp – Cogeração Energética de Pasta, SA	Lisbon	100.00	-	100.00
Setipel – Serviços Técnicos para a Indústria Papeleira, SA	Lisbon	100.00	-	100.00
Empremédia - Corretores de Seguros, Lda	Lisbon	-	100.00	100.00
Socortel - Sociedade de Corte de Papel, SA	Figueira da Foz	50.00	50.00	100.00
PortucelSoporcel Papel - Sales e Marketing, ACE	Figueira da Foz	50.00	50.00	100.00
Cutpaper - Transformação, Corte e Embalagem de Papel, ACE	Figueira da Foz	-	50.00	50.00
Raiz - Instituto de Investigação da Floresta e Papel	Eixo	43.00	51.00	94.00
Soporcel - Gestão de Participações Sociais, SGPS, SA	Figueira da Foz	50.00	50.00	100.00
Aflotrans - Empresa de Exploração Florestal, Lda	Figueira da Foz	-	100.00	100.00
About the Future - Empresa Produtora de Papel, S.A. *	Setúbal	100.00	-	100.00
Headbox - Operação e Contolo Industrial, S.A. *	Setúbal	100.00	-	100.00
EMA21 - Engenharia e Manutenção Industrial Século XXI, S.A.	Setúbal	100.00	-	100.00
Ema Cacia - Engenharia e Manutenção Industrial, ACE *	Cacia	91.02	-	91.02
Ema Setúbal - Engenharia e Manutenção Industrial, ACE *	Setúbal	91.01	-	91.01
Ema Figueira da Foz - Engenharia e Manutenção Industrial, ACE *	Figueira da Foz	91.87	-	91.87

* Companies formed in 2006

The above-listed companies have been fully consolidated with the exception of Cutpaper – Transformação, Corte e Embalagem de Papel, ACE, which have been consolidated by the proportional method.

42. Companies excluded from consolidation

Company	Head Office	Percentage of capital held by companies of the group – Directly	Indirectly	Total
Portucel International Trading, SA	Luxemburg	80.00	-	80.00
Portucel International GMBH	Germany	-	100.00	100.00
Portucel Brasil	Brazil	99.00	-	99.00

These companies were neither fully nor proportionally consolidated, but this is not considered of material importance to the presentation of a true and faithful picture of the financial situation and results of the operations of the Group. These holdings are carried under Investments in associates and joint ventures and are valued according to the equity method.

Limited Review Report Prepared by an Auditor Registered in the Securities Market Commission (CMVM) of the Consolidated Half Year Information

(Free translation from the original in Portuguese)

Introduction

1 As required by the Portuguese Securities Market Code (Código dos Valores Mobilários), we hereby present our limited review report on the consolidated financial information for the six-month period ended June 30, 2006 of Portucel – Empresa Produtora de Pasta e Papel, SA included in the consolidated Report of the Board of Directors, consolidated balance sheet (which shows total assets of €2,201,526,288 and a total shareholders' equity of €1.052.258.770, including a net profit of €54.838.693), consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the six-month period then ended and the corresponding notes to the accounts.

2 The amounts in the consolidated financial statements, as well as those in the additional financial information, are derived from the respective accounting records.

Responsibilities

3 It is the responsibility of the Board of Directors: (a) to prepare consolidated financial information which present truly and fairly the financial position of the companies included in the consolidation and the consolidated results of its operations; (b) to prepare historical financial information in accordance with the International Accounting Standard 34 as adopted by the European Union and which is complete, true, timeliness, clear, objective and licit as required by the Portuguese Securities Market Code; (c) to adopt adequate accounting policies and criteria; (d) to maintain appropriate systems of internal control; and (e) to disclose any significant facts that have influenced the operations, financial position or results.

4 Our responsibility is to verify the financial information included in the documents referred to above, namely if it is complete, true, timeliness, clear, objective and licit as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our work.

Scope

5 Our work was performed with the objective of obtaining moderate assurance as to whether the financial information referred to above is free of material misstatement. Our work was performed in accordance with the Standards and Technical Recommendations issued by the Portuguese Institute of Statutory Auditors, planned according to that objective, and consisted: (a) primarily, in enquiries and analytical procedures, to review: (i) the reliability of the assertions included in the financial information; (ii) the adequacy of the accounting policies adopted taking into account the circumstances and the consistency of their application; (iii) the applicability, or not, of the going concern concept; (iv) the

presentation of the consolidated financial statements; and (v) as to whether the consolidated financial information is complete, true, timeliness, clear, objective and licit; and (b) in substantive tests to the unusual significant transactions.

6 Our work also covered the verification of the consistency of the consolidated financial information included in the Report of the Board of Directors with the remaining documents referred to above.

7 We believe that the work performed provides an acceptable basis for the issue of our limited review report in respect of the half year information.

Conclusion

8 Based on the work, which was performed with the objective of obtaining moderate assurance, nothing came to our attention that leads us to believe that the consolidated financial information for the six-month period ended June 30, 2006 is not free of material misstatements that affect its conformity with the International Accounting Standard 34 as adopted by the European Union and the information contained therein is not complete, true, timeliness, clear, objective and licit.

Lisbon, September 26, 2006

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[This is a translation, not to be signed]

____
Abdul Nasser Abdul Sattar, R.O.C.