Presentation of Results

2016

Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.
Public Company
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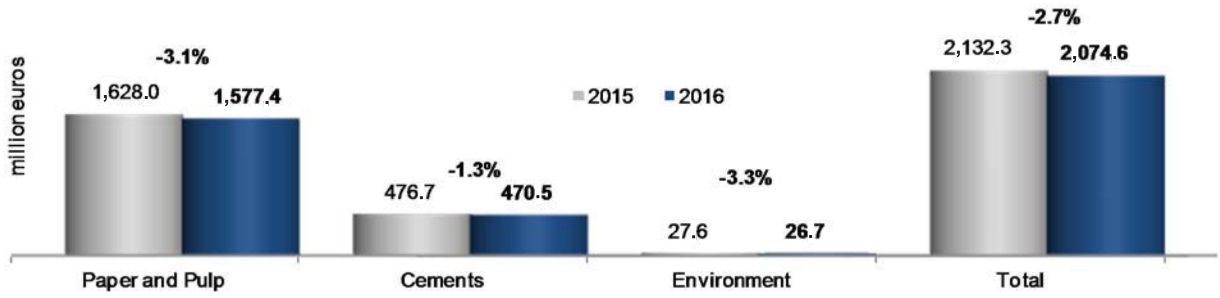
Companies Registry and Corporate Person no.: 502 593 130
Share Capital: 81,270,000 euros

1 Highlights

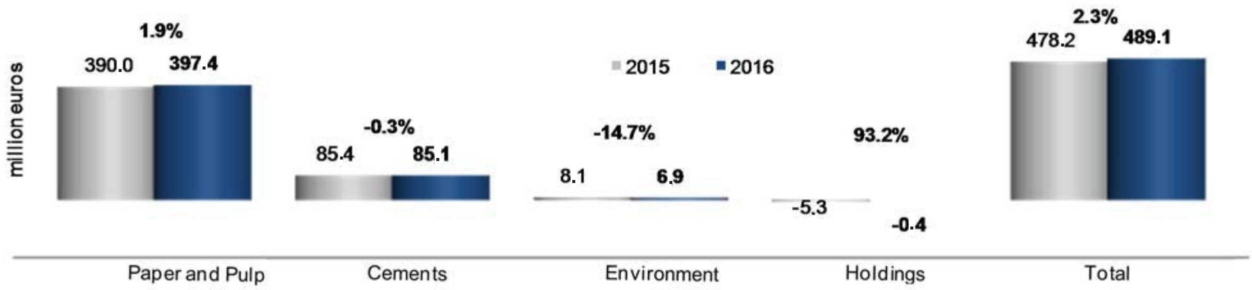
Turnover

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



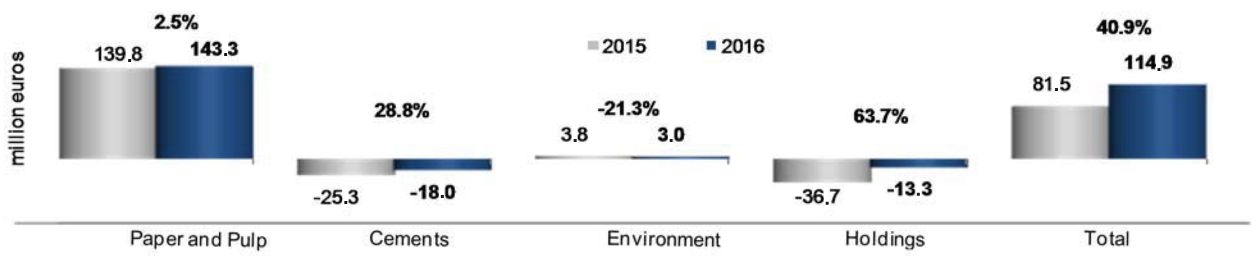
EBITDA

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



Net income

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



Leading Business Indicators

IFRS - accrued amounts (million euros)	2016	2015	Var.	Q4 2016	Q4 2015	Var.
Turnover	**2,074.6**	**2,132.3**	**-2.7%**	**545.1**	**561.5**	**-2.9%**
Total EBITDA	**489.1**	**478.2**	**2.3%**	**114.8**	**117.1**	**-1.9%**
EBITDA margin (%)	23.6%	22.4%	1.2 p.p.	21.1%	20.8%	0.2 p.p.
Depreciation and impairment losses	(247.0)	(199.3)	-23.9%	(70.8)	(58.2)	-21.7%
Provisions (increases and reversals)	2.4	9.0	-73.4%	4.7	(2.9)	>100%
EBIT	**244.5**	**287.9**	**-15.1%**	**48.7**	**56.0**	**-13.0%**
EBIT margin (%)	11.8%	13.5%	-1.7 p.p.	8.9%	10.0%	-1.0 p.p.
Net financial profit	(74.3)	(122.3)	39.2%	(17.3)	(18.1)	4.5%
Profit before tax	**170.2**	**165.6**	**2.8%**	**31.4**	**37.9**	**-17.1%**
Income tax	19.1	(34.8)	>100%	41.8	(8.5)	>100%
Retained profits for the year	189.3	130.8	44.7%	73.2	29.4	>100%
Attributable to Semapa shareholders	**114.9**	**81.5**	**40.9%**	**43.3**	**15.7**	**>100%**
Attributable to non-controlling interests (NCI)	74.4	49.3	51.1%	29.9	13.7	>100%
Cash-flow	433.9	321.1	35.1%	139.2	90.4	53.9%

	31-12-2016	31-12-2015	Dec16 vs. Dec15
Equity (before NCI)	817.3	716.3	14.1%
Net debt	**1,779.7**	**1,803.0**	**-1.3%**

Notes:

- Total EBITDA = operating profit + depreciation and impairment losses + provisions (increase and reversal)
- Cash flow = retained earnings for the period + depreciation and impairment losses + provisions (increase and reversal)
- Net debt = non-current interest bearing debt (net of loan issue charges) + current interest-bearing debt (including debts to shareholders) – cash and cash equivalents
- In comparison with the same period of the previous year, it was impacted by the full consolidation of the Supremo Group on 1 July 2015, the change in The Navigator Company stake from 81.19% to 69.4% in July 2015; the latter only impacts the retained profits for the period attributable to Semapa shareholders

2 Operational Performance

Breakdown by Business Segments

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

Notes:

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

The Navigator Company ("Navigator") published its results on 09 February 2017. The following are the highlights of that disclosure.

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

Paper and Pulp

Summary table of financial indicators

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

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

Summary table of operating indicators

(000 tons)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015	Var.
Pulp and paper							
BEKP Output (pulp)	370.2	373.4	367.8	359.0	1,470.5	1,423.5	3.3%
BEKP Sales	64.6	65.1	71.2	89.8	290.6	252.6	15.1%
UWF Output (paper)	397.7	397.0	399.9	392.4	1,586.9	1,571.3	1.0%
UWF Sales	377.8	397.7	380.0	431.3	1,586.8	1,555.4	2.0%
FOEX – BHKP Euros/ton	695	613	600	607	628	705	-10.9%
FOEX – A4- BCopy Euros/ton	836	830	820	807	824	822	0.3%
Tissue							
Output of reels	11.2	7.9	13.1	14.7	46.9	32.6	44.2%
Output of finished products	10.1	10.0	10.9	10.8	41.8	35.3	18.1%
Sale of reels and other goods	1.7	2.2	2.4	2.7	9.0	2.2	315.7%
Sale of finished products	9.7	10.7	10.7	10.8	41.9	37.1	13.0%

In 2016, the turnover of Navigator stood at 1,577.4 million euros, compared to 1,628.0 million euros in 2015. This reduction was due primarily to a drop in the value of energy sales, after the review of the tariff for sales to the national grid by the natural gas co-generation plant in Figueira da Foz, and also to the global contraction in pulp and paper price observed over the course of 2016. Navigator mitigated the downward trend in prices by increasing its sales volumes, and also through an effort to reduce costs.

In Europe, conditions in the **paper** business (UWF) deteriorated during 2016, and estimates point to a reduction in apparent consumption of 3.8% (-0.3% in 2015) and growth in total imports of more than 18%. Paper imports from Asia grew significantly, particularly in office paper, having driven global prices down. In this adverse context, Navigator sales of UWF paper stood at 1,586.8 thousand tons, a 2.0% increase compared to 2015, thus reaching a new peak in terms of volume. The Group succeeded in placing additional volumes of paper in this context by increasing its sales both in Europe and in International markets. In European sales, the average price was 1.2% lower than recorded in the previous year, which compares with an increase in the A4 price index for Europe (PIX Copy-B) of 0.3%; this was due to a negative change in the group product and geography sales mix. Navigator's average sales price for all markets was down by 2.4% in relation to the previous year, also due to the change in product and geography sales mix. Despite the less advantageous mix of geography and products sold, Navigator has maintained its position as leader in the premium segment, with a market share of more than 50% in Europe.

Falling **pulp** prices were a key feature of the business environment, in a descent which started in late 2015 and continued throughout 2016. The benchmark index for hardwood pulp (PIX – BHKP) dropped by around 16% in USD and 13% in Euros since the start of 2016. However, Navigator had a sound operating performance, with volume of pulp placed on the market amounting to 290.6 thousand tons, raising sales by 15.1% thanks to the capacity expansion at the Cacia mill in 2015, which has resulted in increased availability of pulp for the market. The increase in the sales volume fell short of wholly offsetting the reduction in prices, and the value of pulp sales ended the year at around 1.6% below the figure recorded in 2015.

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

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

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

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

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

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

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

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

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

- Revaluation of biological assets in Portugal, reflecting essentially the review of the assumptions underlying the discount rate and a number of adjustments to the valuation model: net increase of 7.3 million euros;
- Reversal of the amount for anti-dumping duty in the 2015 EBITDA: positive impact of 3.8 million euros;
- Receipt of compensation for breakdowns in TG3 and TG4 in Cacia in 2015 and 2016, less the estimated overall impact of the breakdowns: positive impact of approximately 1 million euros;
- Impairment recorded on biological assets in Mozambique: negative impact of 3.5 million euros;
- The impact of the fire at the tissue mill in Vila Velha de Ródão in May less the partial insurance receipt: negative effect on EBITDA of 1.1 million euros;

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

Cement

Summary table of financial indicators

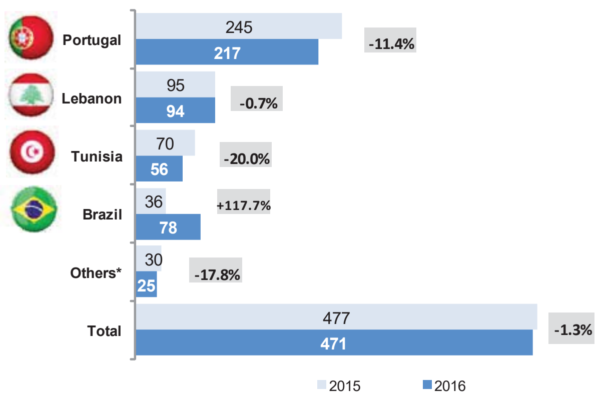
IFRS - accrued amounts (million euros)	2016	2015	Var.
Sales	**470.5**	**476.7**	**-1.3%**
EBITDA	**85.1**	**85.4**	**-0.3%**
EBITDA Margin (%)	18.1%	**17.9%**	**0.2 p.p.**
Depreciation and impairment losses	(61.9)	(59.1)	-4.7%
Provisions (increases and reversals)	2.8	(2.9)	197.8%
EBIT	**26.1**	**23.4**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

Notes:

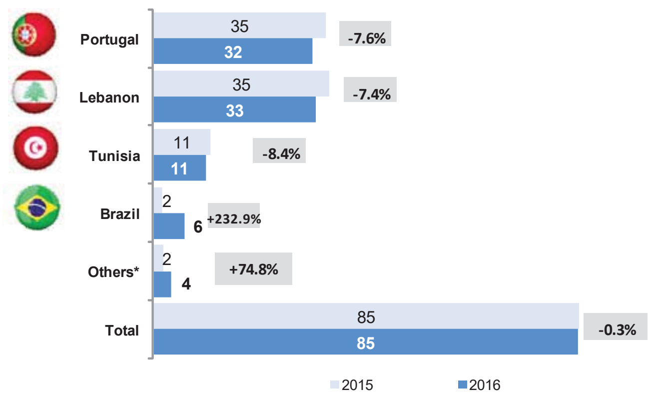
- Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments.
- The integration of the Supremo Group in the Semapa consolidated financial statements for 2015, taking into account that the acquisition of the remaining 50%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

(million euros)

Turnover



EBITDA



* includes Angola and Cape Verde

Summary table of operating indicators

in 1 000 t	2016	2015	Var.
Annual cement production capacity	9,750	9,750	0%
Sales			
Grey cement	4,988	4,731	5%
White cement	84	80	5%
Clinker	418	482	-13%
Aggregates	2,547	2,179	17%
Precast concrete	200	29	582%
Mortars	102	100	2%
Hydraulic lime	24	26	-7%
Mortar fixative	16	15	5%
in 1 000 m3			
Ready-mixed	1,214	1,389	-13%

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

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

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

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

In this environment, turnover for overall operations in Portugal in 2016 was down by 11.4% compared to the previous year, totaling 216.8 million euros.

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

In the other business segments with operations based in Portugal (*Ready-mixed Concrete, Aggregates, Mortars, Pre-cast and Others*), turnover in 2016 stood at approximately 75.2 million euros, down by 17.0% in relation to the previous year.

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

In 2016, EBITDA for total operations in Portugal was down by 7.6% year on year, at 32.0 million euros vs. 34.6 million euros in the previous year.

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

EBITDA of the business units *Mortars, Ready-mix Concrete and Aggregates and Others* was approximately 3.6 million euros, against 6.1 million euros over the same period in the last year.

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

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

Turnover on combined operations in Lebanon decreased 0.7% compared to the previous year, amounting to 94.4 million euros.

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

The turnover of the *Concrete* business unit in 2016 dropped 12.2%, to 6.6 million euros, with a performance below that of the previous year. As a result of the decrease in the amounts sold by around 5.2% and the drop in sales price.

In 2016, total EBITDA from operations in Lebanon stood at 32.7 million euros, down by 7.4% in relation to the previous year. The *Cement* unit recorded EBITDA of 32.6 million euros, down by 6.2% over the figure recorded in 2015. The drop resulted from a decrease in the amounts sold, enhanced competitiveness, the pressure on sales prices and the need to purchase cement from third parties for sale, partly offset by lower input costs. Clinker production was down due to the programmed shut down of line 2 in Q1 to fit in the bag filter.

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

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

Consequently, turnover for combined operations in Tunisia in 2016 stood at approximately 56.0 million euros, down by 20.0% on a year-on-year basis.

The turnover of the *Cement and Clinker* business unit dropped approximately 22.1%, and stood at 48.6 million euros, due to the decrease in turnover in the domestic market, and in the external market in particular. Amounts sold were down by about 6.2% in the domestic market and exports were down by 43.2% against the previous year. The aforementioned constraints and greater competition determined the pace of sales of this unit.

The turnover of *Concrete* in 2016 decreased 3.9% against the previous year, standing at 7.1 million euros, resulting from the rise in amounts sold by around 4.7%, the drop in sales price and negatively impacted by the devaluation of the Tunisian dinar against the euro, the impact of which is estimated at approximately 0.5 million euros.

EBITDA from business operations in Tunisia in 2016 stood at 10.5 million euros, down by 8.4% in comparison with the previous year. It should be noted that the variable costs of clinker and cement production decreased in relation to the same period of the previous year. Decrease in thermal energy costs, as a result of overall drop in fuel prices impacted the reduction in production costs significantly. Electricity costs also decreased, mostly as a result of less specific consumptions.

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

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

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

In 2016, total operations by the Supremo Group[1] generated turnover of 77.6 million euros, of which 64.9 million euros from cement and clinker and 12.7 million euros from ready-mixed concrete. It should be noted that the Adrianópolis plant began production only in late April 2015 and, consequently, the average daily sales volume increased. In 2016, while the market slowed down, the unit managed to raise sales significantly, having sold 1,132.0 thousand tons of cement and clinker and 216.3 thousand tons of ready-mixed concrete. Sales prices performed negatively in 2016, as they were affected by strong competition. The market contraction, combined with the increase in the capacity of one of the competitors, lead to increased competition, causing prices to drop. Average sales price decreased around 8% against 2015.

In 2016, EBITDA stood at 6.4 million euros, compared to a negative figure of 1.9 million euros in the same period of the previous year.

According to the IMF, the **Angolan** economy is not expected to grow in 2016 (*World Economic Outlook*, IMF October 2016). Given the heavy dependence of the economy on the revenues from the oil sector, this situation is limiting its economic performance and making its presence felt in the major economic and

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

financial variables. In 2016 the value of the kwanza continued to deteriorate, inflation was up (to around 33.7% according to the IMF) and the country faced difficulties in foreign payments.

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

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

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

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

The economy of **Cape Verde** is expected to have grown by 3.6% in 2016, a value higher than the 1.8% recorded in 2015 (*World Economic Outlook*, IMF October 2016). According to available data, cement consumption in 2016 is believed to have grown 13.3% in relation to the previous year.

Turnover for combined operations in this country in 2016 stood at approximately 5.9 million euros, down by 6.0% on a year-on-year basis. EBITDA stood at 1.1 million euros, which represents an increase of 80.9% in relation to the previous year.

Environment

Summary table of financial indicators

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

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

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

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

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

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

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

Holdings (Semapa SGPS and instrumental sub-holdings)

IFRS - accrued amounts (million euros)	2016	2015	Var.
EBITDA	**(0.4)**	**(5.3)**	**93.2%**
Depreciation and impairment losses	(0.2)	(0.2)	12.7%
Provisions (increases and reversals)	-	(2.6)	100.0%
EBIT	**(0.6)**	**(8.1)**	**93.1%**
Net financial profit	(15.7)	(29.5)	46.8%
Profit before tax	**(16.2)**	**(37.6)**	**56.8%**
Tax on profits	2.9	0.9	232.2%
Retained profits for the year	(13.3)	(36.7)	63.7%
Attributable to Semapa shareholders	**(13.3)**	**(36.7)**	**63.7%**
Cash-Flow	**-13.1**	**-33.9**	**61.3%**
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Net debt	**700.4**	**673.0**	**4.1%**

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

3 Consolidated Financial Performance

Consolidated Net Debt

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

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

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

Financial Results

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

- Positive effect arising from a decrease in interest rates, debt repayment and debt renegotiation in more favorable conditions;

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

Consolidated Net Income

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

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

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

4 Performance of Semapa Shares on Euronext Lisbon

Note: Closing market prices

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

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

5 Subsequent Events

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

6 Outlook

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

Paper and Pulp

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

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

Navigator intends to develop a project aimed to improve competitiveness at the Figueira da Foz Industrial Complex, an investment with a global Capex value estimated at approximately 85 million euros. The Group has submitted applications for a series of financial and tax incentives, still pending of decision and expecting additional visibility at the end of the first quarter. This project aims to improve production efficiency and to increase the annual capacity by 70 thousand tons, to a total of 650 thousand tons of BEKP pulp. Construction work is due to be completed at the end of the first half of 2018.

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

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

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

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

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

The Colombo Energy Inc. project in **pellets** went into continuous operation in the final quarter of the year and has exported its first ship-load to Europe. The pellets mill started up against the background of particularly harsh conditions in the market, with prices falling by around 40%, from year-end 2015 until year-end 2016, which makes this the worst year ever for the sector. Expectations for 2017 point to an equally difficult year, whilst prospects appear more positive as from 2018 in Europe, and as from 2020-2021 in Japan, thanks to large-scale investment plans for this period: Colombo Energy is already turning the focus of its sales efforts in this direction. In addition, the company is pressing ahead with market research into the residential segment in the US, and aspires in future to channeling 10 to 20 % of its output into the American domestic market. In the meantime, the company has already secured sales to the industrial segment in Europe representing 40% of the mill's capacity over the next ten years.

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

Therefore, in 2016 the resulting operations for the project pointed to the planting of around 5.3 thousand ha, bringing the total planted area to date up to approximately 10 thousand ha in Zambezi and 1.7 thousand ha in Manica. In terms of plant supply, the vast majority of the area planted was supplied from the nurseries in Luá, and a total of 7.1 million plants produced were used in 2016.

In late 2016, the Group started up a pilot operation to export two thousand tons of eucalyptus timber from the port of Nacala, and this operation is currently at the final stages. This was a trial run aimed at testing and learning processes, agents, logistics, certification procedures and the workings of the institutions necessarily involved in an operation of this type.

Cement

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

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

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

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

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

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

Environment

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

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

Lisbon, 15 February 2017

The Directors