

MARIA CONCEPCIÓN ORTUÑO SIERRA, secretary of the Board of Directors of **PAPELES Y CARTONES DE EUROPA, S.A.**,

CERTIFIES that:

- (i) The attached document, which includes the Consolidated Management Report (“Informe de Gestión Consolidado”), the Consolidated Annual Accounts and the Notes to the Consolidated Annual Accounts corresponding to the corporate year closed as of December 31st, 2017 of Papeles y Cartones de Europa S.A. have been originally issued in Spanish. In the event of discrepancy between the Spanish and the English version, the Spanish one will, in all events, prevail.
- (ii) The Corporate Governance Annual Report (“Informe Anual de Gobierno Corporativo”) and the External Auditor’s Report of the Consolidated Annual Accounts, as well as all reports of the Individual Annual Accounts, have not been translated into English, so its publication will be exclusively in Spanish.
- (iii) The English version of the Corporate Governance Annual Report (“Informe Anual de Gobierno Corporativo”) will be soon available at the Corporate Website www.europacgroup.com . In the event of discrepancy between the Spanish and the English version, the former shall prevail.

In the witness whereof, I extend this certificate in Alcobendas (Madrid) on March 3rd, 2018.

Papeles y Cartones de Europa, S.A.

Maria Concepción Ortuño Sierra

Secretary of the Board

**Papeles y Cartones de Europa, S.A.
and Subsidiaries (Europac Group)**

Consolidated Financial Statements and Management Report
for the year ended
31 December 2017

GRUPO PAPELES Y CARTONES DE EUROPA, S.A (EUROPA&C)

Consolidated Statement of Financial Position for the years ended 31 December 2017 and 2016
(Thousands of euros)

ASSETS	Notes	31/12/2017	31/12/2016
NON-CURRENT ASSETS		836,736	854,854
Intangible assets		98,537	95,632
- Goodwill	6	94,448	89,422
- Other intangible assets	7	4,089	6,210
Property, plant and equipment	5	678,062	685,466
Investment property	5	2,016	2,028
Investments accounted for using the equity method	10	2,045	1,693
Non-current financial assets	9	3,584	14,765
Deferred tax assets	21	45,782	48,281
Biological assets	8	6,710	6,990
CURRENT ASSETS		251,876	264,422
Inventories	11	88,110	79,152
Trade and other receivables	12	77,389	88,217
- Trade receivables		56,302	50,139
- Other receivables		18,061	37,385
- Current tax assets		3,026	693
Other current financial assets	9	877	2,284
Cash and cash equivalents	13	85,500	94,768
TOTAL ASSETS		1,088,612	1,119,276
EQUITY AND LIABILITIES			
EQUITY		411,966	369,548
CAPITAL AND RESERVES	14	412,214	368,055
Capital		198,476	194,737
Share Premium		-	-
Reserves		163,924	160,127
Less: Treasury stock		(34,370)	(38,013)
Profit (loss) for the year attributable to the parent company		77,963	48,884
Other equity instruments		6,221	2,321
ADJUSTMENTS FOR CHANGES IN VALUE		(336)	1,401
Available-for-sale financial assets		-	1,664
Hedging transactions		(336)	(399)
Translation differences		-	135
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY		411,878	369,456
Non-controlling interests		88	92
NON-CURRENT LIABILITIES		397,379	462,134
Grants	18	5,924	6,562
Non-current provisions	17	15,554	16,838
Non-current financial liabilities	16	315,886	376,984
- Bank borrowings and bonds or other negotiable securities		301,999	329,821
- Other financial liabilities		13,887	47,163
Deferred tax liabilities	21	60,015	61,750
CURRENT LIABILITIES		279,267	287,594
Current provisions	20	3,367	3,670
Current financial liabilities	16	42,373	60,492
- Bank borrowings and bonds or other negotiable securities		16,473	32,221
- Other financial liabilities		25,900	28,271
Trade and other payables	19	233,527	223,432
- Suppliers		192,097	175,068
- Other payables		33,555	45,256
- Current tax liabilities		7,875	3,108
TOTAL EQUITY AND LIABILITIES		1,088,612	1,119,276

GRUPO PAPELES Y CARTONES DE EUROPA, S.A. (EUROPA&C)

Consolidated Income Statement for the years ended 31 December 2017 and 2016

(Thousands of euros)

	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
Net turnover	22	868,219	801,150
Change in inventories of finished products and work in progress		4,408	(2,743)
Own work capitalised	5	4,818	2,833
Raw materials and consumables used		(427,796)	(396,844)
Other operating revenue		22,065	13,161
Employee benefits expense	22	(117,252)	(113,878)
Other operating expenses	22	(198,159)	(179,939)
Amortisation	5 and 7	(51,789)	(48,912)
Grants related to non-financial non-current assets	18	2,311	2,492
Impairment and gain (loss) on disposal of non-current assets	22	(361)	338
Other gains and losses		-	-
OPERATING PROFIT (LOSS)		106,464	77,658
Finance income	22	621	3,365
Finance costs	22	(9,293)	(13,155)
Change in fair value of financial instruments	22	698	(1,186)
Exchange differences		(1,659)	425
Impairment and gain (loss) on disposal of financial instruments	9	4,106	-
NET FINANCE INCOME/(COSTS)		(5,527)	(10,552)
Share of profit (loss) of equity-accounted investees	10	369	115
PROFIT (LOSS) BEFORE TAX		101,306	67,222
Corporate income tax	21	(23,343)	(18,321)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		77,963	48,901
Profit (loss) for the year from discontinued operations net of tax		-	-
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR		77,963	48,901
Profit (loss) attributable to the parent company		77,963	48,918
Profit (loss) attributable to non-controlling interests		-	(17)
EARNINGS PER SHARE		Euros	Euros
Basic	14	0.847	0.547
Diluted	14	0.847	0.547

GRUPO PAPELES Y CARTONES DE EUROPA, S.A. (EUROPA&C)

Consolidated Statement of Comprehensive Income for the years ended 31 December 2017 and 2016

(Thousands of euros)

	31/12/2017			31/12/2016		
	<i>Of the parent company</i>	<i>Of non-controlling interests</i>	TOTAL	<i>Of the parent company</i>	<i>Of non-controlling interests</i>	TOTAL
CONSOLIDATED PROFIT FOR THE YEAR (as per income statement)	77,963	-	77,963	48,884	17	48,901
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO CONSOLIDATED PROFIT OR LOSS IN FUTURE PERIODS	2,064	-	2,064	2,277	-	2,277
From measurement of financial instruments						
- Available-for-sale financial assets (Note 9)	1,887	-	1,887	2,219	-	2,219
From cash flow hedges (Note 16)	79	-	79	2,914	-	2,914
Translation differences	(135)	-	(135)	(5)	-	(5)
From actuarial gains and losses and other adjustments (Note 17)	1,016	-	1,016	(2,124)	-	(2,124)
Expense for capital increase	-	-	-	(10)	-	(10)
Gain (loss) from transactions with treasury stock	3	-	3	2	-	2
Tax effect	(786)	-	(786)	(719)	-	(719)
TRANSFERS TO PROFIT OR LOSS	(3,080)	-	(3,080)	-	-	-
From measurement of financial instruments						
- Available-for-sale financial assets	(4,106)	-	(4,106)	-	-	-
Tax effect	1,027	-	1,027	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	76,948	-	76,948	51,161	17	51,178

GRUPO PAPELES Y CARTONES DE EUROPA, S.A. (EUROPA&C)

Consolidated Statement of Changes in Equity for the years ended 31 December 2017 and 2016

(Thousands of euros)

	Equity attributable to the parent company								Non-controlling interests	Total equity
	Capital and reserves									
	Capital	Share premium and reserves	Treasury stock and own equity instruments	Profit (loss) for the year attributable to the parent company	Other equity instruments	Interim dividend	Valuation adjustments			
CLOSING BALANCE AT 31/12/2015	187,247	152,927	(13,728)	32,449	-	-	(2,444)	0	356,450	
Total recognised income (expense)	-	(1,584)	-	48,884	-	-	3,845	17	51,161	
Transactions with shareholders or owners	7,490	(23,714)	(24,285)	-	-	-	-	-	(40,509)	
- Capital increases / (reductions)	7,490	(7,490)	-	-	-	-	-	-	-	
- Payment of dividends	-	(16,224)	-	-	-	-	-	-	(16,224)	
- Transactions with treasury stock or own equity instruments (net)	-	-	(24,285)	-	-	-	-	-	(24,285)	
Other changes in equity	-	32,498	-	(32,449)	2,321	-	-	75	2,445	
- Transfers between equity headings	-	32,449	-	(32,449)	-	-	-	-	-	
- Other changes	-	49	-	-	-	-	-	75	124	
CLOSING BALANCE AT 31/12/2016	194,737	160,127	(38,013)	48,884	2,321	-	1,401	92	369,548	
Total recognised income (expense)	-	721	-	77,963	-	-	(1,736)	-	76,948	
Transactions with shareholders or owners	3,739	(45,066)	3,643	-	-	-	-	-	(37,684)	
- Capital increases / (reductions)	3,739	(16,169)	12,430	-	-	-	-	-	-	
- Payment of dividends	-	(28,897)	-	-	-	-	-	-	(28,897)	
- Transactions with treasury stock or own equity instruments (net)	-	-	(8,787)	-	-	-	-	-	(8,787)	
Other changes in equity	-	48,141	-	(48,884)	3,900	-	-	(4)	3,153	
- Share-based payment transactions	-	-	-	-	3,900	-	-	-	3,900	
- Transfers between equity headings	-	48,884	-	(48,884)	-	-	-	-	-	
- Other changes	-	(743)	-	-	-	-	-	(4)	(747)	
CLOSING BALANCE AT 31/12/2017	198,476	163,924	(34,370)	77,963	6,221	-	(336)	88	411,966	

GRUPO PAPELES Y CARTONES DE EUROPA, S.A. (EUROPA&C)

Consolidated Statement of Cash Flows for the years ended 31 December 2017 and 2016

(Thousands of euros)

	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		132,668	121,094
Profit (loss) before tax		101,306	67,222
Adjustments to profit (loss):		45,785	56,597
Depreciation and amortisation	5 and 7	51,789	48,912
Other adjustments to profit (net)		(6,004)	7,685
Changes in working capital		6,387	8,367
Other cash flows from operating activities:		(20,810)	(11,094)
Dividends received		162	119
Receipts (payments) for corporate income tax		(19,637)	(10,872)
Other receipts / (payments) for operating activities		(1,335)	(341)
CASH FLOWS FROM INVESTING ACTIVITIES		(20,891)	(52,176)
Payments for investments:		(71,128)	(54,390)
Group companies, associates and business units		(9,923)	(602)
Property, plant and equipment, intangible assets and investment property	5 and 7	(61,205)	(53,131)
Other financial assets		-	(323)
Other assets		-	(334)
Proceeds from divestments		49,781	2,008
Group companies, associates and business units		34,270	-
Property, plant and equipment, intangible assets and investment property	5 and 7	1,213	1,715
Other financial assets		14,298	293
Other cash flows from investing activities		456	206
Interest received		456	206
CASH FLOWS FROM FINANCING ACTIVITIES		(121,928)	(63,828)
Receipts and (payments) for equity instruments:		(8,784)	(3,834)
Acquisition		(8,784)	(3,834)
Receipts and (payments) for financial liability instruments		(75,600)	(32,217)
Issue		90,000	40,000
Repayment and amortisation		(165,600)	(72,217)
Dividends and returns on equity instruments paid		(28,897)	(16,224)
Other cash flows from financing activities		(8,647)	(11,553)
Interest paid		(8,984)	(11,553)
Other receipts / (payments) for financing activities		337	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		883	(143)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(9,268)	4,947
CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		94,768	89,820
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		85,500	94,767

Papeles y Cartones de Europa, S.A. and Subsidiaries. Notes to the 2017 Financial Statements

1.- GENERAL INFORMATION

1.1. INTRODUCTION

Papeles y Cartones Europa, S.A. (hereinafter, Europac or the parent company) was incorporated on 31 December, 1995 and is the head of a group (hereinafter, the Group or Europac Group) whose core business is the manufacture and sale of paper and corrugated board for packaging, and the manufacture of corrugated board packaging.

The Group has its head office in Alcobendas (Madrid) and has production centres in the following locations:

- Spain:
 - Waste management: Valladolid and Madrid.
 - Paper: Dueñas (Palencia), Alcolea del Cinca (Huesca).
 - Corrugated board: Dueñas (Palencia), Torrelavit (Barcelona), Lucena (Cordoba).
- Portugal:
 - Waste management: Sintra (Lisbon), Gondomar (Porto) and Figueira da Foz
 - Paper: Viana do Castelo
 - Corrugated board: Guilhabreu (Vila do Conde), Albarraque (Sintra), Leiria, Ovar and Madeira
- France:
 - Paper: Saint-Étienne-du-Rouvray (Rouen)
 - Corrugated board: Saint-Étienne-du-Rouvray (Rouen), Durtal, La Rochette, Gasny and Caradec.

The company's registered address is in Dueñas (Palencia), at Carretera de Burgos a Portugal, Km. 96.

Europac is currently listed on the Madrid and Barcelona stock exchanges.

In 2017, the Group carried out the following corporate operations, including the following:

- In 2017, 100% of the shares in the company MedPackaging, S.A.R.L.A.U – owner of the corrugated board factory in Tangier (Morocco) were sold.
- On 31 March 2017, the parent company acquired 100% of the Spanish companies Ondulados Andaluces S.A e Industrias Cartones Ondulados Andaluces, S.L., which mainly manufacture corrugated board. Subsequently, these two companies were merged to create the new company Europac Packaging Lucena S.L.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- In April 2017, 100% of the shares of the companies Europa&c Logistica, SA and Vianaport LDA were sold.
- On 8 May, the subsidiary Europac Recicla S.A. acquired 100% of the Spanish company Transcon Valladolid S.A. which is mainly engaged in waste management. On 7 November, these two companies were merged by takeover, whereby Europac Recicla S.A. took over Transcon Valladolid S.A..

In 2016, the Group carried out other corporate operations, including the following:

- On 3 August 2016, the Group recorded the merger of Harpalus, S.L. in the Companies Registry, with effect from 1 July 2016 (Note 6).

Papeles y Cartones de Europa, S.A. and Subsidiaries. Notes to the 2017 Financial Statements

1.2. SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Appendix 1 to the accompanying consolidated Financial Statements itemises the subsidiaries, jointly-controlled entities and associates comprising the Europac Group, together with a description of their core business.

Changes in the consolidation scope.

Changes in 2017:

In April 2017, the Group included in the consolidation scope the companies Industrias Cartones Ondulados Andaluces S.L. and Ondulados Andaluces, S.A., two complementary companies engaged in the manufacture of corrugated board, after acquiring 100% of their shares.

In April 2017, the companies Europa&c Logistica, SA and Vianaport LDA were removed from the consolidation scope after being sold off to third parties.

In May 2017, the Group included the company Trasncon Valladolid, SA within the consolidation scope, after acquiring 100% of its shares. The company is engaged in waste management. At the close of the year, the company was taken over by Europac Recicla, SA.

In June 2017, the Moroccan company MED Packaging SARLAU was excluded from the consolidation scope after being sold off to third parties.

Changes in 2016:

In October 2016, the Group added to its consolidation scope the company Herederos D. Timoteo, S.L., whose main activity is the operation of a plantation forest, by acquiring 91.42% of its shares.

In December 2016, the companies Europac Integra, S.L. and Renova Generación de Energías Renovables de Castilla y León, S.L. were removed from the consolidation scope as a consequence of their liquidation and subsequent dissolution.

2.- ACCOUNTING PRINCIPLES

2.1. BASIS FOR PRESENTATION

The 2017 consolidated Financial Statements have been prepared based on the accounting records of the company and its subsidiaries. They were prepared by the company's directors in accordance with the Eleventh Final Provision of Act 62/2003, of 30 December, applying the International Financial Reporting Standards approved by the Regulations of the European commission (IFRS-EU).

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

The parent company's board expects that the accompanying 2017 consolidated Financial Statements will be approved at the company's general shareholders' meeting without modification.

The financial year of Europac and all its subsidiaries runs from 1 January to 31 December.

The amounts contained in these consolidated Financial Statements are expressed in thousands of euros, unless otherwise indicated. The Group's presentation currency is the euro.

The parent company's separate Financial Statements have been prepared by its directors in a separate document to these consolidated Financial Statements.

These Financial Statements give a true and fair view of the Group's consolidated equity and financial position at 31 December 2017, the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flow.

The consolidated Financial Statements have been prepared on a historical cost basis, except for biological assets and derivative financial instruments, which have been recorded at fair value.

2.2. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in preparing these 2017 consolidated Financial Statements are the same as those applied in the consolidated accounts for the financial year ended 31 December 2016.

Appendix II details the exceptions provided for in the "Standards and interpretations approved by the European Union applied for the first time in this financial year" and the standards and interpretations issued by the IASB, but which are not applicable in this financial year.

2.3. CONSOLIDATION PRINCIPLES

The consolidated Financial Statements comprise the Financial Statements of the parent company and its subsidiaries at 31 December 2017.

Subsidiaries are fully consolidated from the acquisition date, which is the date on which the Group acquires control, and continue to be fully consolidated until the date on which said control ceases. The Financial Statements of subsidiaries have the same reporting date as the parent company and are prepared using the same accounting policies in a consistent and uniform manner. All balances and inter-company transactions, including unrealised gains and losses from transactions between group companies and dividends, are eliminated.

A change in the percentage of the holding in a subsidiary, which does not involve the loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary:

- It de-registers the assets (including goodwill) and the liabilities of said subsidiary
- It de-registers the carrying amount of non-controlling interests
- It de-registers the accumulated translation differences recorded in equity.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- It recognises the fair value of the consideration received as a result of the transaction.
- It recognises the fair value of any retained investment
- It recognises any surplus or deficit in the consolidated income statement
- It reclassifies to profit or loss or to reserves, as appropriate, the interest of the parent company in the items previously recognised in equity.

2.4. BUSINESS COMBINATIONS, GOODWILL AND OTHER CORPORATE OPERATIONS

Business combinations are accounted for using the acquisition method. The acquisition cost is the sum of the consideration transferred, measured at the fair value on the acquisition date, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group chooses whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets. Acquisition costs incurred are expensed and recorded in the separate consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in the host contracts entered into by the acquiree.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the equity is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognised in consolidated profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss. A contingent consideration that is classified as equity is not re-measured. Any subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. If the contingent consideration is classified as equity, it is not measured, and any subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, which is the excess of the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired exceeds the value of the consideration transferred, the difference is recognised directly in the income statement, unless, as was the case in the merger carried out in 2016, it underlies a transaction with own equity instruments, in which case the difference is recorded directly against reserves.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, from the acquisition date goodwill acquired in a business combination is allocated to each of the Group's cash generating units that are

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill forms part of the cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

2.5. INTERESTS IN JOINT VENTURES

The Group has an interest in a joint venture, which is a jointly controlled company, whereby the venturers have a contractual arrangement which establishes joint control over the economic activities of the company. The contract requires unanimous agreement among the venturers for financial and operating decisions. In 2017 and 2016, the Group recorded this interest using the equity method in accordance with IFRS 11.

2.6. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are accounted for using the equity method. Associates are entities over which the Group has significant influence.

Under the equity method, the investment in an associate is initially recognised at cost in the consolidated balance sheet, and the carrying amount is increased or decreased depending on changes in the Group's share of the associate's net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group's share of the associate's profit or loss is recognised in the income statement. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of the change and discloses it, where applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of the profit of associates is recorded directly in the consolidated income statement. This is the profit attributable to equity holders of the associate and hence, corresponds to profit after tax and non-controlling interests in the subsidiaries of the associate.

The Financial Statements of the associates are prepared for the same reporting period as those of the Group and the necessary adjustments are made so as to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "Share of profit/(loss) of associates" in the consolidated income statement.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon the loss of significant influence and the fair value of the retained investment plus proceeds from disposal is recognised in the consolidated income statement.

2.7. FOREIGN CURRENCY TRANSACTIONS

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. Each group company determines its own functional currency, and the items included in each company's financial statements are measured using that functional currency. The Group uses the direct method of consolidation and has chosen to recycle gains or losses arising when translating these items using this method.

2.8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at acquisition or production cost, net of accumulated depreciation and, as the case may be, accumulated impairment losses. The cost of plant and equipment built by the Group is determined using the same principles as the acquired assets, additionally taking into account inventory production cost criteria. Production costs are capitalised by crediting the cost attributable to the asset to "Own work capitalised" in the consolidated income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over the estimated useful lives, as follows:

	<u>Useful life (Years)</u>
Buildings	40-50
Machinery, fixtures and tools	6-20
Other PPE	6-10

Interest costs directly attributable to the acquisition, construction or production of an asset that necessarily require a substantial period of time for start-up or sale are capitalised as part of the cost of the asset. Other interest costs are expensed in the period in which they occur. Finance costs include interest and other costs the Group incurs in connection with the financing obtained.

Maintenance and repair costs are charged to the income statement in the period when they occur.

After initial recognition of the asset, the only costs capitalised are those expected to generate future economic benefits, to the extent that these costs can be reliably measured.

The replacement of items of property, plant and equipment which may be capitalised reduces the carrying amount of the replaced items. If the cost of the replaced items has not been

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

depreciated independently and it is not practical to determine the carrying amount, the replacement cost is used as a proxy for the cost of the items at the time of acquisition or construction.

The cost of own work capitalised is measured at the cost of warehouse materials consumed at the cost of the staff performing the work on the internally-constructed assets.

2.9. INVESTMENT PROPERTY

Investment property is measured using the same criteria described for property, plant and equipment.

Investment property is depreciated on a straight-line basis over the estimated useful life of 50 years.

2.10. OTHER INTANGIBLE ASSETS

a) Computer software

Computer software is measured at the acquisition cost or, as the case may be, production cost. Maintenance costs and annual use expenses are charged directly to the income statement as incurred.

Computer software is amortised over its estimated useful life, which ranges between 3 and 7 years.

b) Development costs

Research costs are recorded as an expense in the income statement as incurred.

The costs associated with software development and the design and testing of new products have been capitalised to the extent that:

- The Group has technical studies which provide evidence of their viability.
- There is a commitment from the Group to complete production of the asset so that it is in condition for internal use.
- The asset is expected to generate sufficient economic benefits.
- The Group has the necessary technical and financial resources to complete development of the asset (or to use it internally) and has developed budgetary and analytical accounting control systems which make it possible to monitor the budgeted costs, modifications introduced and the costs actually allocated to the different projects.

The cost of assets generated internally by the Group is determined using the same principles as those used to determine the cost of inventory production. Production costs are capitalised by crediting the cost attributable to the asset to "Own work capitalised" in the consolidated income statement.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

c) Greenhouse gas emission allowance (CO₂)

Greenhouse gas emission allowances are measured at the acquisition price or production cost. When these allowances are acquired free of charge, their acquisition cost is deemed to be the fair value of the allowances at the acquisition date based on trading prices in secondary markets and they are recognised with a credit to "Government grants" (Note 18 below). Emission allowances are not amortised and are measured at historical cost. Provisions for impairment are recorded for allowances which are to be sold and not consumed by the company when their carrying amount is greater than the market value. Allowances are eventually de-registered from the balance sheet on their transfer to third parties, certification of their consumption by the Government or when they expire. The estimate of the expense for the use of emission allowances, which is generally certified by the Government in the year following their consumption, is recognised under "Current Provisions" (Note 20) according to the historical cost of the allowances held by the company using the weighted average cost criterion.

Non-repayable grants associated with the greenhouse gas emission allowances allocated to the group companies free of charge under the EU Emissions Trading System 2013-2020 are taken to profit or loss as "Grants related to non-financial non-current assets" when the subsidised emission allowances are disposed of, deemed impaired or consumed.

2.11. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover a period of between three and five years. For longer periods, a long-term growth rate is calculated and applied to estimate future cash flows after the last year.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the consolidated income statement under expense headings consistent with the function of the impaired asset, except for previously re-valued property, for which the

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

revaluation is recorded directly in equity. In this case, the impairment loss is also recognised in equity until the amount of the previous revaluation is offset.

2.12. FINANCIAL INSTRUMENTS

a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular-way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- Financial assets at fair value through profit or loss

This category includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale or repurchase in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in "Finance costs" in the consolidated income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still firm. When, in exceptional circumstances, the Group is unable to trade these financial assets due to inactive markets and

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

the management's intention to sell them in the foreseeable future changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale assets or held-to-maturity assets depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at initial recognition; these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their characteristics and risks are not related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

- Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The interest accrued in accordance with this effective interest rate is included under "Finance income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Finance costs" for loans and "Other operating expenses" for receivables.

- Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The interest accrued in accordance with this effective interest rate is included under "Finance income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Finance costs".

- Available-for-sale financial assets

Available-for-sale financial assets include investments in equity instruments and debt securities. Equity instruments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised as income and expense recorded directly in

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

equity under "Valuation adjustments – Available-for-sale financial assets" until the investment is derecognised, at which time the cumulative gain or loss is recognised in "Other operating revenue", or the investment is deemed to be impaired, when the cumulative loss is reclassified to "Finance costs" in the consolidated income statement. Interest earned while holding available-for-sale financial assets is registered as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still firm. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so in the foreseeable future changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is only permitted when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is reclassified to profit or loss over the remaining life of the investment using the effective interest-rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

b) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance for impairment account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated income statement.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement) is removed from the consolidated statement of recognised income and expense and recognised in the consolidated income statement.

Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest employed to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

c) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Subsequent measurement

- Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The interest accrued in accordance with this effective interest rate is included under "Finance costs" in the consolidated income statement.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts, and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

e) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- Discounted cash flow analysis or other valuation models

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16.

f) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

Where appropriate, the Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest-rate risks and commodity price risks, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised within income and expense recognised directly in equity.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. No hedges of this type were used in 2017 or 2016.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation. No hedges of this type were used in 2017 or 2016.

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity in "Valuation adjustments – hedging transactions", while any ineffective portion is recognised immediately in the consolidated income statement in "Changes in fair value of financial instruments".

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Amounts recognised as income and expenses recognised directly in equity are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as income and expenses recognised directly in equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in income and expenses recognised directly in equity remains in equity until the forecast transaction or firm commitment affects profit or loss.

The Group uses financial derivative instruments to mitigate its exposure to volatility in interest payments on financial liabilities carrying variable interest rates (Note 16).

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (e.g. the underlying contracted cash flows):

- When the Group holds a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified in line with the cash flows of the host contract.
- Derivative instruments that are designated as, and are, effective hedging instruments, they are classified in line with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

2.13. BIOLOGICAL ASSETS

The Group recognises a biological asset when, and only when:

- The Group controls the asset as a result of past events,
- It is likely that future economic benefits associated with the asset will flow to the Group, and
- The fair value or cost of the asset can be reliably measured.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Biological assets should be measured, both on initial recognition and as of each reporting date, according to their fair value less estimated point-of-sale costs, except in the event that the fair value cannot be measured reliably (Note 8).

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.

2.14. INVENTORIES

Inventories are valued at the lower of cost and net realisable value, applying the following criteria:

- Raw materials, auxiliary materials, inventories for resale and other consumables: purchase cost, determined using the weighted average purchase cost method.
- Finished goods and work in progress: at industrial cost, which does not differ substantially from cost on a first in, first out basis. The industrial cost of finished goods and work in progress includes the costs directly attributable to the units produced (raw materials, direct labour and other direct costs) and a systematically-calculated proportion of indirect variable and fixed costs incurred during the transformation process, and is based on normal working conditions for the means of production.

Cost is written down to the inventories' net realisable value as required. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and on hand, short-term deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. To this end, cash equivalents include investments maturing within three months.

2.16. SHARE CAPITAL

The company's ordinary shares are classified as equity. The Group has not issued any preference shares. Costs directly attributable to the issuance of new shares are deducted from equity net of the corresponding tax effect.

2.17. TREASURY SHARES

Own equity instruments that are reacquired by the Group are recognised separately at cost and deducted from equity on the balance sheet, regardless of why they were bought back. Any gain or loss on the sale of own equity instruments is recognised directly in equity.

2.18. INCOME TAX

Tax expense (income) includes current and deferred tax expenses (income).

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Current tax is the amount of income tax payable (recoverable) in respect of consolidated taxable profit (tax loss) for the year. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax liabilities are the amounts of income tax payable in future periods in respect of taxable temporary differences, while deferred tax assets are the amounts of income tax recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits.

For these purposes, temporary differences are differences between the carrying amount of an asset or liability and its tax base.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all taxable temporary differences, except:

- If it is probable that the taxable profit will be available against which the assets can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor the taxable profit or loss.
- In respect of deductible temporary differences arising from investments in subsidiaries and interests in joint ventures, as long as it is probable that the temporary differences will reverse in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are also reviewed at each reporting date, and are recorded to the extent that it is probable that a taxable profit will be available against which the deferred tax asset can be applied.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Deferred tax relating to items recognised outside the consolidated income statement is registered outside the consolidated income statement. Deferred tax items are recognised in correlation to the underlying transaction either in the income statement or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, may be subsequently recognised if certain facts and circumstances have changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or else in the consolidated income statement.

2.19. SALES TAX

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognised as part of the acquisition cost of the asset or as part of the expense item, as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated balance sheet.

2.20. EMPLOYEE BENEFITS

- a) Pensions and other post-employment benefits.

Some Group companies have committed to top up their employees' pension plans as follows:

- Defined contribution commitments: these are recognised in the consolidated income statement as the contributions are made.
- Defined benefit commitments: pursuant to IAS 19, the Group recognises all actuarial gains and losses on an accrual basis as other comprehensive income.

- b) Seniority awards

These liabilities are treated as other long-term employee benefits. The amount recognised as a liability is the estimated present value of the obligation, less, as the case may be, the market value of the assets of the corresponding funds. The current service cost plus interest cost less the expected return on any plan assets is recognised as an expense or income for the year. Actuarial gains and losses and past service costs are recognised immediately in the income statement for the year.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

c) Termination benefits.

Except in cases of justified dismissal, companies are required to pay compensation to employees when their employment is terminated. As there is no foreseeable need for the irregular termination of employment, termination benefits, when they arise, are charged to the consolidated income statement at the time the dismissal decision is announced.

2.21. SHARE-BASED PAYMENT TRANSACTIONS

Certain members of the Group's management team receive share-based remuneration, under which members provide services in consideration for equity instruments. The cost of share-based payment transactions settled via equity instruments is recorded, together with the corresponding increase under the heading "Other equity instruments" in the period in which the service and/or performance conditions are met. The accumulated cost recognised for equity instruments at each closing date and until the vesting date reflects the part of the vesting period accrued and the Group's best estimate of the equity instruments that are finally granted (See Note 14). The expense recorded in the consolidated income statement is included under the heading "Employee benefits expense".

Expenses for rights that are not consolidated are not recorded, except those transactions with share-based payments which are awarded subject to a market condition, which are treated as granted regardless of whether the market condition is satisfied or not, provided that the rest of the service or performance conditions are met.

When the terms of the plan are modified, the minimum expense recorded is the expense that would have been incurred if said terms had not been modified and, furthermore, an expense is recorded for any modification that increases the fair value of the share-based payment transaction or which, valued at the date of modification, is beneficial for the employees.

Upon cancellation of the plan, this is treated as if the rights had been consolidated at the date of cancellation, and any unrecognised expense for these rights is immediately recognised. This includes any right where the non-decisive conditions for consolidation under the control of the company or the employee have not been met. However, if new rights replace those cancelled, and these are designated as replacements rights on the date they are granted, the cancelled rights and the new rights will be treated as if they were modifications of the original rights, as described in the previous paragraph.

2.22. PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- A reliable estimate can be made of the amount of the obligation.

The amounts recognised in the consolidated balance sheet reflect the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, after taking into consideration the risks and uncertainties relating to the provision and, where the effect is material, the impact of the time value of money, so long as the annual outflows can be reliably determined. When discounting is used, the time value of money is recognised as a finance cost in the consolidated income statement.

Provisions do not reflect related tax effects or gains on the expected disposal or abandonment of assets.

Provisions are reversed against profit or loss when it is no longer probable that an outflow of resources will be required to meet the obligation. The reversal is recognised in the consolidated separate income statement heading in which the corresponding expense was recognised. Any surplus over the corresponding expense is recognised within "Other operating revenue" in the consolidated income statement.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed by the occurrence or non-concurrence of uncertain future events not wholly within the control of the Group, as well as present obligations that arise from past events for which it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised, but disclosed in the notes unless the possibility of an outflow of resources is remote.

2.23. RECOGNITION OF ORDINARY REVENUE AND EXPENSES

Income and expenses are recognised when they arise on an accrual basis, regardless of when actual payment or collection occurs.

Ordinary revenue from the sale of goods and the rendering of services is recognised at the fair value of the consideration received or receivable. Discounts likely to be granted for prompt payment, volume purchases or other factors at the time of revenue recognition are deducted from the amount of revenue recognised.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, regardless of when legal title is passed.

Revenue from the rendering of services is recognised in the financial year in which they are provided, as no stages of service contracts are pending completion.

Interest income is recognised using the effective interest rate method.

Revenue for dividends is recognised at the moment the Group's right to receive the payment is established.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

2.24. LEASES

Leases in which the all the risks and rewards of ownership of an asset are substantially transferred to the Group are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the leased asset. The minimum lease payments are apportioned between the finance charge and the reduction in the outstanding liability. The finance charge is distributed over the term of the lease so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The payment obligation, net of finance charges, is recorded under payables, and the finance charge is recorded in the consolidated income statement as it accrues. Leased assets are classified within property, plant and equipment or intangible assets by nature and are depreciated/amortised over their useful lives.

Payments made under operating leases are recognised as an expense in a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

2.25. GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the grant will be received and that the group will comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to offset. When the grant relates to an asset, it is recognised as deferred income and credited to income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded at their nominal amounts and credited to the consolidated income statement on a straight-line basis over the expected useful life of the corresponding asset. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as an additional government grant.

2.26. CLASSIFICATION OF ASSETS AND LIABILITIES BETWEEN CURRENT AND NON-CURRENT

The Group classifies its assets and liabilities as current and non-current in the consolidated balance sheet. To this end, current assets and current liabilities are those that meet the following criteria:

Assets are classified as current when the Group:

- Expects to realise the asset, or intends to sell or consume it, in its normal operating cycle,
- Holds the asset primarily for the purpose of trading,

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- Expects to realise the asset within twelve months after the reporting period or the asset is cash or a cash equivalent.

Liabilities are classified as current when the Group:

- Expects to settle the liability in its normal operating cycle,
- Holds the liability primarily for the purpose of trading or the liability is due to be settled within twelve months after the reporting period, or
- Does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting date.

2.27. ENVIRONMENT

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations. Expenses incurred in connection with these environmental activities are recognised as other operating expenses in the year in which they are incurred.

Property, plant and equipment acquired for the purpose of sustained use in its business operations whose main purpose is to minimise environmental damage and/or enhance environmental protection, including those intended to reduce or eliminate pollution by the Group in the future, are recognised in the corresponding asset heading following the asset measurement, presentation and disclosure criteria outlined in Note 2.8 above.

2.28. TRANSLATION

This translation of consolidated financial statements is originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

3.- SEGMENT REPORTING

The criteria used to identify the Group's operating segments are based on the management information reported to the chief operating decision-maker, which is in turn based on the Group's organisational structure, which comprises two business segments (Paper and Board), each of which determines its individual business policies, and a non-operating Corporate division that provides services to the operating units. Transfer prices between operating segments are on an arm's length basis. The Group does not perform any other significant activities. The Group's reportable operating segments and their main revenue-generating products and services are as follows:

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- Paper (manufacture and sale of kraftliner and recycled paper for use in packaging, production of electric and thermal power, integral waste management and forestry management)
- Corrugated board (manufacture and sale of corrugated board sheets and boxes)

The financial information from the consolidated separate income statement reported regularly to the chief decision-maker for each operating segment is the following:

- Income statement: EBITDA
- Balance sheet: Property, plant and equipment, goodwill and other intangible assets, and capital expenditure for the year

The rest of the consolidated separate income statement and statement of financial position headings are compiled and reported to the chief decision-maker on an aggregate basis.

The Group also discloses financial information for the following geographic segments:

- Spain
- Portugal
- France
- Rest of EU
- Other

The information for the above-listed operating and geographic segments is provided in Appendix III.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated Financial Statements requires management to use estimates and judgements to estimate certain assets, liabilities, revenue, expenses and commitments recorded therein.

The management judgements, key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of consolidated assets and liabilities within the next financial year are described in this section. The Group based its assumptions and estimates on parameters available when the consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Measuring assets and liabilities in business combinations

The Group, which regularly acquires businesses, allocates the acquisition price paid to the fair value of the assets and liabilities acquired. The Group hires independent experts to determine the acquisition date fair value of the identifiable assets and liabilities acquired (mainly properties, equipment and employment-related obligations). The valuation techniques used are based on comparable transaction multiples, the amortised replacement cost (whenever no comparable market existed) and certain actuarial calculations in respect of employment-related obligations. The fair value of the properties acquired is sensitive to changes in supply and demand in the property and forestry markets (Notes 6 and 8).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the coming years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used to estimate terminal value. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 6.

Taxes

Uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded. The Group records provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 21.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Pension benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Due to the complexity of the valuation work required, the Group uses an independent expert to perform the necessary assumptions and estimates.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least an investment grade rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in Note 17.

Fair value of derivative financial instruments

When the fair value of the derivative financial instruments recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details about the Group's derivatives are provided in Note 16.

Contingent liabilities

The Group is a defendant in several ongoing lawsuits. The directors, counselled by the Group's legal advisors, have made judgments about the outcome of these lawsuits. A different outcome to that initially estimated in respect of these lawsuits could affect the amounts recognised in the Group's consolidated Financial Statements. Further details about the Group's contingent liabilities are given in Note 24.

Return on investment

The parameters used in calculating return on investment and on operations provided for in the Electricity Sector Act and the Royal Decree regulating renewable energies are subject to annual modification or for each regulatory part-period or period which may affect the

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

balances of assets, liabilities, revenue and expenses related to the Electricity System sector activity.

The interpretation of the existing legislation or new legislation related to the regulation of the Electricity Sector with definitive economic effects that will finally be determined by the resolutions of those bodies competent for their liquidation remains pending at the date of preparation of these Financial Statements.

Hierarchy of fair value measurement of assets and liabilities

The breakdown of the level of measurement of assets and liabilities recorded at their fair value in the Group's Financial Statements is as follows:

Hierarchy of fair value measurement 2017			Fair value measurement used		
(thousand euros)	Measurement date	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Biological assets (Note 8):	31/12/2017	6.710	-	6.710	-
Securities portfolio (available-for-sale financial assets) (Note 9)	31/12/2017	784	784	-	-
Liabilities measured at fair value:					
Derivatives (Note 16)	31/12/2017	761	-	761	-

Hierarchy of fair value measurement 2016			Fair value measurement used		
(thousand euros)	Measurement date	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Biological assets (Note 8):	31/12/2016	6,990	-	6,990	-
Securities portfolio (available-for-sale financial assets) (Note 9)	31/12/2016	13,123	13,123	-	-
Derivatives (Note 16)	31/12/2016	1,641	-	1,641	-
Liabilities measured at fair value:					
Derivatives (Note 16)	31/12/2016	1,882	-	1,882	-

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

5.- PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

a) Property, plant and equipment

The breakdown of this heading as at 31 December 2017 and 2016 is as follows:

Changes in Property, plant and equipment in 2017							
Thousand euros	Opening Balance				Change in cons. scope	Translation differences	Closing Balance 31/12/2017
	31/12/2016	Increases	De-registrations	Transfers			
COST							
Land and buildings	311,173	2,965	-	1,494	(10,075)	(525)	305,032
Machinery, fixtures and tools		12,859	(3,218)	18,732	(9,317)	(634)	1,080,818
Other PPE	28,542	1,590	(134)	443	1,134	(29)	31,546
Prepayments and work in progress	39,551	47,228	(5)	(20,752)	10	(3)	66,029
Total Cost	1,441,662	64,642	(3,357)	(83)	(18,248)	(1,191)	1,483,425
DEPRECIATION							
Land and buildings	(84,555)	(5,973)	-	-	454	27	(90,047)
Machinery, fixtures and tools	(645,112)	(42,954)	2,841	(85)	(1,329)	75	(686,564)
Other PPE	(24,555)	(1,300)	127	168	(925)	6	(26,479)
Total Amortisation	(754,222)	(50,227)	2,968	83	(1,801)	108	(803,091)
IMPAIRMENT							
Land and buildings	(1,094)	-	16	-	-	-	(1,078)
Machinery, fixtures and tools	-	(315)	-	-	-	-	(315)
Prepayments and work in progress	(880)	-	-	-	-	-	(880)
Total Impairment	(1,974)	(315)	16	-	-	-	(2,273)
TOTAL PPE	685,466	14,100	(373)	-	(20,048)	(1,083)	678,062

Changes in Property, plant and equipment in 2016							
Thousand euros	Opening Balance				Change in cons. scope	Translation differences	Closing Balance 31/12/2016
	31/12/2015	Increases	De-registrations	Transfers			
COST							
Land and buildings	290,043	4,834	(21)	15,265	822	230	311,173
Machinery, fixtures and tools	1,021,728	12,877	(2,358)	29,853	-	296	1,062,396
Other PPE	28,268	754	(1,125)	632	-	13	28,542
Prepayments and work in progress	53,491	32,760	(348)	(46,135)	-	(217)	39,551
Total Cost	1,393,530	51,225	(3,852)	(385)	822	322	1,441,662
DEPRECIATION							
Land and buildings	(79,324)	(5,248)	21	-	-	(4)	(84,555)
Machinery, fixtures and tools	(605,928)	(40,866)	1,701	-	-	(19)	(645,112)
Other PPE	(24,310)	(1,322)	1,079	-	-	(2)	(24,555)
Total Amortisation	(709,562)	(47,436)	2,801	-	-	(25)	(754,222)
IMPAIRMENT							
Land and buildings	(1,073)	-	-	(21)	-	-	(1,094)
Machinery, fixtures and tools	(737)	-	737	-	-	-	-
Prepayments and work in progress	(901)	-	-	21	-	-	(880)
Total Impairment	(2,711)	-	737	-	-	-	(1,974)
TOTAL PPE	681,257	3,789	(314)	(385)	822	297	685,466

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

Additions in 2016 and 2017 mainly correspond to the investment made in machinery and fixtures at the Group's various paper and board plants.

Additions to property, plant and equipment included 4,818 thousand euros (2,833 thousand euros in 2016) corresponding to work performed by the company on its own assets.

The balance of "Work in progress" mainly reflects the amount of investments made over the year corresponding to investment projects which are at the execution stage on the reporting date and which, therefore, have not yet entered into operation.

"De-registrations" in 2017 and 2016 included various disposals of property, plant and equipment and the elimination of the accounting records of fully depreciated items which are not in use. The disposal of assets generated losses of 123 thousand euros in 2017 compared with a loss of 787 thousand euros in 2016 (see Note 22).

In 2017, no expenses were capitalised (131 thousand euros in 2016) corresponding to the finance costs of investment projects during the installation and commissioning period of greater than one year prior to start-up.

The capitalisation rate of generic borrowing costs was 2.79% in 2016.

As at 31 December 2017 and 2016, the Group had acquired purchase commitments relating to property, plant and equipment of 25,463 thousand euros and 20,384 thousand euros, respectively.

In 2017, the group received government grants associated with items of property, plant and equipment for 337 thousand euros compared with 1,006 thousand euros in 2016 (Note 18).

The Europac Group has taken out different insurance policies to cover the main risks which its property, plant and equipment are subject to.

The amount of fully depreciated items which remain in use as at 31 December 2017 stood at 314,664 thousand euros (291,057 thousand euros in 2016).

The carrying amount of assets acquired through finance leases at 31 December 2017 was 4,246 thousand euros (4,282 thousand euros in 2016). The leased assets, mainly machinery and vehicles at plants, secure the financial liabilities attaching to those finance leases (Note 16).

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Future minimum payments of finance leases and the present value of net minimum lease payments are as follows:

	<u>Thousand euros</u>			
	2017		2016	
	<u>Minimum payments</u>	<u>Present value of payments</u>	<u>Minimum payments</u>	<u>Present value of payments</u>
Less than one year		329	344	307
Between one and five years	499	497	860	853
Over five years	0	0	0	0
Total minimum lease payments	832	825	1,204	1,160
Financial charge decrease	7		(14)	
Present value of minimum lease payments	839	825	1,190	1,160

b) Investment property

The breakdown of this heading as at 31 December 2017 and 2016 is as follows:

Changes in Investment Property in 2017						
	Opening Balance 31/12/2016	Increases	De-registrations	Transfers	Change in cons. scope	Closing Balance 31/12/2017
COST						
Investment Property	3,313	-	-	-	121	3,434
Total Cost	3,313	-	-	-	121	3,434
AMORTISATION						
Investment Property	(745)	(57)	-	-	(86)	(888)
Total Amortisation	(745)	(57)	-	-	(86)	(888)
IMPAIRMENT						
Investment Property	(540)	(28)	38	-	-	(530)
Total Impairment	(540)	(28)	38	-	-	(530)
TOTAL INVESTMENT PROPERTY	2,028	(85)	38	-	35	2,016

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Changes in Investment Property in 2016							
	Opening Balance 31/12/2015	Increases	De-registrations	Transfers	Change in cons. scope	Closing Balance 31/12/2016	
COST							
Investment Property	4,220	85	(992)	-	-	3,313	
Total Cost	4,220	85	(992)	-	-	3,313	
AMORTISATION							
Investment Property	(688)	(58)	-	-	-	(745)	
Total Amortisation	(688)	(58)	-	-	-	(745)	
IMPAIRMENT							
Investment Property	(1,025)	-	486	-	-	(540)	
Total Impairment	(1,025)	-	486	-	-	(540)	
TOTAL INVESTMENT PROPERTY	2,508	28	(507)	-	-	2,028	

Under "Investment property", the Group mainly recorded as at 31 December 2017 and 2016 an industrial warehouse in Portugal for an amount of 1,365 thousand and 1,421 thousand euros, respectively. Forestry land not operational is also included in this heading.

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

6.- GOODWILL, BUSINESS COMBINATIONS AND OTHER CORPORATE OPERATIONS

a) Goodwill generated in the year

The breakdown of this heading is as follows:

Changes in Goodwill in 2017							
Thousand euros	Opening Balance			Business combinations	Closing Balance		
	Amount	Impairment losses	Net amount		Amount	Impairment losses	Net amount
Company							
Trasloga, S.L.	1,529	-	1,529	-	1,529	-	1,529
Torrespack 2000, S.A.		-	392	-	392	-	392
Imocapital, SGPS, S.A.	281	-	281	-	281	-	281
Cartova, S.A.	1,463	-	1,463	-	1,463	-	1,463
Europa&c Portugal, SGPS, S.A.	61,812	-	61,812	-	61,812	-	61,812
Cartonajes Esteve y Nadal, S.L.	1,456	-	1,456	-	1,456	-	1,456
Europa&c Energia Viana, S.A.	1,381	-	1,381	-	1,381	-	1,381
Europa&c Recicla Lisboa, S.A.	1,634	-	1,634	-	1,634	-	1,634
Europa&c Cartão Ovar, S.A.	1,754	-	1,754	-	1,754	-	1,754
Europa&c Recicla Porto, S.A.	4,218	-	4,218	-	4,218	-	4,218
Europac Papeterie de Rouen	6,653	-	6,653	-	6,653	-	6,653
Europac Cartonnerie Atlantique y Savoie	5,070	-	5,070	-	5,070	-	5,070
Europac Cartonnerie de Rouen	1,779	-	1,779	-	1,779	-	1,779
Europac Packaging Lucena, SL	-	-	-	3,924	3,924	-	3,924
Europac Recicla Duero (Transcon, S.A.)	-	-	-	1,102	1,102	-	1,102
Total	89,422	-	89,422	5,026	94,448	-	94,448

The following business combinations took place in 2017:

- Acquisition of 100% of the shares in Ondulados Andaluces S.A and Industrias Cartones Ondulados Andaluces, S.L and the subsequent merger of the two companies to create the company Europac Packaging Lucena S.L. This company was incorporated within the CGU "Activos de Producción de Cartón de España". The transaction was carried out with the aim of controlling the packaging activity in the Spanish market.
- Acquisition of 100% of the shares in Transcon Valladolid S.A. and subsequent merger of this company, which was taken over by Europac Recicla. This company was incorporated in the CGU "Activos de Producción de Papel de España". The acquisition took place with the aim of extending the recovery of the Group's waste.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

In 2016, 91,42% of the shares of Herederos de D. Timoteo, S.L. were acquired, the main asset of which is a forestry plot located in Gallegos (Segovia), which was incorporated in the CGU "Activos de Producción de Papel de España" with the aim of increasing the forestry assets of the Group. The business combination created no goodwill.

The fair value at the acquisition date of the entire consideration transferred under this class of consideration, together with the amounts recognised for all types of assets and liabilities from these business combinations is shown below:

Business combinations	2017		
	Carrying amount	Adjustments	Fair Value
Thousand euros			
Property, plant and equipment	8,125	(1,905)	6,219
Deferred tax assets	-	476	476
Other non-current assets	38	-	38
Inventories	507	-	507
Trade and other receivables	4,299	(28)	4,271
Cash and cash equivalents	(1,987)	-	(1,987)
Deferred tax liabilities	(148)	-	(148)
Non-current financial liabilities	(3,597)	-	(3,597)
Trade and other payables	(2,512)	-	(2,512)
Total net assets	4,724	(1,457)	3,267
Cash paid to vendor			7,936
Cash payable to vendor			358
Total consideration			8,293
Goodwill			5,026
Cash flow from the business combination			
Cash paid			(7,936)
Cash and cash equivalents of the acquired company			(1,987)
Net cash flow from the business combination			(9,923)

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Business combinations	2016		
	Carrying amount	Adjustments	Fair Value
Thousand euros			
Non-current assets	300	520	820
Current assets	55		55
Total assets	355	520	875
Current liabilities	2		2
Total liabilities	2	-	2
Total net assets	353	520	873
Attributable to previous acquisitions:			
Reduction in investments			-
Non-controlling interests			(75)
Total net assets acquired			798
Cash paid or payable to the seller			798
Directly attributable costs			-
Cost of the business combinations			798
Negative goodwill			-

b) Impairment testing of goodwill by CGU

Goodwill, which is an intangible asset with an unlimited useful life, was apportioned to the Group's cash generating units (CGUs) for the purpose of appropriate impairment testing pursuant to IAS 36.

The apportionment of goodwill to each generating unit in the Group at 31 December 2017 and 2016 is summarised below:

Apportionment of goodwill to CGUs		
Thousand euros	31/12/2017	31/12/2016
CGU		
Paper Spain	1,102	-
Paper Portugal	55,865	55,865
Paper France	6,653	6,653
Corrugated Board Spain	8,753	4,829
Corrugated Board Portugal	15,224	15,224
Corrugated Board France	6,848	6,848
Other	3	3
Total	94,448	89,422

Papeles y Cartones de Europa, S.A. and Subsidiaries. Notes to the 2017 Financial Statements

The recoverable amount of a CGU is the higher of fair value less the cost to sell and value in use. Value in use is calculated using projected cash flows based on financial budgets adopted by Group management for a three-five year period.

The Group's management prepares financial projections principally based on key assumptions that take into account the changes experienced since its preparation together with the general macro-economic situation, specific expectations by geographic region, the economic situation in the sector of operation, the economic situation of the Group and the CGUs and their ability to generate revenue, together with the expectations relating to the development of the business.

The key assumptions used reflect past experience. To prepare them, external sources of information are used, with a temporary scope, extended through internal information sources. The key assumptions are consistent with the sources of external information.

The specific period used by the Group to project cash flows at all its CGUs is four years.

The breakdown of assets attributed to each CGU with significant goodwill is as follows:

CGUs with significant goodwill (thousand euros)					
DESCRIPTION	CORRUGATED				
	BOARD SPAIN	PAPER PORTUGAL	CORRUGATED BOARD PORTUGAL	PAPER FRANCE	CORRUGATED BOARD FRANCE
Goodwill	8,753	55,865	15,224	6,653	6,848
Property, plant and equipment and Intangible asset	52,051	193,561	67,199	127,123	55,302
Financial investments	5	255	105	679	295
Deferred tax assets	3,018	1,337	588	19,948	13,161
Biological assets	-	2,000	-	-	-
NON-CURRENT ASSETS	63,827	253,019	83,116	154,403	75,606
Grants	(1,497)	(190)	(1,108)	(959)	(12)
Non-current provisions	-	(4,910)	(2,409)	(2,491)	(6,818)
Non-current financial liabilities	(123)	(182)	-	0	-
Deferred tax liabilities	(1,170)	(18,986)	(8,415)	(20,425)	(10,176)
NON-CURRENT LIABILITIES	(2,790)	(24,268)	(11,931)	(23,876)	(17,006)
Inventories	7,121	16,739	13,225	14,644	19,833
Trade and other receivables	12,084	32,757	6,401	10,536	8,549
Trade and other payables	(15,604)	(74,366)	(18,391)	(35,992)	(29,133)
WORKING CAPITAL	3,602	(24,870)	1,236	(10,812)	(751)
TOTAL CAPITAL INVESTED	64,639	203,881	72,420	119,715	57,848

The recoverable amount of a CGU is the higher of fair value less the cost to sell and value in use. Value in use is calculated using projected cash flows based on financial budgets adopted by Group management for a three-five year period. The applied discount rates consider the operational and financial risks associated with each of the CGUs. Cash flows subsequent to the last year of the projection are estimated by applying a constant growth rate in accordance with long-term growth expectations in the industry.

The Group has defined the cash generating units (CGUs) indicated in the above table.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

In accordance with the impairment tests conducted for 2017 and 2016 pursuant to IAS 36, the directors of the Europac Group believe that the CGUs are compliant with the profitability requirements under that standard. It has not therefore been necessary to recognise any impairment loss in respect of the goodwill and assets apportioned to those CGUs.

The recoverable amount of all CGUs in the Group has been determined on the basis of value in use.

The calculation of value in use for CGUs is sensitive to the following assumptions:

- Sales volumes of the CGUs
- Average sales prices
- Variable unit costs
- Discount rates
- Growth rates used to extrapolate CGU cash flows beyond the expressly projected period

The assumptions used are as follows:

a) Sales volumes

- For the Paper CGUs, the average annual growth rates considered for the expressly projected period (hereinafter, AGR) are between 0.8% and 2.9% in 2017 (between 0.6% and 2.3% in 2016).
- The Corrugated Board CGUs are expected to grow at between 3.8% and 9.7% (between 1.7% and 2.8% in 2016), reflecting the expected performance of the corrugated board market in the geographical areas in which the CGUs operate.

b) Average sale price

- It was assumed that the Paper CGUs will increase their average sales prices in accordance with an AGR of between 3% and 4.7% (between 0.3% and 0.7% in 2016).
- It was assumed that Corrugated Board CGUs will raise their prices at an AGR of between 1.2% and 1.4% (between 0.4% and 2.7% in 2016).

c) Variable unit costs

- It was assumed the variable unit costs of the Paper CGUs will vary at an AGR of between 2% and 4.7% (between 0.7% and 0.6% in 2016).
- It was assumed that the variable unit costs of the Corrugated Board CGUs will vary at an AGR of between 0.9% and 1.6% (between 0.7% and 1.3% in 2016).

d) Discount rates

The discount rates reflect the market's view of the specific risks faced by each CGU, taking into account the time value of money, the risks intrinsic to the market in which the CGUs operate, and the risks specific to each CGU. The discount rate is based on the specific

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

circumstances of the Group and its CGUs, and reflects its pre-tax weighted average cost of capital ("WACC") calculated using the capital asset pricing model ("CAPM") approach. In accordance with this approach, WACC is the result of weighting the cost of the Group's sources of financing (debt and equity) in accordance with the Group's market-based financial structure. The cost of equity is the return that an investor would require for investing its funds in the Group, estimated as the risk-free rate (10-year bonds in the market in which the CGU operates) plus a risk premium estimated in accordance with the CAPM. The cost of debt is estimated with reference to a benchmark interest rate based on long-term rate curves and a spread reflecting the market-driven financial structure under consideration. The costs of equity used for each of the CGUs range from 11.45% to 12.97% (between 10.73% and 13.65% in 2016), depending on the geographic area where the given CGU operates. The pre-tax cost of debt is estimated at 2% for the entire Group, since the Group's financing is mostly obtained on a centralised basis (2.9% in 2016).

- e) The estimate of the terminal value of each CGU at the end of the specific period is estimated at all the CGUs by calculating the present value of revenue in perpetuity at a rate of constant growth.

The discount rates after tax and with growth used at the CGUs with significant goodwill are as follows:

CGU	WACC	Growth rate
Corr. board Spain	7,2%	1,5%
Paper Portugal	7,6%	1,5%
Corr. board Portugal	7,6%	1,5%
Paper France	6,8%	1,5%
Corr. board France	6,8%	1,5%

The residual value represents 117.8%, 78.6%, 82.5%, 88.1% and 94.8% of the total recoverable value of the Board Spain, Paper Portugal, Board Portugal, Paper France and Board France CGUs respectively.

Sensitivity to changes in assumptions

The parent company's management performs a sensitivity analysis, particularly with regard to the discount rate used and the residual growth rate, in order to ensure that any changes in the estimates of said rates do not have an impact on the recovery of the aforementioned values.

With regard to the assessment of value in use of the CGUs, the directors believe that no reasonably possible change in any of the above key assumptions would cause the carrying amount of a given CGU to materially exceed its recoverable amount.

With regard to the analysis of the sensitivity of the value in use of CGUs with significant Goodwill to changes in the key assumptions, particularly the discount rate and residual growth

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

rate, the changes that have been deemed reasonably possible related to the general recovery of the economy and of private consumption are as follows:

- A rise in the "cost of borrowing" component of WACC of 1% with regard to the swap rate curves used.
- A reduction of 0.5% in the residual value growth rate.

c) Other corporate operations

On 3 August 2016, the instrument notarising the merger by acquisition of Harpalus, S.L., approved by decision of the General Shareholders' Meeting of 29 June 2016, was registered with the Companies Registry of Palencia. The date of the merger for accounting purposes was set at 1 July 2016.

The reasons for carrying out the operations can be summarised as:

- An increase in transparency and visibility of the ownership structure of the Company, since the market will be very aware of who the direct owners of the shares are;
- De-concentration of ownership, thereby making control of the Company disputable in the market;
- Disappearance of the discount to which Europac's market capitalisation may be exposed on being controlled by one family holding company, with the merger thereby leading to an increase in Europac's market capitalisation;
- In the stock market, the integration will imply greater size and depth of Europac's theoretical free float, which may increase the share's liquidity and reduce potential volatility. As a consequence of that greater size, it may be possible to achieve better and greater monitoring of the Company by stock-market analysts, which would increase informative efficiency of the quoted price and, as the case may be, lead to a reduction in the cost of capital;

The common draft terms of merger were drawn up and signed by the directors of the two companies on 7 April 2016. The independent expert appointed by the Companies Registry issued a favourable opinion with regard to the swap rate and fairness of the equity instruments provided by the companies, without it being necessary for the acquiring company to undertake a capital increase.

The swap ratio was of 9.17396596 shares of the parent company for each share of Harpalus, S.L., with no additional cash compensation or the issue of new shares of the parent company as Harpalus, S.L. was previously a shareholder in the parent company.

The date of acquisition of Harpalus was 1 July 2016, which is the date as from which the merger took effect for the purposes of the company's accounting.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

The consideration received by Europac, which amounted to 20,449 euros, corresponds to a net debt taken on to acquire 1,795,454 treasury shares, in accordance with the fair value of the following assets and liabilities:

Thousand euros	Harpalus, S.L.
Non-current assets	10,397
Deferred tax assets	6,464
Trade and other receivables	238
Cash and cash equivalents	145
Current financial liabilities	(37,300)
Trade and other payables	(394)
Total net assets acquired	(20,449)
Non-controlling interests	-
Consideration received	(20,449)

As regards the valuation of the treasury shares acquired in the operation, the Company management considered that the share price, which at the date of the acquisition of Harpalus amounted to 4.75 euros per share, is not the best reference of the fair value of the share price, since it is not sufficiently liquid in the market. In this regard, the use of the share Price or any other reasonable value would not affect the equity, since the difference between the treasury shares handed over to the shareholders of Harpalus and received from these shareholders would be recorded in the equity for a value of 20,449 thousand euros.

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

7.- OTHER INTANGIBLE ASSETS

Below is a breakdown of the changes in 2017 and 2016:

Changes in Other Intangible Assets 2017							
	Opening Balance		De-		Change in	Translation	Closing Balance
	31/12/2016	Increases	registrations	Transfers	cons. scope	differences	31/12/2017
COST							
Computer software	21,695	-	-	201	14	-	21,910
Contracts and customer portfolio	1,336	-	-	-	-	-	1,336
Industrial property and other rights	264	-	-	-	(41)	(2)	221
CO2 Emission Allowances	2,314	2,664	(3,940)	-	-	-	1,038
Work in progress	1,567	681	-	(201)	-	-	2,047
Total Cost	27,176	3,345	(3,940)	-	(27)	(2)	26,552
AMORTISATION							
Computer software	(19,529)	(1,362)	-	-	(14)	-	(20,905)
Contracts and customer portfolio	(1,106)	(136)	-	-	-	-	(1,242)
Industrial property and other rights	(236)	(7)	-	-	21	1	(221)
Total Amortisation	(20,871)	(1,505)	-	-	7	1	(22,368)
IMPAIRMENT							
Contracts and customer portfolio	(95)	-	-	-	-	-	(95)
Total Impairment	(95)	-	-	-	-	-	(95)
TOTAL OTHER INTANGIBLE ASSETS	6,210	1,840	(3,940)	-	(20)	(1)	4,089

Changes in Other Intangible Assets 2016							
	Opening Balance		De-		Change in	Translation	Closing Balance
	31/12/2015	Increases	registrations	Transfers	cons. scope	differences	31/12/2016
COST							
Computer software	21,439	92	-	164	-	-	21,695
Contracts and customer portfolio	1,336	-	-	-	-	-	1,336
Industrial property and other rights	264	-	-	-	-	-	264
CO2 Emission Allowances	1,760	4,894	(4,340)	-	-	-	2,314
Work in progress	971	760	-	(164)	-	-	1,567
Total Cost	25,770	5,746	(4,340)	-	-	-	27,176
AMORTISATION							
Computer software	(17,822)	(1,707)	-	-	-	-	(19,529)
Contracts and customer portfolio	(1,106)	-	-	-	-	-	(1,106)
Industrial property and other rights	(525)	289	-	-	-	-	(236)
Total Amortisation	(19,453)	(1,418)	-	-	-	-	(20,871)
IMPAIRMENT							
Contracts and customer portfolio	(95)	-	-	-	-	-	(95)
Total Impairment	(95)	-	-	-	-	-	(95)
TOTAL OTHER INTANGIBLE ASSETS	6,223	4,328	(4,340)	-	-	-	6,210

Fully amortised intangible assets still in use at 31 December 2017 amount to 17,359 thousand euros (14,758 thousand euros in 2016).

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Customer contracts and portfolios mainly include the fair value on the acquisition date of an agreement entered into for the acquisition of Europac Papeterie de Rouen, S.A. pursuant to which the former owner undertakes to buy a certain volume of paper from the company over a period of five years. This agreement was identified in the process of the business combination relating to that company. This heading also includes the fair value of a customer portfolio of Europac Cartonnerie de Rouen, S.A.S.

The increases and transfers under "Computer Software" recorded in 2016 and 2015 mainly correspond to the cost of implementing new information systems in the Group.

The breakdown of the changes under this heading in 2017 and 2016 is as follows:

"CO2 Emission Allowances" includes the balance of the Greenhouse Gas Emission Allowances granted by the authorities at no charge and, as the case may be, those acquired from third parties (Note 2.10.c).

The breakdown of the number of allowances in 2017 and 2016 is as follows:

Changes in greenhouse gas emission allowances	No. emission Issue
Total emission allowances at 31 December 2015	261,610
Allow ances acquired on the market in 2016	550,000
Submission of govt-certified allow ances and expired allow ances	(557,626)
Allow ances received from government in 2016	227,043
Allow ances sold to third parties in 2016	(100,000)
Total emission allowances at 31 December 2016	381,027
Allow ances acquired on the market in 2017	200,000
Submission of govt-certified allow ances and expired allow ances	(554,577)
Allow ances received from government in 2017	222,585
Allow ances sold to third parties in 2017	(75,000)
Total emission allowances at 31 December 2017	174,035

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

The breakdown of the impact of the disposals and estimated consumption of emission allowances on the Group's earnings in 2017 and 2016 is as follows:

Earnings impact of greenhouse gas emission allowances						
(Thousand euros)	Grants transferred to profit and loss (Note 18)	Gain (loss) on disposal assets (Note 22)	Provision for impairment of assets (Note 22)	Emission allowance usage expense (Note 20)	Other expenses	Total
2016						
Certif. allowances used in 2015	-	-	-	132	-	132
Sale of allowances 2016	-	61	-	-	-	61
Est. usage allowances 2016	1,432	-	-	(3,527)	-	(2,094)
Impairment allowances YE 2016	-	-	-	-	-	-
Total gain (loss) 2016	1,432	61	-	(3,395)	-	(1,901)
2017						
Certif. allowances used in 2016	-	-	-	21	-	21
Sale of allowances 2017	-	52	-	-	-	52
Est. usage allowances 2017	1,336	-	-	(3,359)	-	(2,023)
Impairment allowances YE 2017	-	-	-	-	-	-
Total gain (loss) 2017	1,336	52	-	(3,338)	-	(1,950)

There are no intangible assets with restricted ownership or which have been granted as security.

There are no amounts committed to the acquisition of intangible assets.

8.- BIOLOGICAL ASSETS

Below is a breakdown of the changes in 2017 and 2016:

Changes in Biological assets 2017						
Thousand euros	Opening Balance 31/12/2016	Increases	De-registrations	Transfers	Revaluations	Closing Balance 31/12/2017
Biological Assets	6,990	-	-	-	(281)	6,710

Changes in Biological assets 2016						
Thousand euros	Opening Balance 31/12/2015	Increases	De-registrations	Transfers	Revaluations	Closing Balance 31/12/2016
Biological Assets	6,280	335	-	385	(10)	6,990

The biological assets recorded fully correspond to the fair value of the trees in the forestry operations (mainly pine and eucalyptus) which are located in Spain (Castile and Leon) and Portugal (Alto Alentejo). The values of the land where these forestry operations are located are recorded as

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

"Land and buildings" under the heading "Property, Plant and equipment" (Note 5). This land is recognised at its acquisition cost less the accumulated loss for impairment, as the case may be.

The Group did not acquire any new forestry operations in 2017, while in 2016 the Company acquired forestry operations in the municipality of Vinuesa (Soria).

The de-registrations in 2015 corresponded to the sales of wood taken from the operations at market value.

"Revaluations" correspond to the difference between the fair value of the biological assets and their carrying value in the previous year.

The main valuation techniques and the variables used in the valuation of the fair value of the biological assets by independent experts commissioned to estimate said value are as follows:

- Valuation by comparison: this method consists of estimating the fair value of the land and the biological assets by applying price multiples paid per hectare in transactions for comparable plots of land, adjusted, as the case may be, by homogenisation coefficients that take into consideration the differences in the type of use, density of the woodland, etc.
- Current rent method: the fair value of the biological assets and the land consists of calculating the present value of a perpetual annual rent, calculated as the difference between:
 - o revenue: the average expected growth of the forest mass (m³/Ha per year), multiplied by the average price of the expected m³ and the surface area of the land;
 - o and expenses: amount in euros of the cost of maintaining the land.

The value of the biological assets and the land are obtained as the average of the values by offsetting the current rent. In order to obtain the fair value of the biological assets with the land, the independent expert applies the method of the value of comparing transactions of land plots with comparable woodland.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

9.- NON-CURRENT FINANCIAL ASSETS AND OTHER CURRENT FINANCIAL

The breakdown of this heading as at 31 December 2017 and 2016 is as follows:

FINANCIAL ASSETS (Thousand euros)	31/12/2017				TOTAL
	Financial assets held for trading	Available-for- sale financial assets	Loans and other receivables	Held-to- maturity investments	
Equity instruments	-	568	-	-	568
Other financial assets	-	-	2,526	490	3,016
Non-current		568	2,526	490	3,584
Equity instruments	784	-	-	-	784
Other financial assets	-	-	6	87	93
Current	784	-	6	87	877
TOTAL	784	568	2,532	577	4,461

FINANCIAL ASSETS (Thousand euros)	31/12/2016				TOTAL
	Financial assets held for trading	Available-for- sale financial assets	Loans and other receivables	Held-to- maturity investments	
Equity instruments	-	13,145	-	-	13,145
Other financial assets	-	-	712	908	1,620
Non-current	-	13,145	712	908	14,765
Equity instruments	554	-	-	-	554
Derivatives	1,641	-	-	-	1,641
Other financial assets	-	-	2	88	89
Current	2,195	-	2	88	2,284
TOTAL	2,195	13,145	714	996	17,049

“Equity instruments” in 2017 mainly includes minority shareholdings in companies in the board manufacturing sector and shares in listed companies in secondary markets. In 2016, the Group acquired shares in listed companies (almost all in the IBEX35) for the sum of 10,397 thousand euros as a result of the merger with Harpalus, S.L. These shares were sold in 2017 with a capital gain of 4,106 thousand euros. The change in the financial assets available for sale is as follows:

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Available-for-sale financial assets	Thousand euros	
	2017	2016
Balance at 1 January	13,145	577
Business combinations	(9)	10,397
Revaluation	1,887	2,219
Transfer to profit or loss	(4,106)	-
De-registrations	(10,349)	(48)
Balance at 31 December	568	13,145

"Current and non-current investments held to maturity" in 2017 and 2016 contains term deposits, guarantees and other financial assets with an explicit maturity.

Non-current "Loans and receivables" mainly includes the non-current maturities of loans granted by Europac Papeterie de Rouen, S.A.S. and Europac Cartonnerie de Rouen, S.A.S. to French public bodies for social purposes pursuant to prevailing legislation.

10.- INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The Group holds investments in unlisted Spanish-resident associates which are not listed on the stock exchange and which are accounted for using the equity method. The breakdown of these companies and the percentage shareholdings which Europac directly or indirectly holds is as follows:

Investments accounted for using the equity method	% shareholding	
	2017	2016
Cartonajes Santander, S.L.	39.6%	39.6%
Cartonajes Cantabria, S.L.	39.6%	39.6%
Industria Cartonera Asturiana, S.L.	39.6%	39.6%
Euskocarton, S.L.	39.6%	39.6%
Vianaport - Empresa de Trabalho Portuario, Lda.	-	50.0%

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

The changes in these investments in 2017 and 2016 are as follows:

Changes in investments accounted for using the equity method		
	Thousand euros	
	2017	2016
Balance at 1 January	1,693	1,639
Changes in the consolidation scope	(17)	-
Changes recognised in equity	-	(61)
Share in profit/(loss)	369	115
Balance at 31 December	2,045	1,693

Changes in the consolidation scope correspond to the disposal of the shareholding in the company Vianaport-Empresa de Trabalho Portuario, Lda.

The main aggregate figures for the companies accounted for using the equity method are as follows:

Año	Activos	Pasivos	Patrimonio neto	Ingresos Ordinarios	Beneficios/ Pérdidas	Participación en resultado
2017	7.200	1.893	5.308	5.006	506	200
2016	6.288	1.341	4.947	5.887	292	116

11.- INVENTORIES

The breakdown of this consolidated balance sheet heading is as follows:

Inventories	Thousand Euros	
	2017	2016
- For resale	908	712
- Raw materials and other supplies	63,702	59,355
- Work in progress and semi-finished goods	802	807
- Finished products	22,698	18,279
TOTAL INVENTORIES	88,110	79,152

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The directors of the parent company believe that the insurance arranged by the consolidated Group adequately covers the risk to which its inventories may be exposed.

There are no material commitments to purchase inventories at the 2017 and 2016 reporting dates.

The impairment losses at 31 December 2017 amount to 2,796 thousand euros (2,294 thousand euros at 31 December 2016).

12.- TRADE AND OTHER RECEIVABLES

The breakdown of this heading is as follows:

Trade and other receivables	Thousand Euros	
	2017	2016
- Trade receivables	61,557	56,751
- Receivables	4,894	18,777
- Impairment and bad debt provisions	(5,900)	(7,256)
Total trade and other receivables	60,552	68,272
- Public Authorities	13,811	19,251
- Current Tax Assets	3,026	693
TOTAL	77,389	88,217

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Changes in the provision for impairment and bad debt in 2017 and 2016 are as follows:

Changes in impairment provision	Thousand Euros	
	2017	2016
Balance at 1 January	7,256	14,755
Changes in the consolidation scope	669	-
Provisions / (Reversals) for the year (Note 22)	(418)	587
Applications	(1,608)	(8,086)
Balance at 31 December	5,900	7,256

The Group's exposure to credit risk is mainly attributable to the receivables arriving in the ordinary course of business (Note 26). Amounts stated in the balance sheet are shown net of the impairment losses on trade receivables and doubtful debts, which were recorded by the Group in accordance with its experience, having regard to expected performance and the economic circumstances prevailing at the reporting date.

The Group has factored without recourse certain receivables for sales of goods and services. Since the risks associated with these receivables have been substantially transferred, the balance of these receivables (with the non-due balance at 31 December 2017 and 2016 amounting to 61,386 and 59,682 thousand euros) was written off the Group's consolidated balance sheet at 31 December 2017 and 31 December 2017 (Note 16).

In June 2003, the Group brought an ordinary executive action against the company Empresa de Desenvolvimento e Infraestruturas do Alqueva, S.A. ("EDIA") for collection of a right to collect compensation for the expropriation of the production unit of Portucel Recicla, which was flooded in the construction of the Alqueva dam (Portugal). The ordinary enforcement action led to various actions before different courts, which concluded with the Judgement of the Supreme Court of Justice of Portugal on 14 December 2016 in favour of the Group. As a consequence of said judgement, EDIA paid the Company a total of 14,134 thousand euros in 2017 as principal plus interest accrued from 31 July 2002 to 27 March 2017. Said amount is recorded as part of the balance of "Receivables" at 31 December 2016.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Receivables from public authorities as at 31 December 2016 and 2015 are as follows:

Public authorities	Thousand Euros	
	2017	2016
- VAT refundable	3,703	9,514
- Other receivables from tax authorities	10,108	9,737
TOTAL	13,811	19,251

As at 31 December 2017 and 31 December 2016, there were no indications that the usual collection periods for the balances included under outstanding trade receivables will not be met.

Trade and other receivables not covered by provisions at 31 December 2017 and 2016 broken down by age are as follows:

	Thousand Euros	
	2017	2016
Not due	49,910	57,713
Due		
1-30 days	9,924	10,025
31-60 days	344	184
61-90 days	63	95
+ 91 days	310	254
Total due	10,641	10,559
Total unimpaired trade and other receivables	60,551	68,272

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

13.- CASH AND CASH EQUIVALENTS

The breakdown of this heading as at 31 December 2017 and 2016 is as follows:

Cash and cash equivalents	Thousand Euros	
	2017	2016
- Cash at bank and in hand	56,207	50,627
- Cash equivalents	29,293	44,141
TOTAL	85,500	94,768

The balance under Cash at bank and in hand is kept in current accounts denominated in euros, which accrue the market interest rate for this type of account.

The "Cash equivalents" are fully denominated in euros and made up of bank deposits and similar highly-liquid investments, which mature in the first quarter of the year following the reporting date.

There are no restrictions on the availability of such balances.

14.- NET EQUITY

The composition and changes of equity are disclosed in the statement of changes in equity.

a) Share capital

The changes in the number of the parent company's outstanding shares in 2017 and 2016 are as follows:

Changes in outstanding shares	2017	2016
At 1 January	97,368,366	93,623,429
Capital increases		
- Charged to reserves and share premium	3,816,839	3,744,937
Capital reduction	(1,947,368)	
At 31 December	99,237,837	97,368,366

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The General Shareholders' Meeting held on 24 June 2015 delegated powers to the board of directors for a period of five years, with an attached ability to further delegate, to increase capital on one or several occasions and up to half of the share capital, with an attached power to bar the exercise of pre-emption rights, and to change the wording of the final article of the Articles of Association, rendering null and void the authorisation conferred by the General Shareholders' Meeting held on 7 June 2011.

At 31 December 2016, the capital of the parent company comprised 97,368,366 shares, each with a par value of two euros, fully subscribed and paid up.

On 28 June 2017, the parent company approved a capital increase charged to unrestricted reserves, with the free allocation of one new share for 25 old shares.

On 18 October 2017, the parent company carried out a capital reduction through the amortisation of 1,947,368 treasury shares, which led to a reduction in the capital of 3,894 thousand euros and voluntary reserves of 8,536 thousand euros, as well as a reduction in shares and equity of 12,430 thousand euros.

Therefore, at 31 December 2017, the capital comprised 99.237.837 shares, each with a par value of two euros.

There are no restrictions on the free transfer of the parent company's shares or preference shares.

The breakdown of the significant shareholders owning more than 5% of the capital of the parent company at 31 December 2017 and 2016 is as follows:

Shareholders	2017	2016
Cartera Industrial REA, S.A.	-	6.6%
Angel Fernández González	6.4%	6.4%
Norges Bank	5.0%	5.0%
Onchena S.L.	5.0%	5.0%
Jose Miguel Isidro Rincón	5.7%	5.5%
Carmen Ybarra Careaga	5.1%	5.1%
Treasury stock	5.5%	6.2%
Other	<u>67.3%</u>	<u>60.2%</u>
Total	100.0%	100.0%

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

b) Reserves

The breakdown of the Group's reserves is as follows:

Reserves	Thousand Euros	
	2017	2016
Legal reserve	25,929	20,439
Reserve for treasury stock	34,370	38,013
Retained earnings and other reserves	103,625	103,755
TOTAL	163,924	162,207

Pursuant to Article 274 of the Capital Companies Act (Ley de Sociedades de Capital), the parent company must appropriate 10% of earnings for the year to a legal reserve until such reserve reaches an amount equal to 20% of capital. This reserve is not distributable to shareholders. If no other reserves are available, it may be used to offset losses. In certain circumstances, the reserve may be used to increase capital to the extent that it would exceed 10% of capital after such increase.

Under Article 273(4) of the Capital Companies Act, the entity must institute a restricted reserve in an amount equal to the goodwill recognised on the asset side of its individual balance sheet, funded by earnings allocated at a rate of at least five percent of such goodwill per annum. If earnings are absent or insufficient for the purpose, the entity must use its unrestricted reserves. The reserves for goodwill, in accordance with Royal Decree 602/2016, were transferred in 2016 to voluntary reserves while the amount exceeding the registered goodwill will be unrestricted.

The parent company's Treasury stock reserve is maintained for the purpose of compliance with Article 148 (c) of the Capital Companies Act, which prescribes rules on Treasury stock. This reserve is restricted.

"Retained earnings and other reserves" chiefly comprises the parent company's voluntary reserves, the reserves of fully consolidated entities, the reserves of entities accounted for using the equity method and consolidated profit or loss for the year. The parent company's voluntary reserves, which stood at 20,733 thousand euros and 12,917 thousand euros at 31 December 2017 and 2016 respectively, are unrestricted, subject to the exceptions under Articles 273 and 274 of the Capital Companies Act, as well as an amount of 2,347 thousand euros as at 31 December 2017 from the reserves for goodwill.

c) Treasury shares

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The breakdown of this heading as at 31 December 2017 and 2016 is as follows:

Treasury shares	Thousand Euros	
	2017	2016
Treasury shares of the parent company	34,370	38,013
TOTAL	34,370	38,013

As a consequence of the merger with Harpalus, S.L. in 2016 (Note 6), a significant package of treasury shares of the parent company has been acquired in addition to those already held. Accordingly, at 31 December 2017 and 2016, the parent company held 5,348,608 and 6,021,697 treasury shares, respectively, representing 5.48% and 6.18% of its share capital, respectively.

Gains/ (losses) on disposal of treasury shares amounted to 3 thousand euros in 2017 and 2 thousand euros in 2016. These gains (losses) are charged or credited to the company's voluntary reserves (see "Other income and expenses recognised directly in equity" in the statement of recognised income and expenses for the year).

d) Other equity instruments

On 29 June 2016, Europac's General Shareholders' Meeting approved a share option plan for executives, envisaged as a variable remuneration system consisting of the delivery of shares over a multi-annual period with the aim of contributing towards increasing the value of the Company, and thus the sustainability of profits and their long-term positioning. The plan has the following conditions:

- Duration of three years, starting on 1 January 2016 and ending on 31 December 2018, with it being a mandatory condition for the beneficiaries to remain in the plan until the end of the three-year period.
- A maximum of 2,629,410 shares will be given in total to the beneficiaries depending on a series of parameters linked to the theoretical value of the Company, determined by a formula that takes into account, *inter alia*, the level of sales, net debt and EBITDA of the Group in each one of the three years.

On 31 December 2017, the Company recorded a personnel expense, charged to "Other equity instruments" for the sum of 3,900 thousand euros in 2017 (2,321 thousand euros in 2016), corresponding to a personnel expense recorded for services rendered by the beneficiaries of the plan.

The valuation of the plan for the year ending on 31 December 2017 and 2016 was carried out by considering the share price at the date the plan was granted and compliance with the aim of the theoretical value of the Company of 100% and 90% respectively.

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

e) Dividends

On 31 January 2017, the Board of Directors of the parent company agreed to distribute an interim dividend on 2016 profits for the sum of 8,673 thousand euros, representing a gross amount of 0.0951 euros per share.

On 28 June 2017, the General Shareholders' Meeting of the parent company approved a share dividend for the sum of 28,897 thousand euros charged to profits from 2016, representing 0.318 euros per share.

On 22 January 2016, the parent company's board of directors agreed a resolution to pay an interim dividend on 2015 profits of 4,799 thousand euros, representing a gross amount of 0.0531 euros per share.

On 29 June 2016, the parent company's General Shareholders' Meeting agreed to pay out a dividend of 16,224 thousand euros charged to 2015 profits, representing 0.179 euros per share.

15.- EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the company's ordinary shareholders by the average weighted number of outstanding ordinary shares during the period, excluding Treasury stock.

The breakdown of the calculation of basic earnings per share, as well as the average number of outstanding ordinary shares is as follows:

Basic earnings per share	Thousand Euros	
	2017	2016
Profit for the year attributable to equity holders of the parent company	77,963	48,901
Weighted average	91,994,093	89,448,549
Basic earnings per share (€/share)	0.847	0.547

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Average number of outstanding ordinary shares	Number of shares	
	2017	2016
Outstanding ordinary shares at the start of the period	97,368,366	93,623,429
Average effect of treasury shares	(6,074,898)	(4,636,585)
Average effect of issued shares	700,625	461,705
Weighted average number of outstanding ordinary shares at 31/12	91,994,093	89,448,549

b) Diluted earnings per share

Diluted earnings per share amounts are calculated by adjusting the profit attributable to equity holders of the parent company by the weighted average common stock outstanding in respect of all dilutive effects of potential ordinary shares, i.e., as if all potentially dilutive ordinary shares had been converted.

The parent company does not have different classes of potentially diluting ordinary shares at a material level.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

16.- FINANCIAL LIABILITIES

The breakdown of the carrying amount of financial liabilities recorded by the Group is as follows:

<u>31/12/2017</u>				
FINANCIAL LIABILITIES (Thousand euros)	Financial liabilities at fair value through profit and loss	Trade and other payables	Hedging derivatives	Total
Bank borrowings	-	301,999	-	301,999
Derivatives	309	-	452	761
Other financial liabilities (Note 16.)	-	13,126	-	13,126
Non-current financial liabilities	309	315,125	452	315,886
Bank borrowings	-	16,473	-	16,473
Other financial liabilities	-	25,900	-	25,900
Current financial liabilities	-	42,373	-	42,373
TOTAL	309	357,498	452	358,259

<u>31/12/2016</u>				
FINANCIAL LIABILITIES (Thousand euros)	Financial liabilities at fair value through profit and loss	Trade and other payables	Hedging derivatives	Total
Bank borrowings	-	329,821	-	329,821
Derivatives	777	-	1,104	1,882
Other financial liabilities (Note 16.)	-	45,281	-	45,281
Non-current financial liabilities	777	375,102	1,104	376,984
Bank borrowings	-	32,221	-	32,221
Other financial liabilities	-	28,271	-	28,271
Current financial liabilities	-	60,492	-	60,492
TOTAL	777	435,594	1,104	437,476

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

a) Bank borrowings

"Bank borrowings" mainly comprises loans, balances drawn down from bank credit facilities and finance leases.

	Thousand euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Syndicated loan	12,500	-
Credit facilities	514	131
Other loans	2,291	30,529
Finance leases	264	161
Total current loans and credit facilities	15,569	30,822
Short-term interest with banks	904	1,400
Current bank borrowings	16,473	32,221
Syndicated loan	268,125	290,000
Other loans	38,136	44,439
Finance leases	107	455
Total non-current loans and credit facilities	306,368	334,895
Deferred finance expenses	(4,369)	(5,073)
Non-current bank borrowings	301,999	329,821

Syndicated loan

On 16 February 2012, the parent company entered into a Forward Start Facility for up to 253 million euros, of which 166 million euros comprised a loan and 87 million euros related to a revolving credit facility, both for five years with partial maturities. The sole purpose of the Forward Start Facility is to partly re-finance the existing syndicated loan. The rate of interest was indexed to Euribor, plus a spread of 3.25%. On 24 July 2014, the company signed a novation of the Forward Start Facility with the corresponding banks, which essentially involved deferring all outstanding due dates on the novation date by two years. The spread for this borrowing was reduced to 2.5% throughout the remaining life of the loan.

On 10 July 2015, the parent company refinanced its syndicated borrowings by increasing the amount of the financing to 290 million euros and extending the outstanding maturities on the novation date by two years up to 10 July 2021, with an annual interest rate indexed to the Euribor plus a margin of between 140 and 175 basis points depending on compliance with certain ratios.

On 28 December 2016, the parent company signed an amendatory non-extinctive novation of this syndicated borrowing whereby the maturity date is extended to 10 July 2022 and its interest index

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

to Euribor plus a margin of between 120 and 155 basis points depending on compliance with certain ratios.

In 2016, the Group performed the corresponding analysis of the loan novation, concluding that it is a debt restructuring and therefore has no impact on the 2016 income statement.

At 31 December 2017, the balance of the syndicated loan amounted to 281 million euros (290 million euros in 2016).

Other loans and finance leases

The Group has entered into other bilateral loans and financial leases with banks in order to finance its investments. These loans amounted to 33.8 million euros at 31 December 2017 (69.6 million euros at 31 December 2016).

Almost all such borrowings are indexed to the Euribor and in 2017 and 2016 they bore interest at an average rate of 1.39% and 2.2%, respectively.

The Group acquired the use of certain assets under finance leases with financial institutions (Note 2.24), the net carrying amount of which at 31 December 2017 and 2016 is disclosed in Note 5 to these consolidated Financial Statements.

Credit facilities

The Group has credit facilities available with financial institutions in order to finance its operations. At 31 December 2017 and 2016, the Group had a contractual credit limit of 50,853 thousand euros and 55,253 thousand euros, of which 267 thousand euros and 411 thousand euros had been drawn down at 31 December 2017 and 2016, respectively. All credit facilities are indexed to the Euribor and the average finance cost was 0.75% and 1.6% in 2017 and 2016, respectively.

Factoring contracts

The group has non-recourse factoring contracts in place with certain financial institutions. The contractual limit of transferable receivables amounted to 102 million euros and 112 million euros at 31 December 2017 and 2016, respectively, of which 61 million euros and 60 million euros had been transferred at 31 December 2017 and 2016, respectively. All these contracts are indexed to the Euribor, with a spread of between 0.3% and 0.5% in 2017 and 2016.

b) Bonds and other negotiable securities

In 2014, the Group set up a commercial paper issue programme on the MARF (Alternative Fixed-Income Market) for a maximum of 50 million euros. This programme aims to reduce finance costs and diversify the sources of financing. In 2017, this programme was renewed and the maximum amount increased to 100 million euros.

In 2017, the Group carried out issues for an average annual amount of 28 million euros at an average cost of 0.7% (9 million euros with an average cost of 0.9% in 2016), with no outstanding balance at the end of said years.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

c) Maturities of the borrowings

The maturity schedule of non-current bank borrowings is as follows:

	Thousand euros			
	<u>31/12/2017</u>		<u>31/12/2016</u>	
2019	32,335		2018	21,946
2020	54,476		2019	36,489
2021	47,796		2020	40,144
2022	171,322		2021	52,811
2023 and other	438		2022 and other	183,504
Total non-current loans and credit facilities	306,368			334,894
Discount to present value	(4,369)			(5,073)
Total balance sheet item	301,999			329,821

All Group borrowings are euro-denominated.

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

d) Derivative financial derivatives

The Group uses derivative financial instruments to hedge volatility risks associated with the floating interest rates borne by its major financial liabilities. The derivative instruments held by the Europac Group in 2017 are shown below.

Type of derivative instrument	Hedged financial instrument	Contract date / hedge designation	Floating interest rate	Fixed interest rate	Strike Price	Notional (thousand euros)		Maturity	Accounting hedge
						31/12/2016	31/12/2017		
Vanilla floating-fixed swap	Syndicated loan	31/07/2012	E3M	0.72% to 1.28%	-	43,521	-	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	14/12/2012	E3M	0.860%	-	6,148	-	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	18/02/2013	E3M	0.71% to 1.30%	-	95,619	-	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	01/04/2016	E3M	0.0075% to 0.016%	-	133,438	124,688	12/07/2021	no
Vanilla floating-fixed swap	Loan	06/03/2013	E6M	0.980%	-	35,714	-	15/03/2017	yes
Vanilla floating-fixed swap	Cancelled		E6M	0.480%	-	15,200	10,400	08/08/2018	no
Vanilla floating-fixed swap	Loan	14/11/2014	E3M	0.480%	-	20,000	18,571	07/02/2020	yes
Gas formula swap	Gas futures purchases	22/11/2016	N/A	N/A	€18.68 /MWh	24,814	-	31/12/2017	no
Exchange rate forwards	Future purchases pounds	07/06/2017	N/A	N/A	GBP 0.896 /€	-	3,624	25/01/2021	yes
Exchange rate forwards	Future purchases pounds	06/06/2017	N/A	N/A	GBP 0.883 /€	-	4,535	25/10/2022	yes

The breakdown of the fair value of the financial instruments taken out by the Group, as well as the effect on the Income Statement and on Equity of changes in their value is shown below:

Derivative financial derivatives (thousand euros)	Fair Value		Income statement		Income and expenses recognised in other comprehensive income	
	2017	2016	2017	2016	2017	2016
Interest-rate derivatives	(452)	(1,104)	46	281	79	2,914
Speculative derivatives	(309)	863	(1,172)	1,604	-	-
TOTAL	(761)	(241)	(1,126)	1,885	79	2,914

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

e) Other financial liabilities

The breakdown of "Other financial liabilities" in 2017 and 2016 is as follows:

	Thousand Euros	
	2017	2016
Other financial liabilities		
Non-current payables to fixed asset suppliers	12,997	12,984
Other	129	32,296
Total non-current	13,126	45,281
Current payables to fixed asset suppliers	25,900	22,108
Other payables	-	6,163
Total Current	25,900	28,271

"Other" in "Other non-current financial liabilities" mainly includes the maturities at more than one year of a loan of 40 million euros granted by the Agency for Business Innovation, Funding and Internationalisation of Castile Leon (ADE). This loan was repaid early in February 2017.

"Non-current payables to fixed assets suppliers" includes amounts payable to suppliers of investments falling due after one year.

The breakdown of the due dates of "Other long-term financial liabilities" is as follows:

Maturity	Thousand euros			
	<u>31/12/2017</u>		<u>31/12/2016</u>	
2019	6,814	2018	11,452	
2020	4,456	2019	10,562	
2021	2,010	2020	8,878	
2022	1,408	2021	16,654	
2023 and other	29	2022 and other	-	
Total non-current	14,717		47,546	
Deferred finance costs	(1,591)		(2,265)	
Total balance sheet item	13,126		45,281	

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The finance costs of "Other financial liabilities" have been estimated by applying the effective interest rate method.

f) Fair value

Given that almost all the Group's financial liabilities bear interest at benchmark rates, it is believed that the fair value of such liabilities is not materially different from their carrying amount (Note 4).

17.- NON-CURRENT PROVISIONS

The breakdown and changes under this heading for 2017 and 2016 are shown below:

(Thousand euros)					
Non-current provisions	31/12/2016	Taken to profit or loss	Taken to Equity	Uses	31/12/2017
Provisions for commitments to employees	16,247	611	(1,016)	(830)	15,012
Provisions for taxes		-	-	-	524
Other provisions	67	-	-	(49)	18
Total provisions	16,838	611	(1,016)	(879)	15,554

(Thousand euros)					
Non-current provisions	31/12/2015	Additions	Taken to Equity	Uses	31/12/2016
Provisions for commitments to employees	14,109	770	2,124	(755)	16,247
Provisions for taxes	524	-	-	-	524
Other provisions	187	-	-	(120)	67
Total provisions	16,570	770	2,124	(875)	16,838

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Provisions for commitments to employees

The heading "Provisions for commitments to employees" is described in detail below. The breakdown of this heading at 31 December 2017 and 2016 is as follows:

Provisions for commitments to employees	Thousand euros	
	2017	2016
Defined benefit plans:		
Pension supplements with allocated funds	6,161	7,010
Retirement bonuses	8,255	8,626
Other long-term benefits		
Non-service bonuses	596	611
TOTAL	15,012	16,247

"Defined-benefit plans, pension supplements with allocated funds" reflects the extent to which the value of assets allocated to Group pension funds falls short of covering the present value of the Group's defined benefit pension liabilities (Note 2.20).

"Defined-benefit plans, retirement bonuses" comprises the present value of obligations to pay retirement bonuses at the companies Europac Papeterie de Rouen, S.A.S., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S. and Europac Cartonnerie Savoie, S.A.S. (Note 2.20).

"Other long-term benefits" includes the present value of long-service bonuses accrued by current employees of Europac Papeterie de Rouen, S.A., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S. and Europac Cartonnerie Savoie, S.A.S.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The breakdown of the movements in provisions for commitments to employees is as follows:

Changes in provisions for commitments to employees	Defined benefit plans	Other long-term benefits	Total
Balance at 31 December 2015	13,516	593	14,109
Expense/(income) for the year	703	67	770
Payment of remuneration in plans without allocated funds	(419)	(49)	(467)
Contributions made to plans with allocated funds	(288)	-	(288)
Actuarial differences recognised in equity	2,124	-	2,124
	-	-	-
Balance at 31 December 2016	15,636	611	16,247
Expense/(income) for the year	617	(6)	611
Payment of remuneration in plans without allocated funds	(470)	(9)	(479)
Contributions made to plans with allocated funds	(351)	-	(351)
Actuarial differences recognised in equity	(1,016)	-	(1,016)
Balance at 31 December 2017	14,416	596	15,012

The Group's post-employment benefit plans are briefly described below:

a) Defined contribution pension plans

The subsidiaries Europac Portugal SGPS, S.A., Europac Embalagem, S.A., and Europac Kraft Viana, S.A. are bound by commitments to pay pension supplements by reason of retirement and disability.

Up to 13 July 2007, those entities had maintained defined-benefit pension funds for their employees. On that date, in response to the incorporation of the *Instituto de Seguros de Portugal* [Portuguese Insurance Institute], the companies modified the contract constituting the pension fund (*Contrato constitutivo do Fundo de Pensões*) to convert those defined-benefit funds into defined contribution funds with reference to persons then employed; defined-benefit funds were kept in place for retired employees and their beneficiaries, and for company directors with vested rights. At the start of the period (1 January 2007), current employees transferred to the defined-contribution pension plan were allocated an initial balance equal to the present value of recognised liabilities as at 31 December 2006. Upon conversion of the fund, the Group also attributed certain additional contributions to some current employees to be made within five years.

These plans cover all persons employed by Europac Portugal SGPS, S.A., Europac Embalagem, S.A., and Europac Kraft Viana, S.A. at 13 July 2007, and persons employed later if they satisfy the terms of subscription.

These companies make monthly contributions to the fund equivalent to a percentage of the salary, which is recorded as an expense when made. In 2017 and 2016, contributions of 94

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

thousand euros and 100 thousand euros, respectively, were made and recognised as an employee benefit expense.

b) Defined-benefit pension plans

In accordance with the modification to the "*Contrato constitutivo do Fundo de Pensões*", current employees are no longer beneficiaries of these plans. The beneficiaries are limited to:

- All retired employees and pensioners who were receiving a pension from the fund on 13 July 2007.
- All the company's directors and former directors having vested rights at 31 December 2006.
- All surviving beneficiaries who, as a result of the death of the above, are entitled to survival pensions provided for under the pension plan.

The terms of the contract referred to above require the entity to guarantee payment to beneficiaries of a monthly retirement or disability pension supplement in accordance with a specific formula, having regard to the present value of the gross monthly basic pay for the employee's occupational category at the date of retirement and for the number of years of service, with a maximum of 30 years.

c) Retirement bonuses

These defined-benefit plans entail payments to employees of a specific amount upon retirement. The amount is estimated with reference to the employee's length of service with the company. All employees of the Group's French companies are covered by these retirement bonuses.

The liabilities arising for services rendered by employees under the defined-benefit plans referred to in paragraphs (b) and (c) above are estimated using actuarial studies conducted by various independent institutions.

Accumulated liabilities at 31 December 2016 and 2017 are calculated on the basis of the following assumptions:

	<u>2017</u>		<u>2016</u>	
	<u>Pension supplements</u>	<u>Retirement bonuses</u>	<u>Pension supplements</u>	<u>Retirement bonuses</u>
Mortality tables	TV 88/90	INSEE 10-12	TV 88/90	INSEE 10-12
Discount rate	1.15%	1.58%	0.90%	1.10%
Wage increase rate	N.A.	1.75%	N.A.	1.75%
Pension increase rate	1.00%	N.A.	1.00%	N.A.
Retirement age:				
Managers	N.A.	65	N.A.	65
Non-managers	N.A.	62	N.A.	62

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

According to the actuarial studies referred to above, the extent of coverage of pension liabilities afforded by the assets allocated to the pension fund, and their reconciliation to the corresponding provision on the balance sheet, are as follows:

Defined benefit plans:	Thousand euros						
	2017			2016			
	Pension supplements	Retirement bonuses	Total	Pension supplements	Retirement bonuses	Total	
Present value of defined benefit plan obligations	(A)	15,839	8,256	24,095	17,276	8,626	25,902
Fair value of pension plan assets	(B)	9,679	N.A.	9,679	10,266	N.A.	10,266
Coverage shortfall	(C)	6,160	8,256	14,416	7,010	8,626	15,636
Coverage percentage	(B)/(A)	61.1%	N.A.	N.A.	59.4%	N.A.	N.A.

Changes in "Present value of defined-benefit plan obligations" and "Fair value of pension plan assets" in 2017 and 2016, and the composition of fund assets and performance of defined-benefit plans, are as follows:

Changes in fair value of pension fund assets (thousand euros)	2017			2016		
	Pension supplements	Retirement bonuses	TOTAL	Pension supplements	Retirement bonuses	TOTAL
	Balance at 1 January	10,266	N.A.	10,266	10,895	N.A.
Interest income	88	N.A.	88	208	N.A.	208
Actuarial gains and (losses)	78	N.A.	78	(116)	N.A.	(116)
Pension supplement payments to employees	(1,097)	N.A.	(1,097)	(1,010)	N.A.	(1,010)
Contributions to fund	344	N.A.	344	288	N.A.	288
Balance at 31 December	9,679	N.A.	9,679	10,266	N.A.	10,266

Changes in present value of defined benefit plan obligations (thousand euros)	2017			2016		
	Pension supplements	Retirement bonuses	TOTAL	Pension supplements	Retirement bonuses	TOTAL
	Balance at 1 January	17,276	8,626	25,902	16,308	8,103
Current service cost	-	460	460	-	427	427
Interest cost	150	94	244	316	164	479
Actuarial gains and (losses)	(490)	(448)	(938)	1,661	347	2,008
Pension supplement payments	(1,097)	(476)	(1,573)	(1,010)	(414)	(1,423)
Balance at 31 December	15,839	8,256	24,095	17,276	8,626	25,902

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Information on plan assets	2017		2016	
	Pension	Retirement	Pension	Retirement
	supplements	bonuses	supplements	bonuses
Percentage of fair value of total assets:				
Equity instruments	5.3%	N.A.	5.4%	N.A.
Debt instruments	73.7%	N.A.	76.4%	N.A.
Cash and cash equivalents	20.0%	N.A.	16.9%	N.A.
Other	1.0%	N.A.	1.3%	N.A.
Total	100.0%	N.A.	100.0%	N.A.
Actual return on assets	1.7%	N.A.	0.9%	N.A.

Gain (loss) of defined benefit plans (thousand euros)	2017			2016		
	Pension	Retirement		Pension	Retirement	
	supplements	bonuses	TOTAL	supplements	bonuses	TOTAL
Current service cost	-	(460)	(460)	-	(427)	(427)
Net interest cost	(63)	(94)	(157)	(108)	(169)	(277)
Recognised income/(expense) in the year	(63)	(554)	(617)	(108)	(596)	(704)

The group estimates that in 2018 it will have to make contributions totalling 401 thousand euros (contributions of 344 thousand euros were estimated in 2017). A summary of the expenses for long-term commitments to employees in 2017 and 2016 is as follows:

Summary of costs relating to long-term commitments to employees	Thousand euros	
	2017	2016
Expense for contributions to defined contribution plans	(166)	(100)
Gain (loss) on defined benefit plans	(617)	(703)
Expenses with former employees (Note 17)	-	(126)
Gain (loss) on other long-term benefits	6	(67)
Pension fund management costs	(7)	(8)
Income/(Expense) for long-term commitments to employees (Note 22)	(784)	(1,003)

The following is a breakdown of the sensitivity analysis for the significant actuarial assumptions (discount rate and salary/pension increases, as the case may be), considering reasonably possible changes in these and showing their effects on the Group's obligations.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Sensitivity analysis of provisions for commitments to employees (thousand euros)	2017			2016		
	Pension	Retirement	TOTAL	Pension	Retirement	TOTAL
	supplements	bonuses		supplements	bonuses	
Sensitivity to discount rate						
+ 0.50%	(773)	(230)	(1,003)	(884)	(466)	(1,350)
- 0.50%	840	468	1,308	964	507	1,471
Sensitivity to increase in wages/pensions						
+ 0.50%	880	448	1,328	1,008	501	1,509
- 0.50%	(809)	(418)	(1,227)	(923)	(466)	(1,389)

The strategies for the correlation between assets and liabilities used to manage risk are described below:

a) Defined benefit pension plans:

The entity that manages the plan has developed a model to analyse the correlation between assets and liabilities under the plan, known as Model ALX, which seeks to determine the suitable composition of a portfolio of financial assets, correlating the nature, risk, duration and profitability of assets, with the average maturity of responsibilities under the plan.

Accordingly, the conclusions of the analysis of the asset and liability correlation under the plan are set out below, which have been fully adopted in the investment policy followed by the pension plan:

Asset and liability correlation strategy	ALX Model			
	Lower	Central	Upper	Investment
	Limit	value	limit	
Shares	0%	0%	5%	5%
Fixed-rate obligations	35%	70%	100%	31%
Floating-rate obligations	10%	25%	40%	62%
Absolute return	0%	0%	5%	1%
Real estate	0%	0%	5%	1%
Liquidity	0%	5%	100%	0%
TOTAL		100%		100%

b) Retirement benefits:

The Group monitors the liabilities associated with retirement benefits from its French subsidiaries on an annual basis derived from the corresponding actuarial calculations. The

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

Group's management considers that the maximum risks associated with future payments of retirement benefits are limited and quantifiable, and that the potential impact of their occurrence is not material. For this reason, a strategy of correlation between assets and liabilities has not been carried out.

Provisions for taxes

This item reflects additional assessments in 2017 and 2016 and their corresponding late payment penalties and interest, for corporate income tax in respect of 2000 for the company Fábrica de Pape do Ave, S.A. The penalties have been appealed and a final decision is pending (see description in Note 21).

18.- GOVERNMENT GRANTS

This heading includes the grants received from government bodies which have yet to be recorded in the income statement. It also includes a balancing entry for unused greenhouse gas emission allowances assigned by the environmental authorities to the Group free of charge, carried as intangible assets (Note 2.10 (d) and Note 7).

The breakdown of this consolidated balance sheet heading is as follows:

Grants	Thousand euros	
	2017	2016
Government capital grants	5,924	6,562
Total	5,924	6,562

The Group acquired, at no cost, 222,585 emission allowances in 2017 valued at 1,336 thousand euros, compared with 227,043 allowances in 2016 valued at 1,432 thousand euros (Note 7). In 2017, the Group transferred a total of 1,336 thousand euros (1,432 thousand euros in 2016) to the consolidated income statement as revenue under "Grants related to non-financial assets".

In addition, the Group received new capital grants in 2017 in the amount of 337 thousand euros (in 2016 it received 1,006 thousand euros). The amount of the capital grants transferred to profit and loss for the year totalled 974 thousand euros and 1,060 thousand euros in 2017 and 2016, respectively (see "Grants related to non-financial assets" in the consolidated income statement).

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

19.- TRADE AND OTHER PAYABLES

The breakdown is as follows:

Trade and other payables	Thousand Euros	
	2017	2016
Trade payables	192,097	175,068
Other payables	33,555	45,256
Current tax liabilities (Note 21)	7,875	3,108
Total	233,527	223,432

The breakdown of the heading "Other payables" is shown below:

Other payables	Thousand Euros	
	2017	2016
Remuneration payable	16,065	15,616
Personal income tax withholdings	2,243	2,015
Payable to social security agencies	3,333	3,289
Value added tax	8,116	8,661
Other payables	3,798	15,675
Total	33,555	45,256

"Other payables" mainly comprises prepayments from customers and other deferred charges.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

20.- CURRENT PROVISIONS

The breakdown and changes under this heading are shown below:

Current provisions	Thousand Euros			31/12/2017
	31/12/2016	Additions	Uses	
Provision use of CO2 allowances	3,527	3,359	(3,519)	3,366
Provision for restructuring	127	-	(127)	-
Other provisions	16	-	(16)	0
Total provisions	3,670	3,359	(3,662)	3,367

Current provisions	Thousand Euros			31/12/2016
	31/12/2015	Additions	Uses	
Provision use of CO2 allowances	3,899	3,527	(3,899)	3,527
Provision for restructuring	1,129	-	(1,002)	127
Other provisions	27	(11)	-	16
Total provisions	5,056	3,516	(4,901)	3,670

"Provisions for use of CO2 allowances" includes the amount estimated for greenhouse gas emission allowances used in the year (Notes 7 and 22).

21. CORPORATE INCOME TAX

Europac Group companies file annual corporate income tax returns. The profits of the companies resident in Spain, as determined under tax law, are taxable at a rate of 25% in 2017. The tax rates applicable to companies resident in Portugal range between 22.5% and 29.5%, while the rate applicable in France stands at 33.3%. Certain deductions, including those for environmental investment, training expenses, job creation and research and development expenses, can be deducted from the tax charge.

Due to the differing treatment of certain transactions permitted by tax law, accounting profit differs from taxable income. The income tax expense is detailed below: A breakdown of the corporate income tax expense is given below:

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

	Thousand Euros	
	2017	2016
Current tax		
For the year	22,290	14,083
Adjustments from prior years	(427)	(2,896)
	21,863	11,187
Deferred taxes		
Origin and reversal of temporary differences in the year	1,043	5,018
Adjustments from prior years	437	2,117
Change in tax rate	-	-
	1,480	7,134
Tax expense	23,343	18,321

The reconciliation between the tax expense and the accounting profit/loss is as follows:

	Thousand Euros	
	2017	2016
Profit before tax from continuing activities	101,306	67,222
Permanent differences		
From individual companies	(12,537)	(1,525)
From consolidation adjustments	(11,004)	(115)
Deductions and bonuses applied, not recognised in prior years	(5,615)	(3,260)
Unrecognised/off-balance-sheet tax credits	17,049	10,716
Total permanent differences	(12,107)	5,816
Adjusted profit (loss)	89,199	73,038
Parent company tax rate	25%	25%
Expected expense at parent company tax rate	22,300	18,260
Notional tax rate differences at foreign companies	1,034	841
Deferred tax rate difference owing to change of rate	-	-
Adjustments from prior years and other items	9	(780)
Tax expense	23,343	18,321

The permanent differences for the financial year 2017 correspond mainly to the difference between the tax and accounting value of the capital gains generated for the sale of the subsidiary companies (Note 1) and listed shares (Note 9).

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The fiscal credits generated and no activated correspond to the tax losses generated for the French subsidiary companies, as well as the Moroccan subsidiary company until its date of exclusion from the consolidation scope.

The breakdown of the current income tax liabilities is as follows:

Current tax assets/(liabilities)	Thousand Euros	
	2017	2016
Current tax year	(22,290)	(14,083)
Payments on account and withholdings	17,441	11,668
Current tax assets/(liabilities)	(4,849)	(2,415)

Changes in deferred tax assets and liabilities, calculated in accordance with the accounting principles specified in Note 2.18, are as follows:

Changes in deferred taxes in 2017	Thousand Euros				
	31/12/2016	Change in scope	Recognised against Earnings	Equity	31/12/2017
Deferred tax assets					
Tax losses		-	(2,278)	-	34,577
Tax deductions	1,029	-	(1,029)	-	-
Share-based payment transactions	580	-	975	-	1,555
Differences between tax and accounting assets	4,739	476	(284)	-	4,932
Provisions for commitments to employees	3,868	-	(41)	(298)	3,529
Provision for restructuring	-	-	-	-	-
Provisions for impairment of current assets and bad debt	710	-	61	-	771
Provision for impairment of non-current assets	115	-	7	-	122
Other provisions	33	-	(33)	-	-
Derivative financial derivatives	133	-	0	(17)	116
Other	217	-	(38)	-	179
TOTAL	48,281	476	(2,660)	(315)	45,782
Deferred tax liabilities					
Differences between tax and accounting assets	60,484	148	(834)	-	59,651
Other	1,266	-	(346)	(555)	365
TOTAL	61,750	148	(1,180)	(555)	60,015

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Changes in deferred taxes in 2016	Thousand Euros				
	31/12/2015	Change in scope	Recognised against Earnings	Recognised against Equity	31/12/2016
Deferred tax assets					
Tax losses	40,912	2,767	(6,823)	-	36,855
Tax deductions	-	3,697	(2,669)	-	1,029
Share-based payment transactions	-	-	580	-	580
Differences between tax and accounting assets	2,256	-	2,483	-	4,739
Provisions for commitments to employees	3,272	-	45	550	3,868
Provision for restructuring	254	-	(254)	-	-
Provisions for impairment of current assets and bad debt	1,016	-	(306)	-	710
Provision for impairment of non-current assets	115	-	(0)	-	115
Other provisions	45	-	(11)	-	33
Derivative financial derivatives	861	-	(0)	(729)	133
Other	406	-	(189)	-	217
TOTAL	49,139	6,464	(7,144)	(178)	48,281
Deferred tax liabilities					
Differences between tax and accounting assets	60,616	-	(132)	-	60,484
Other	589	-	123	555	1,266
TOTAL	61,205	-	(9)	555	61,750

The breakdown at 31 December 2017 and 2016 of the tax loss carryforwards of the Group's companies, as well as the deadline for them to be offset, is as follows:

Tax loss carryforwards (Thousand euros)	31/12/2017		31/12/2016		
	Expiry date for offsetting	Base	Deferred tax	Base	Deferred tax
No limit	110,337	34,577	119,449	36,855	
	110,337	34,577	119,449	36,855	

In addition, at 31 December 2017, the Group had unrecognised tax loss carryforwards in its assets in the amount of 35,922 thousand euros (23,603 thousand euros at 31 December 2016), almost all of which have no expiry date.

Similarly, the Group has deductions in the tax payable pending offsetting for 3,051 thousand euros that are not recognised as deferred tax assets. The expiry date for offsetting said deductions is:

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Deductions in the tax payable pending offsetting (Thousand euros)		
Expiry date for offsetting	2017	2016
In 5 years	275	-
Between 6 and 10 years	1,012	2,356
Between 11 and 20 years	912	912
No limit	852	1,156
TOTAL	3,051	4,424
Recognised amount	-	1,029
Unrecognised amount	3,051	3,395
TOTAL	3,051	4,424

These deductions mainly belong to the parent company and principally relate to investments, training expenses, research and development, environmental expenses, reinvestment and double taxation.

The parent company pays tax under the tax consolidation system together with its Spanish subsidiary Europac Recicla, S.A.

The Portuguese subsidiaries Europa&c Portugal SGPS, S.A., Europa&c Cartão Ovar, S.A., Lepe, Empresa Portuguesa de Embalagens, S.A., Europa&c Embalagem, S.A., Europa&c Kraft Viana, S.A., Europa&c Energia Viana, S.A., Europa&c Recicla Portugal, S.A., Europa&c Distribuição da Madeira, Lda. and Greenfrequency Energia, S.A. use the tax consolidation scope for the purposes of Portuguese corporate income tax and pay tax according to the Special Tax Regime of Group Companies.

Similarly, the companies Europac Papeterie de Rouen, S.A.S., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S., Europac Cartonnerie Savoie, S.A.S. and SCI Europac, S.C. have used the tax consolidation scope in France as from 1 January 2010 for the purpose of paying corporate income tax in France.

The deferred assets and liabilities recognised by tax jurisdiction are as follows:

Deferred tax assets and liabilities by tax jurisdiction (thousand euros)				
	Spanish tax group	Portuguese tax group	French tax group	TOTAL
Tax losses	6,599	-	27,979	34,578
Temporary differences	4,229	1,963	5,012	11,205
Deferred tax assets	10,828	1,963	32,991	45,782
Deferred tax liabilities		27,693	30,154	60,015

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

The time horizon for using the taxable bases is 10 years.

Pursuant to prevailing tax legislation, taxation cannot be considered to be definitively settled until the returns have been inspected by the competent tax authorities or when they become time-barred. At the date of preparation of these financial statements of the parent company, the years 2014 to 2017 (both inclusive) remain open for inspection for all those taxes applicable to the parent company except the Special Electricity Tax, whereby the company is open for tax inspection for the years 2014 to 2017. Due to the different possible interpretations of applicable tax legislation and of the results of future inspections, tax liabilities of a contingent nature may exist; however, the Company directors consider that in the event of their existence, this would not significantly affect the Consolidated financial statements.

The subsidiary Europac Kraft Viana received an additional settlement from the Portuguese tax authorities, as a result of a Corporate Income Tax inspection for the year 2000 relating to the latter not accepting the use as from that year of the intensive regime applicable to the amortisation of part of its property, plant and equipment provided for under Article 9 of "Decreto Regulamentar" no. 2/90 of 12 June. In 2003, in accordance with "Decreto-lei" no. 248-A/2002, the company paid out the additional settlement, amounting to 2.4 million euros (Note 12). In addition, in 2004, the Group received additional settlements from the tax authorities relating to the same situation for the years 2001 and 2002 for sums of approximately 2.5 and 1.4 million euros respectively. In 2008, the Group received additional settlements from the tax authorities for the years 2004, 2005 and 2006 for the sums of 0.9, 0.8 and 0.4 million euros. On 27 December 2010, the Portuguese tax authorities undertook an inspection of the year 2007. The Group's directors and legal advisers consider that the basis of the additional settlements presented by the Portuguese tax authorities do not adhere to Portuguese tax legislation, to which end these have been appealed against in the courts. In January 2008, the Administrative and Fiscal Court ruled in favour of the Group in relation to the additional settlement appealed against by the Group regarding the use of the intensive regime applicable to the amortisation of part of its property, plant and equipment in the year 2000. This ruling was appealed against by the Portuguese tax authorities before the Central Administrative Court. In 2011, this court ruled in favour of the Group. This ruling is binding as it was not appealed against by the Portuguese authorities within the legal term and led to the reimbursement by the authorities to the Group of the additional settlements made. In August 2012, the Administrative and Fiscal Court ruled in favour of the Group on the additional settlement appealed against by the Group on the amortisation of part of its property, plant and equipment under the intensive regime in 2002. This ruling was not appealed against by the Portuguese authorities and hence is a binding ruling. In 2013, witnesses gave testimony as to the processes relating to the years 2004, 2005 and 2006.

The subsidiary Europac Embalagem received in 2003, as a result of a tax inspection corresponding to the year 2001 a notification from the tax authorities in relation to the tax deduction of capital losses in the sale of all of the shares of Lepe – Empresa Portuguesa de Embalagens, S.A. Europac Portugal, S.A. Consequently, the Group received an additional settlement from the Portuguese tax authorities in 2005 for approximately 3 million euros. The Group's directors and legal advisers consider that the basis for the additional settlements presented by the Portuguese tax authorities do not adhere to Portuguese tax legislation, and have been appealed against through the courts, and consequently have not been recorded under any provision in the Consolidated financial statements.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

In 2008, the Group paid the Portuguese tax authorities a sum of 459 thousand euros (Note 12 "Public authorities") by way of additional settlement deriving from a tax inspection on the Tax on Collective Performance (Corporate Income Tax) for the year 2006 of the subsidiary Europac Cartao Ovar, S.A., based on the application of a tax credit in 2000 recorded in the tax return that was not accepted by the authorities. The additional settlement was appealed against by this company before the Portuguese judicial authorities.

22. - REVENUE AND EXPENSES

a) Ordinary revenue

Revenue is broken down by the activities and geographical markets indicated in Note 3, Segment Reporting, in Appendix III.

b) Employee benefits expense

The breakdown of employee remuneration in 2017 and 2016 is as follows:

Expenses for employee remuneration	Thousand euros	
	2017	2016
Wages and salaries	82,938	79,438
Social Security payable by the company	24,514	23,965
Contributions to supplementary pension system (Note 17)	784	1,003
Termination benefits	1,264	2,931
- Share-based payment transactions	3,900	2,321
Other employee welfare expenses	3,852	4,220
TOTAL	117,252	113,878

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The breakdown of the Group's staff, together with the averages, at the 2017 and 2016 reporting dates is as follows:

Europac Group staff	Headcount at year end					
	2017			2016		
	Men	Women	Total	Men	Women	Total
Senior executives and directors	4	2	6	4	2	6
Directors	44	12	56	71	18	89
Graduates (five-year degrees)	96	44	140	144	52	196
Graduates (three-year degrees)	89	61	150	258	65	323
Administrative Staff	66	86	152	69	123	192
Sales representatives	89	96	185	67	47	114
Machine operators	1,489	100	1,589	1,268	78	1,346
Total	1,877	401	2,278	1,881	385	2,266

Europac Group staff	Average headcount					
	2017			2016		
	Men	Women	Total	Men	Women	Total
Senior executives and directors	4	2	6	4	2	6
Directors	44	13	57	84	23	107
Graduates (five-year degrees)	102	42	144	142	48	190
Graduates (three-year degrees)	87	58	145	253	77	330
Administrative Staff	64	85	149	65	126	190
Sales representatives	89	91	180	56	44	100
Machine operators	1,506	104	1,611	1,279	78	1,357
Total	1,895	397	2,292	1,882	396	2,278

During financial year 2017 there were 11 employees with disability greater than 33% (13 during 2016).

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

c) Other operating expenses

The breakdown of "Other operating expenses" is as follows:

Other operating expenses	Thousand Euros	
	2017	2016
Impairment losses on receivables (Note 12)	(418)	587
Provisions	-	(253)
Leases	6,323	6,488
Upkeep and repairs	15,526	13,579
Independent professional services	8,403	7,040
Transport	53,156	50,402
Insurance premiums	2,527	2,795
Supplies	57,997	52,599
Other external services	39,295	34,693
Emission allowance usage expense (Note 7)	3,338	3,395
Taxes	9,336	7,485
Other expenses	2,676	1,129
Total	198,159	179,939

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

d) Impairment and gains (losses) on disposal of assets

The breakdown of this heading is as follows:

Impairment and gains (losses) on disposal of assets	Thousand Euros	
	2017	2016
(Note 5)	(123)	(787)
Gain (loss) on disposal of emission allowances (Note 7)	52	61
Impairment of property, plant and equipment (Note 5)	(299)	737
Impairment of investment property (Note 5)	9	327
Total	(361)	338

Gains and losses in 2017 and 2016 on disposal of property, plant and equipment related to the sale of machinery of the paper and corrugated board divisions.

e) Change in fair value of financial instruments

This item reflects the change in fair value of the financial instruments originally designated as a financial liability through profit or loss and those which are no longer classified as hedges (Note 16), and the change in fair value of available-for-sale equity instruments (Note 9).

f) Finance income and costs

These items include interest income and expenses relating to financial assets and liabilities not recognised at fair value through profit or loss.

The breakdown of finance income and costs as 31 December is as follows:

	Thousand Euros	
	2017	2016
Interest on bank borrowings and bonds and other negotiable securities	7,704	12,230
Interest and commission on factoring contracts	1,002	1,005
Other financial expenses	587	-80
627 Total financial expenses	9,293	13,155

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

	Thousand Euros	
	2017	2016
Interest from loans	90	85
Other finance income	531	3,280
Total finance income	621	3,365

23.- RELATED-PARTY BALANCES AND TRANSACTIONS

Appendix IV to these consolidated financial statements summarises the Group's material balances and transactions with related parties.

The related-party transactions disclosed in these financial statements were notified in six-monthly communications filed with the Spanish securities market regulator (Comisión Nacional del Mercado de Valores).

24. GUARANTEES UNDERTAKEN WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

a) Operating lease commitments

The Group has operating leases on vehicles, IT equipment, forklift trucks and buildings. These leases have an average life of three to five years, with no renewal option included in the contracts. The Group is unrestricted as to the arrangement of such leases.

Future minimum non-cancellable operating lease payments at 31 December are as follows:

	Thousand euros	
	2017	2016
Up to one year	4,187	3,238
Between one and five years	6,793	7,403
Over five years	809	0
Total minimum operating lease payments	11,789	10,641

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

b) Bank and other guarantees given to third parties:

In 2017 and 2016, the Europac Group provided bank guarantees and security to public institutions and private entities to a value of 10,611 thousand euros and 10,833 thousand euros, respectively. Since these guarantees are commercial and financial, they are not expected to give rise to any contingency or loss.

c) Commitments and guarantees securing bank borrowings:

With regard to the syndicated loan for a maximum amount of 290 million euros, six Europac subsidiaries act as joint and several guarantors of Europac for the banks extending the facility. The guarantee consists of a first-demand guarantee with the same terms and conditions, and secures all the payment obligations assumed by Europac on entering into the said credit arrangement.

d) Other contingent liabilities

In 2007, the Portuguese trade union for the paper industries (Sindicato dos Trabalhadores das Indústrias de Celulose, Papel, Gráfica e Imprensa) filed an application for judicial review against the Instituto de Seguros de Portugal (an institution of which certain Group companies are stakeholders) by which the union moved to set aside that governmental body's decision to authorise changes to the Gescartao pension fund (see 'Defined-contribution plans,' Note 17). In addition, some former employees receiving benefits from the pension fund brought legal action against the company with the aim of cancelling the modification carried out in the fund. In 2012, the Supreme Court rejected the appeals filed by the pension fund beneficiaries, laying down a doctrine pursuant to which the consolidation of the rights is recognised for beneficiaries reaching retirement on a certain date. In accordance with this doctrine, it is unlikely that this litigation will result in a loss for the company over and above the existing provisions. Between the end of 2014 and start of 2016, it was possible to reach an agreement with all the former employees, thus ending the Group's liabilities with said processes ("Other provisions" in Note 17).

In April 2013, the National Markets and Competition Commission (Spanish acronym: CNMC) opened an investigation into bad competition practices, investigating Papeles y Cartones de Europa, S.A., among others. On 23 June 2015, the CNMC communicated a disciplinary penalty of 5.3 million euros. A judicial appeal was lodged on 23 September 2015 before the National High Court. No provision has been recorded in the consolidated financial statements as the directors, as well as the company's legal advisers of the parent company, believe that it is unlikely that the company will have to make significant payments as a result of this case for the reasons mentioned in the communication of 23 June 2015 published as a Significant event to the Spanish securities market regulator (registration number 224904). At the date these financial statements were drawn up, the appeal is pending a final ruling.

At the date these financial statements were drawn up, the Group was a party to other outstanding litigation. The Group's directors do not expect the rulings on these cases to have any material adverse effect on the consolidated financial statements not already recognised therein.

Papeles y Cartones de Europa, S.A. and Subsidiaries. Notes to the 2017 Financial Statements

25. OTHER DISCLOSURES

a) Disclosures related to parent company directors

Appendix IV itemises the Group's balances and transactions with members of the board.

No pension or life insurance obligations relating to former and present members of the board are extant other than those to which such persons may contingently become entitled by virtue of performance of their offices in the investees of the Portuguese subsidiaries.

In accordance with Article 229 of the Capital Companies Act, members of the board and parties related thereto have declared that they have no conflicts of interest with the parent company (except those indicated in section D of the Corporate Governance Report).

Neither the directors, nor persons acting on their behalf, have performed transactions in the year with the parent company (or with other Group companies) outside its ordinary business or under non-market conditions.

b) Auditors' Fees

Fees paid during the year for the services provided by Ernst & Young are as follows:

	Thousand euros	
	2017	2016
Auditing Fees		
Audit services	313	303
Other accounting review and verification services	42	20
Other services	105	100
TOTAL	460	423

26.- RISK POLICY AND MANAGEMENT

a) Financial risk factors

The Group's activities expose it to various types of financial risk: market risk, credit risk, liquidity risk and interest-rate risk on cash flows. The Group analyses uncertainty in the financial markets and takes steps to minimise any adverse effect on the Group's returns by arranging derivative instruments, among other measures.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

The most important financial risks faced by the Europac Group are:

- Financial covenants

The investments in group plants and corporate acquisitions over the past few years were supported by financing structures that are thought to be appropriate. However, those structures carry obligations to comply with certain covenants granted to the lenders. It is therefore critical that compliance with those covenants be suitably monitored. The Group's Finance Department draws up financial projections in the short and long term based on its business plans and regularly monitors compliance with covenants to forestall any risk of non-compliance and warn management so that it may take corrective steps. Under the terms of this loan, failure to comply with financial covenants on two or more occasions qualifies as a breach of contract that would entitle the lenders to declare early maturity.

The Group complied with the covenants of its financial debt in 2017.

- Exchange-rate risk

The Group mainly carries on its business in Spain, Portugal, France and other countries of the Eurozone, so most of its transactions are accordingly denominated in euros. The Group purchases some of its raw materials in United States dollars and has maintenance contracts for turbines in Pounds Sterling. Management does not regard exchange-rate risk as significant. However, when it considers it appropriate, it hedges these currencies.

- Credit risk

The Group's credit risk exposure mainly relates to receivables arising in the ordinary course of business. Group management believes that the credit risk to which it is exposed is not significantly concentrated (Note 12 itemises unimpaired balances past due). However, the Group has policies in place to ensure that wholesale customers have an appropriate credit and solvency history. The Group's finance area accordingly operates a risk department concerned with the Group's main markets. The main role of this department is to design, implement, monitor and control customer and credit risk acceptance policies. The Group has credit and surety insurance in place.

- Continuity risk

At 31 December 2016, the Group had negative working capital of 23,173 thousand euros (negative working capital of 32,217 thousand euros at 31 December 2015). The directors of the parent company estimate that the cash flows generated by the business and the available lines of financing make it possible to meet current liabilities. Consequently, the directors of the parent company have prepared the consolidated financial statements following the going concern principle.

- Liquidity risk

The Group carries out prudent liquidity risk management based on establishing and maintaining minimum liquidity ratios. Similarly, the Group's Management, with the aim of

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

maintaining minimum financing availability, took out, as part of the syndicated loan, a line of credit for an approximate amount of 90 million euros in 2015. This financing is supplemented with a sufficient number of lines of credit and factoring arrangements, as well as a corporate paper issue programme entered into in 2017 for a maximum sum of 100 million euros, which grant flexibility, availability and diversification of appropriate sources of short-term financing in the business.

- Cash flow interest-rate risk and fair value risk

Cash flows from the Group's operating activities are independent of changes in market interest rates. Therefore, there is no natural hedging between operating cash flows and financial cash flows. The Group's exposure to interest-rate risk is mainly present in long-term debt which is almost all indexed to variable rates, thus exposing the Group to interest-rate risk in cash flows. Fixed-rate borrowings, which are not significant in the Group, expose the Group to fair value interest-rate risk. Group policy is to arrange derivative financial instruments to swap floating rates for fixed rates or restrict the volatility of floating rates to a given range, while maintaining a reasonable balance between fixed and floating rates (Note 16). The Europac Group's sensitivity to interest rate fluctuations in 2017 and 2016 is shown below in thousands of euros:

	2.017	
	Interest rate fluctuation	
	0,25%	(0,25%)
Estimated effect on profit after tax	202	(202)
Estimated effect on equity after tax	(317)	317

	2.016	
	Interest rate fluctuation	
	0,25%	(0,25%)
Estimated effect on profit after tax	349	(349)
Estimated effect on equity after tax	(212)	212

- Financial instruments and bank deposits

The credit risk of the balances with banks and financial institutions is managed by the Group's Treasury Departments in accordance with the guidelines received from the Finance Department. The Group generally maintains a net debit cash position through its use of credit facilities, reflecting its policy of using any surplus cash to pay down credit facilities; this risk is accordingly regarded as not material.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

- Capital management

The Group aims to maintain its financial solvency at reasonable levels, maintaining its debt/equity ratio at acceptable levels. Group policy on dividends, investment and financing is managed in regard to debt levels. In 2017, the group distributed dividends to shareholders for 60% of the consolidated net profit (50% in 2016).

No changes were made to the objectives, policies or processes for managing the Group's financial solvency in the years ending 31 December 2017 and 2016.

The ratios used by the Group to manage financial solvency are the same as those indicated in the above section entitled "Financial Covenants". b) Procurement of raw materials

b) Raw material supply

- Raw material supply risk and price volatility risk

In order to minimise this risk, the raw materials purchasing department is focused on signing long-term contracts, searching for new supply markets and avoiding supplier concentration. Furthermore, the Group has in recent years undertaken strategic acquisitions of recycled paper recovery companies to enable vertical integration and mitigate the supply and price risk associated with this material.

The other major category in group cost structure carrying supply and price volatility risk is the cost of electricity, since paper manufacturing is power-intensive. The Group mitigated this risk to minimum levels by constructing co-generation and combined-cycle power plants in the paper production plants, which are operated under Spain's special power tariff scheme. The price volatility risk of the cost of gas, which is used as fuel in the combined-cycle plant, is mitigated by the use of financial instruments, where necessary.

It is not possible to make a reliable estimate of the impact on the consolidated income statement of a significant change in the price of raw materials as it is not possible to reliably estimate which part of said change could be charged to the customer through the sales price of the finished product. Below is the impact forecast for the income statement in different scenarios under the assumption that the prices of all raw materials used by the Europac Group rise at a similar rate:

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

2017		
Change in price Of raw materials	Repercussion of the change on sales prices	Estimated effect on on profit (loss) after tax (Thousand euros)
+/- 5%	10%	+/-14.815
+/- 5%	30%	+/- 10.523
+/- 5%	50%	+/- 8.231
+/- 5%	70%	+/- 4.938
+/- 5%	100%	0

2016		
Change In price of raw materials	Repercussion of the change in sales prices	Estimated effect on on profit (loss) after tax (Thousand euros)
+/- 5%	10%	+/-12.991
+/- 5%	30%	+/- 10.104
+/- 5%	50%	+/- 7.217
+/- 5%	70%	+/- 4.330
+/- 5%	100%	0

The effect on the Europac Group's equity would not materially differ from that shown in the above table for profit/loss after tax.

c) Commercial Risks

- Customer concentration risk

Although revenue concentration by customer is not greater than the sector average, the Sales Department conducts certain analyses on customer concentration in order to implement measures to mitigate any potential risk.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

- Sales price risk

In order to mitigate this risk and prevent a reduction in contribution margins, the Group has computer systems which produce reliable data on the cost and profitability of any offer before it is presented to the customer.

d) IT Risks

The Europac Group's business processes and management model are processed through a unique ERP for all business lines, combined with a logistics system in the Paper division and a production planning system in the Board division. In order to mitigate the risk of concentration in the physical location of the systems, as well as the risk of hacking of the blocking of the communications systems, the Group stores data in a cloud environment and has a contingency plan in the event of a breakdown that is periodically updated.

e) Human Resources Risks

- Risk of negligence by executives and employees

The Group is exposed to this type of risk given the need to delegate responsibility to executives.

In order to minimise exposure to this risk, it has established specific selection and training procedures for staff, as well as a catalogue of functions and competencies which each employee must meet in his/her position. There is also an Appointments and Remuneration Committee, Compliance and Business Ethics Committee, a Disciplinary System and a Code of Conduct which has been handed out to all Europac employees. A directors' and executives' liability insurance policy has been taken out.

- Workplace risk prevention

The Europac Group complies with regulations relating to Safety in the Workplace, Industrial Hygiene, Ergonomics and Applied Psycho-sociology and Workplace Medicine. As the Group's activity is industrial, occupational risk control and prevention takes on special importance and it is the Group's policy to promote improvements in work conditions aimed at raising the level of protection of the health and safety of our workers in the workplace.

f) Production Risks

The Europac Group ensures the quality of its products and compliance with prevailing legislation through the implementation of Comprehensive Quality Systems at all its centres. The Group has UNE-EN ISO 9001:2000 certifications at its main centres.

g) Internal audit

The Group has an internal audit department, whose main responsibility is to ensure compliance with the standards and procedures established by the Group, as well as to identify possible improvements.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

In 2017 and 2016, none of the aforementioned risks had a material impact on the Europac group.

27- EVENTS SUBSEQUENT TO THE REPORTING DATE

On 15 February 2018, the Board of Directors of the parent company agreed an interim dividend charged to 2017 profits of 0.1251€ per share issued, amounting to approximately 11,694 thousand euros, which was paid out on 26 February 2016.

28.- ENVIRONMENTAL INFORMATION

In order to comply with prevailing legislation, the Group applies environmental improvement policies aimed at, among other things, recovering the water treated in the production process, the reduction of emissions, waste treatment, the reduction in consumption of certain polluting substances and noise reduction. These policies are enacted in specific action plans for the company's different plants.

In 2017 and 2016, the Group made investments in environmental assets for 5,356 thousand euros and 6,539 thousand euros, respectively. The investment in environmental assets mainly comes from the actions carried out in the factories at Alcolea del Cinca, Dueñas, Rouen (France) and Viana (Portugal) to improve energy efficiency, control of liquid and gas emissions and waste management. In 2017 and 2016, the environmental authorities allocated a total of 222,585 and 231,460 emission allowances, respectively, to the Europac Group.

Notes 7 and 18 herein give a breakdown of the greenhouse gas emission allowances granted at no charge by the environmental authorities, as well as the consumption and surpluses in the year.

Similarly, the Europac Group incurred 4,206 thousand euros and 4,477 thousand euros in expenses for environmental protection and enhancement in 2017 and 2016, respectively. These are ordinary expenses and include the fees for the use of water, environmental audits, consumption and measurement of greenhouse gas emissions and environmental management.

The Europac Group did not record any provision for environmental actions in 2017 and 2016.

At the preparation date of these financial statements, the company's directors have no knowledge of any contingencies related to environmental protection and enhancement.

No environmental grants were received in 2017 and 2016 other than the free acquisition of greenhouse gas emission allowances described in Note 18.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

29.- INFORMACIÓN ON AVERAGE PAYMENT PERIOD FOR SUPPLIERS

Pursuant to the provisions of the sole additional provision of the Resolution of 29 January 2016, of the Accounting and Accounts Audit Institute, information is provided below on the average payment period for suppliers in commercial operations carried out by the Spanish companies of the Europac Group:

	2017	2016
	Days	
Average period of payment to suppliers.	52	52
Ratio of paid transactions.	53	55
Ratio of outstanding transactions.	46	28

	Amount (Thousand euros)	
Total payments made.	240,617	214,083
Total outstanding payments.	28,528	27,301

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

Appendix I. Subsidiaries, jointly-controlled entities and associates

Subsidiaries, jointly controlled entities and associates at 31 December 2017						
(Thousand euros)	Registered address	Line of business	Auditor	Indirect holding	Indirect holding	
Group						
	Europa&c Portugal SGPS, S.A.	Viana do Castelo (PT)	Holding	Ernst & Young	100.0%	-
	Europa&c Embalagem, S.A.	Albarraque (PT)	Corr. board man.	Ernst & Young	-	100.0%
	Lepe - Empresa Portuguesa de Embalagens, S.A.	Marinha Grande (PT)	Corr. board man.	Ernst & Young	-	100.0%
	Europa&c Cartão Ovar, S.A.	Ovar (PT)	Corr. board man.	Ernst & Young	-	100.0%
	Europa&c Distribuição da Madeira, Lda.	Funchal (PT)	Corr. board man.	Ernst & Young	-	100.0%
	Europa&c Kraft Viana, S.A.	Viana do Castelo (PT)	Paper man.	Ernst & Young	-	100.0%
	Europa&c Recicla Portugal, S.A.	Gondomar (PT)	Paper recovery	Ernst & Young	-	100.0%
	Europa&c Energia Viana, S.A.	Viana do Castelo (PT)	Energy Gen.	Ernst & Young	-	100.0%
	Europa&c Logística, Lda.	Viana do Castelo (PT)	Port handling	Ernst & Young	-	100.0%
	Iberia Capital - Fundo Especial de Invest. Imob.	Lisbon (PT)	Real estate	Alves da Cunha, A.Dias & Associados	-	100.0%
	Iberian Forest Fund - Fundo Especial de Invest.Imob.Florest.	Lisbon (PT)	Real estate	Alves da Cunha, A.Dias & Associados	-	100.0%
	Europac Recicla, S.A.	Valladolid	Paper recovery	Ernst & Young	100.0%	-
	Europac Papeterie de Rouen, S.A.S.	Rouen (FR)	Paper man.	Ernst & Young	84.8%	15.2%
	Europac Cartonnerie de Rouen, S.A.S.	Rouen (FR)	Corr. board man.	Ernst & Young	-	100.0%
	Europac Cartonnerie Atlantique, S.A.S.	Durtal (FR)	Corr. board man.	Ernst & Young	-	100.0%
	Europac Cartonnerie Savoie, S.A.S.	La Rochette (FR)	Corr. board man.	Ernst & Young	-	100.0%
	SCI Europac, SC	Rouen (FR)	Real estate	Ernst & Young	1.0%	99.0%
	Greenfrequency Energía, S.A.	Viana do Castelo (PT)	Energy Gen. Forest	Ernst & Young	-	100.0%
	Herederos de D.Timoteo, SL	Dueñas (Palencia)	Management	(1)	91.4%	-
	Europac Packaging Lucena, S.L.U.	Lucena (Córdoba)	Corr. board man.	(1)	100.0%	-
Associates						
	Cartonajes Santander, S.L.	Camargo (Cantabria)	Corr. board man.	(1)	39.6%	-
	Cartonajes Cantabria S.L.	Medio Cudeyo (Cantabria)	Corr. board man.	(1)	-	39.6%
	Euskocartón, S.L.	San Sebastián (Guipuzcoa)	Corr. board man.	(1)	-	39.6%
	Industria Cartonera Asturiana S.L.	San Claudio (Asturias)	Corr. board man.	(1)	-	39.6%
(1) Companies not required to file audited accounts						

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

Subsidiaries, jointly controlled entities and associates at 31 December 2016

(Thousand euros)	Registered address	Line of business	Auditor	Indirect holding	Indirect holding
Group					
Europa&c Portugal SGPS, S.A.	Viana do Castelo (PT)	Holding	Ernst & Young	100.0%	-
Europa&c Embalagem, S.A.	Albarraque (PT)	Corr. board man.	Ernst & Young	-	100.0%
Lepe - Empresa Portuguesa de Embalagens, S.A.	Marinha Grande (PT)	Corr. board man.	Ernst & Young	-	100.0%
Europa&c Cartão Ovar, S.A.	Ovar (PT)	Corr. board man.	Ernst & Young	-	100.0%
Europa&c Distribuição da Madeira, Lda.	Funchal (PT)	Corr. board man.	Ernst & Young	-	100.0%
Europa&c Kraft Viana, S.A.	Viana do Castelo (PT)	Paper man.	Ernst & Young	-	100.0%
Europa&c Recicla Portugal, S.A.	Gondomar (PT)	Paper recovery	Ernst & Young	-	100.0%
Europa&c Energia Viana, S.A.	Viana do Castelo (PT)	Energy Gen.	Ernst & Young	-	100.0%
Europa&c Logística, Lda.	Viana do Castelo (PT)	Port handling	Ernst & Young	-	100.0%
Iberia Capital - Fundo Especial de Invest. Imob.	Lisbon (PT)	Real estate	Alves da Cunha, A.Dias & Associados	-	100.0%
Iberian Forest Fund - Fundo Especial de Invest.Imob.Florest.	Lisbon (PT)	Real estate	Alves da Cunha, A.Dias & Associados	-	100.0%
Europac Recicla, S.A.	Valladolid	Paper recovery	Ernst & Young	100.0%	-
Europac Papeterie de Rouen, S.A.S.	Rouen (FR)	Paper man.	Ernst & Young	84.8%	15.2%
Europac Cartonnerie de Rouen, S.A.S.	Rouen (FR)	Corr. board man.	Ernst & Young	-	100.0%
Europac Cartonnerie Atlantique, S.A.S.	Durtal (FR)	Corr. board man.	Ernst & Young	-	100.0%
Europac Cartonnerie Savoie, S.A.S.	La Rochette (FR)	Corr. board man.	Ernst & Young	-	100.0%
SCI Europac, SC	Rouen (FR)	Real estate	Ernst & Young	-	100.0%
MedPackaging, S.A.R.L.A.U	Tangier (MRC)	Pap. & corr. board man.	Exo Finance	-	100.0%
Greenfrequency Energía, SA	Viana do Castelo (PT)	Energy Gen.	Ernst & Young	-	100.0%
Herederos de D.Timoteo, SL	Dueñas (Palencia)	Forest Management	(1)	91.4%	-
Associates					
Cartonajes Santander, S.L.	Camargo (Cantabria)	Corr. board man.	(1)	39.6%	-
Cartonajes Cantabria S.L.	Medio Cudeyo (Cantabria)	Corr. board man.	(1)	-	39.6%
Euskocartón, S.L.	San Sebastián (Guipuzcoa)	Corr. board man.	(1)	-	39.6%
Industria Cartonera Asturiana S.L.	San Claudio (Asturias)	Corr. board man.	(1)	-	39.6%
Vianaport - Empresa de Trabalho Portuario, Lda.	Viana do Castelo (PT)	Port services	(1)	-	50.0%

(1) Companies not required to file audited accounts

This appendix is part of Note 1 of the consolidated financial statements

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

Appendix II. Changes in accounting policies

a) Standards and interpretations approved by the European Union applied for the first time in this financial year.

The accounting policies used in preparing these 2017 consolidated financial statements are the same as those applied in the consolidated accounts for the financial year ended 31 December 2016, as none of the amendments to the standards that are applicable for the first time in this financial year, which are indicated below, have had a material impact for the Group.

Standard, interpretation or amendment	Date of application in the EU
Amendments to IAS 7 – Statement of cash flows: Disclosure initiative	1 January 2017
Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses	1 January 2017

IFRS 7 Cash Flow Statement

The disclosure of changes in liabilities arising from financing activities during financial year 2017 is as follows:

Changes in liabilities arising from financing activities	Miles de euros				31/12/2017
	31/12/2016	Cash flow	Changes in consolid.scope	Translation differences	
Current debt with financial entities	32,221	(9,239)	(6,496)	(13)	16,473
Non current debt with financial entities	329,821	(27,822)	-	-	301,999
Total debt with financial entities	362,042	(37,061)	(6,496)	(13)	318,472

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

b) Standards and interpretations issued by the IASB, but which are not applicable in this financial year.

The Group intends to adopt the standards, interpretations and amendments to standards issued by the IASB which are not mandatory in the European Union as at the reporting date when they enter into force, where applicable. Although the Group is currently analysing their impact, based on the analyses performed to date, the Group estimates that their initial application will not have a material impact on its consolidated financial statements, except with regard to the following standards, interpretations and amendments to standards that have been issued:

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all the previous versions of IFRS 9. This standard brings together the three phases of the project for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted. Except for hedge accounting, it requires retroactive application, but amendment of comparative information is not required. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required application date and not restate comparative information. In 2017, the Group conducted a high-level assessment of the impacts of the three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes as a result of additional information that becomes available in 2018 when the Group adopts IFRS 9. In general, the Group does not expect major changes in the balance sheet and in the net worth, except as a result of the effect of application of the requirements in IFRS 9 for restructuring financial liabilities made in the past.

(a) Classification and measurement

The Group does not expect major changes in its balance sheet or net worth as a result of application of the classification and measurement requirements in IFRS 9. It expects to continue measuring at fair value all the financial assets which are currently recognised at fair value.

Shares of unlisted entities are expected to be held in the foreseeable future. No losses for impairment have been recognised in the consolidated income statement for these investments for previous years. The Group expects to apply the option to present the changes in fair value in other comprehensive income and, therefore, it believes that the application of IFRS 9 will not have a material impact.

Loans, as well as trade receivables, are held in order to receive the contractual cash flows and it is expected that they will involve cash flows that only represent payments of principal and interest. The Group analysed the characteristics of the contractual cash flows of these instruments and concluded that the instruments complied with the criteria to be measured at amortised cost in accordance with IFRS 9. Consequently, these instruments do not need to be reclassified

(b) Impairment

IFRS 9 requires the Group to recognise expected credit losses on all its debt instruments, loans and trade receivables, whether over 12 months or a full lifetime. The group analysed the application of

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

IFRS 9 and concluded that the impact is not significant, as a result of the strict credit risk management policies followed by the Group

(c) Hedge accounting

The Group determined that all existing hedge relations, which are currently considered effective hedges, can continue to be classified as hedges pursuant to IFRS 9. The group has opted to the prospective application of hedge accounting. Since IFRS 9 does not change the general principles on how effective hedges should be recorded, the Group does not expect any significant impact as a result of the application of this standard.

(d) Restructuring of financial liabilities

IFRS 9 requires that when financial liabilities are restructured, the income statement in the year in which the restructuring takes place recognised the difference between:

- (i) the present value of the expected future cash flows of the refinanced debt using the original Effective Interest Rate,
- (ii) the carrying amount of the debt before refinancing, recognising in future periods the finance cost of the restructured liability in accordance with the Effective Interest Rate of the debt prior to refinancing.

Bearing in mind that over recent years, the Group has restructured its syndicated loan several times, it has recalculated the impact of the new terms in accordance with IFRS 9. The estimated impact at 1 January 2018 is a reduction in the financial liability of 3,209 thousand euros, an increase in Deferred tax liabilities of 802 thousand euros and the consequent increase in Equity of 2,407 thousand euros. IFRS 9 considers that a financial liability is restructured when the discounted present value of the remaining cash flow of the refinanced debt, using the original effective interest rate, it is at least 10% different from the carrying amount of the debt.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published in May 2014 and amended in April 2016, and establishes a new five-step model that applies to the recording of revenue from contracts with customers. According to IFRS 15, revenue is recognised in an amount that reflects the consideration to which the company expects to be entitled in exchange for the transfer of goods or services to a customer. This new standard repeals all the previous standards relating to revenue recognition. It requires full or partial retroactive application for annual periods beginning on or after 1 January 2018. In 2017, the Group performed a preliminary assessment of IFRS 15. The Group's business is to manufacture and supply paper reels to corrugated board manufacturers, as well as to manufacture and supply boxes to end customers. The Group also sells electric power that it generates at its co-generation plants, as well as recovered paper that it collects in different recovery points. In general, the paper reels, corrugated board boxes and recovered corrugated board are sold by means of sales orders from customers that are subject to general sales conditions. Discounts for prompt payment or sales volume are agreed with certain customers.

This standard is not expected to have an impact on the Group's profit for sale orders. The Group expects that the recognition of revenue will take place when control of the asset is transferred to the customer, generally upon delivery of the goods.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

In the analysis performed to adopt IFRS15, the Group considers the following in relation to the sale of our products:

(a) Variable consideration

Some contracts with customers provide rights of return, trade discounts and volume discounts. The Group currently recognises revenue from the sale of goods at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. If the revenue cannot be reliably measured, the Group defers recognition of the revenue until the uncertainty is resolved. Such provisions lead to variable consideration in accordance with IFRS 15 and this will need to be estimated at the start of the contract and subsequently updated.

IFRS 15 requires entities to consider that there will be no significant revenue reversals when estimating variable consideration. The Group expects application of the restriction in recognition of variable consideration to lead to the deferral of more revenue than is the case with the current standard.

Rights of return

When an order with a customer provides a right of return of the good in a specific period, the Group currently recognises that right of return when it is claimed by the customer and the Group accepts the claim.

Therefore, according to the current accounting policy, the amount of the correction of revenue relating to expected returns is not recognised, and these are only recognised when the returned good is received at the Group's warehouse and the corresponding entry and correction to the cost of sales is recorded.

In accordance with IFRS 15, given that the orders allow customers to return the products when the specifications thereof or their physical state upon receipt are not as agreed, the consideration received is variable. The Group has decided to use the expected value method to estimate the goods that will be returned.

The Group's Management believes that the impact of the adjustments and reclassifications to be carried out is not material.

Volume discounts

The Group provides, on an annual basis, retroactive volume discounts for certain products purchased by its customers once the annual volume of products sold in a period exceeds a certain volume stipulated in the agreement. In accordance with the current accounting policy, the Group estimates the expected volume discounts, deducting from the start of the period the revenue of each sale with 100% of the agreed volume discount. At the end of the year, the Group assesses compliance with the volume discount customer by customer and adjusts sales accordingly.

In accordance with IFRS 15, volume discounts give rise to variable consideration. In order to estimate the variable consideration, the Group considers that the most likely amount method better predicts the amount of the variable consideration for contracts that have one single discount when they exceed the agreed volume, while for contracts with more than one discount, depending on volume, the expected value method or the most likely amount method would be applied depending on which of them better predicts the amount of the variable consideration for that type of contract.

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

The Group has applied the requirements of IFRS 15 to the significant reversals of variable consideration and has concluded that effect would not be material.

(b) Advances received from customers

In general, the Group receives short-term advances from its customers, which are presented as part of "Trade payables". In its operations of manufacturing and supplying Paper and Corrugated Board, the Group does not receive long-term advances from its customers. According to IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group has decided to use the practical solution provided in IFRS 15, and will not adjust the amount of the consideration for the effects of the significant financing component of the contracts when the Group expects, at the start of the contract, that the period between transfer of the good or service to the customer and the corresponding collection date will be one year or less. Therefore, for short-term advances, the Group will not record a financing component, even if it is significant.

(c) Presentation and disclosure requirements

IFRS 15 includes presentation and disclosure requirements that are more detailed than in current standards. The presentation requirements represent a significant change with regard to current practice and significantly increase the volume of disclosures required in the Group's financial statements.

Many of the disclosure requirements in IFRS 15 are completely new and the Group has assessed whether the impact of some of these requirements will be material. In general, the group does not expect to see a major increase in the volume of disclosures. In particular, the Group expects that the Notes to the financial statements will be extended as a result of the disclosures corresponding to the judgements made: on determining the transaction price of those contracts that include variable consideration, how the transaction price has been assigned to the different performance obligations and the assumptions used to estimate the independent sales prices of each performance obligation. In addition, in accordance with the requirements of IFRS 15, the Group will disaggregate, as the case may be, the revenue recognised in customer contracts in categories that describe how the nature, amount, schedule and uncertainty of the revenue and cash flows are affected by economic factors. It will also disclose information on the relationship between the revenue disclosed and the information on the revenue disclosed for each reportable segment. In 2017, the Group assessed the systems, internal controls, policies and procedures necessary to gather and disclose the required information.

(d) Other adjustments

In addition to the main adjustments described above, upon adoption of IFRS 15, other items in the financial statements will be adjusted, such as deferred taxes, assets held for sale and their associated liabilities, the profit or loss after tax of discontinued operations, as well as investments in associates and joint ventures. In addition, exchange differences for the translation of foreign operations will also be adjusted.

The recognition and measurement requirements of IFRS 15 are also applicable to the recognition and measurement of any gain or loss on deregistration of non-financial assets (such as property, plant and equipment and intangible assets) when such deregistration is not in the ordinary course

***Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements***

of business. However, the effect of these changes is not expected to be material for the Group in the transition.

In summary, the impact of adoption of IFRS 15 on the Statement of Financial Position is expected no to be material.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease.

IFRS 16 establishes the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to record all leases under one single lessee accounting model similar to the current accounting model applied to finance leases in accordance with IAS 17. The standard includes two exemptions whereby lessees are not required to recognise assets and liabilities for leases of low-value assets (for example, personal computers) and also short-term leases (i.e. leases for 12 months or less). On lease commencement, the lessee will recognise a liability for the present value of the lease payments (i.e., the lease liability) and an asset that represents the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to recognise interest on lease liabilities separately from depreciation of the lease right-of-use asset.

Lessees will also be required to reassess lease liabilities on the occurrence of certain events (for example, a change in the lease term or a change in future lease payments as a result of a change in the reference index or rate). The lessee will generally recognise the amount of the reassessment of the lease liability as an adjustment to the right-of-use asset.

Accounting by lessors according to IFRS 16 is not amended substantially with regard to the current accounting pursuant to IAS 17. Lessors will continue classifying leases with the same classification principles as in IAS 17 and will record two types of lease: operating leases and finance leases.

IFRS 16 also requires lessees and lessors to include more extensive disclosures than those required under IAS 17.

IFRS 16 is effective for those periods beginning on or after 1 January 2019. Early application is permitted but not prior to an entity applying IFRS 15. A lessee may either apply the standard with full retrospective effect or by means of a modified retroactive transition. The provisions for transition to the standard allow certain exemptions.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

The other standards and interpretations issued by the IASB, but which are not applicable in this period and which are not expected to have a material impact on the Group are:

Standard, interpretation or amendment	Date of adoption by the EU	Date of application in the EU	Date of application of IASB
IFRS 17 – Insurance contracts	Pending	Pending	1 January 2021
CINIIF 22 – Foreign currency transactions and advance consideration	Pending	Pending	1 January 2018
CINIIF 23 – Uncertainty over income tax treatments	Pending	Pending	1 January 2019
Annual improvements to IFRS – 2014-2016 cycle	Pending	Pending	1 January 2017 and 1 January 2018
Annual improvements to IFRS – 2015-2017 cycle	Pending	Pending	1 January 2019
Amendments to IAS 28 – Long-term investments in associated and joint ventures	Pending	Pending	1 January 2019
Amendments to IAS 40 – Transfers of investment property	Pending	Pending	1 January 2018
Amendments to IFRS 2 – Classification and measurement of share-based payments transactions	Pending	Pending	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 financial instruments with IFRS4 insurance contracts	November 2017	1 January 2018	1 January 2018
Amendments to IFRS 9 – Prepayment features with negative compensation	Pending	Pending	1 January 2019
Amendments to IFRS 10 and IAS 28 – Sale or contributions of assets between an investor and its associate or joint venture	Pending	Pending	Indefinitely postponed
Amendments to IFRS 15 – Clarifications on standard	October 2017	1 January 2018	1 January 2018

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Appendix III. Segment and geographical information

Business segment information	Thousand Euros				
	2017	Paper	Corrugated Board	Eliminations	Consolidated
Net segment revenue					
external customers		484,783	383,436		868,219
other segments		104,356	9,540	(113,895)	-
Total		589,138	392,976	(113,895)	868,219
Operating profit before depreciation/amortisation for the segment		148,531	(1,950)	-	146,581
unassigned profit or loss					11,672
Consolidated EBITDA					158,253
Amortisation					(51,789)
Operating profit (loss)					106,464
Net financial income (expense)					(5,527)
Share of profit (loss) of equity-accounted investees					369
Profit (loss) before tax from continuing operations					101,306
Intangible Assets, Property, Plant and Equipment and Investment Property		581,152	197,463	-	778,615
Unallocated assets (*)					309,997
Total Assets					1,088,612
Investment properties		48,065	19,923	-	67,988

(*) Other non-current assets and all current assets of the group: these assets are shared by both businesses and a reasonable allocation to each business is not possible.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Business segment information	Thousand Euros				
	2016	Paper	Corrugated Board	Eliminations	Consolidated
Net segment revenue					
external customers		441,057	360,093		801,150
other segments		77,770	7,924	(85,694)	-
Total		518,828	368,017	(85,694)	801,150
Operating profit before depreciation/amortisation for the segment		104,741	18,095	-	122,836
unassigned profit or loss					3,735
Consolidated EBITDA					126,571
Amortisation					(48,912)
Operating profit (loss)					77,659
Net financial income (expense)					(10,552)
Share of profit (loss) of equity-accounted investees					115
Profit (loss) before tax from continuing operations					67,222
Intangible Assets, Property, Plant and Equipment and Investment Property		542,448	240,678	-	783,126
Unallocated assets (*)					336,150
Total Assets					1,119,276
Investment properties		45,071	11,901	-	56,972

(*) Other non-current assets and all current assets of the group: these assets are shared by both businesses and a reasonable allocation to each business is not possible.

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Appendix III. Segment and geographical reporting (Cont.)

Information by geographical segment	Thousand Euros					
2017	Spain	Portugal	France	EU	Other	Consolidated
Net revenue from external customers	280,402	179,652	298,250	84,635	25,279	868,219
Intangible Assets, Property, Plant and Equipment and Investment Property	253,225	328,332	197,058	-	-	778,615

Information by geographical segment	Thousand Euros					
2016	Spain	Portugal	France	EU	Other	Consolidated
Net revenue from external customers	231,012	172,182	285,224	75,295	37,436	801,150
Intangible Assets, Property, Plant and Equipment and Investment Property	231,863	320,354	195,874	-	33,007	781,098

This appendix is part of Note 3 of the consolidated financial statements

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Appendix IV. Remuneration received by directors and executives and balances and transactions with related parties

Main balances and transactions with related parties	Significant shareholders		Directors and senior executives		Other related parties		Group companies or entities	
	2017	2016	2017	2016	2017	2016	2017	2016
Balances								
Sales and provision of services	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-
Remuneration and attendance fees	-	-	5,221	4,292	-	-	-	-
Dividends paid	10,253	9,535	2,965	1,258	-	-	-	-
Total expenses	10,253	9,535	8,186	4,647	-	-	-	-
Other transactions								
Purchases of non-current assets	-	-	-	-	9,360	6,933	-	-
Total other transactions	-	-	-	-	9,360	6,933	-	-
Directors who are themselves significant shareholders are addressed in the section on directors and senior executives								

This appendix is part of Note 23 of the consolidated financial statements

**Papeles y Cartones de Europa, S.A.
and Subsidiaries.
Notes to the 2017 Financial Statements**

Appendix IV. Remuneration received by directors and executives and balances and transactions with related parties (cont.)

Remuneration received by directors and executives	Thousand Euros	
	2017	2016
Directors		
Fixed remuneration	1,592	1,576
Variable remuneration	1,393	500
Per diems	243	174
Article-related provisions	1,081	1,438
Transactions with shares and/or other financial instruments		
Other		
Total	4,309	3,688
Life insurance premiums	1	1
Executives		
Total remuneration received by executives	822	605

This appendix is part of Note 23 of the consolidated financial statements

Papeles y Cartones de Europa, S.A. and Subsidiaries.

Notes to the 2017 Financial Statements

Appendix V. Directors' positions at Europac Group companies and other entities in the industry

Name of director	Entity name	% shareholding Europac Group	Position
Group companies			
Enrique Isidro Rincón	Europa&c Embalagem, S.A.	100%	Chairman
Enrique Isidro Rincón	Europa&c Cartao Ovar, S.A.	100%	Chairman
Enrique Isidro Rincón		100%	Chairman
Enrique Isidro Rincón	Europa&c Distribuição da Madeira, Lda.	100%	Manager
Enrique Isidro Rincón	Europa&c Kraft Viana, S.A.	100%	Chairman
Enrique Isidro Rincón	Europa&c Recicla Portugal, S.A.	100%	Chairman
Enrique Isidro Rincón	Lepe – Empresa Portuguesa de Embalagens, S.A.	100%	Sole Director
Enrique Isidro Rincón is the natural-person representative of the Chairman PAPELES Y CARTONES DE EUROPA, S.A. in the following companies:			
Enrique Isidro Rincón	Europac Cartonnerie Atlantique, S.A.S.	100%	
Enrique Isidro Rincón	Europac Cartonnerie de Rouen, S.A.S.	100%	
Enrique Isidro Rincón	Europac Cartonnerie Savoie, S.A.S	100%	
Enrique Isidro Rincón	Europac Papeterie de Rouen, S.A.	100%	
Enrique Isidro Rincón	SCI Europac	100%	
Enrique Isidro Rincón is the natural-person representative of the director PAPELES Y CARTONES DE EUROPA, S.A. in the following companies:			
Enrique Isidro Rincón	Cartonajes Santander, S.L.	39.6%	
Enrique Isidro Rincón is the natural-person representative of the sole director PAPELES Y CARTONES DE EUROPA, S.A. in the following companies:			
Enrique Isidro Rincón	Europac Recicla, S.A.	100%	
Enrique Isidro Rincón	Lepe – Empresa Portuguesa de Embalagens, S.A.	100%	
Enrique Isidro Rincón	Europa&c Portugal, SGPS, S.A.	100%	
Enrique Isidro Rincón	Europac Packaging Lucena S.L.U.	100%	
Enrique Isidro Rincón	Herederos de D. Timoteo S.L.	91%	

This appendix is part of Note 25 of the consolidated financial statements



MANAGEMENT REPORT 2017

PAPELES y CARTONES DE EUROPA, S.A. AND SUBSIDIARIES

FEBRUARY 2018

A.	FINANCIAL REPORTING	2
1.	2017 GROUP RESULTS	2
	EXECUTIVE SUMMARY	2
	PAPER	4
	PACKAGING	5
	INVESTMENTS AND DEBT	5
	EUROPAC ON THE STOCK EXCHANGE	6
2.	RESULTS OF THE CONSOLIDATED GROUP	9
	CONSOLIDATED INCOME STATEMENT	9
	CONSOLIDATED BALANCE SHEET	11
	TREASURY SHARES	13
3.	TRENDS IN THE INDIVIDUAL FINANCIAL STATEMENTS	14
	INDIVIDUAL INCOME STATEMENT AND BALANCE SHEET	14
	AVERAGE PERIOD FOR PAYMENT TO SUPPLIERS	15
4.	KEY EVENTS IN 2017	16
5.	SIGNIFICANT EVENTS SUBSEQUENT TO END OF THE PERIOD	18
B.	NON-FINANCIAL REPORTING	19
1.	ABOUT THIS CHAPTER	19
2.	BUSINESS MODEL	19
3.	MANAGEMENT OF NON-FINANCIAL ASPECTS	21
C.	ALTERNATIVE PERFORMANCE MEASURES (APMs)	32
D.	APPENDIX: ANNUAL CORPORATE GOVERNANCE REPORT	35

A. FINANCIAL REPORTING

1. 2017 GROUP RESULTS

EXECUTIVE SUMMARY

(Figures en K€)	2016	2017	Var%
Aggregate income	1.068.970	1.185.860	10,9%
Consolidated income	801.150	868.216	8,4%
Recurring EBITDA	122.837	146.582	19,3%
Consolidated EBITDA	126.571	158.253	25,0%
PROFIT before TAX	67.222	101.306	50,7%
NET PROFIT	48.913	77.963	59,4%
Consolidated EBITDA Margin	15,8%	18,2%	

2017 was a year of progressive improvement with growth in consolidated EBITDA of 25% on the same period of the previous year to 158 million euros. This growth was the result of strong final demand which led to repeated increases in paper sales prices, which, together with the cost optimisation and productivity improvements set out in the company's strategic objectives, had an extremely positive impact on the accounts.

In addition, the packaging factory in Tangier and the logistics operator at the port of Viana do Castelo were sold and the guarantees linked to the 2008 acquisition of the paper and packaging factories in Rouen (France) were collected in 2017.

Consequently, profitability improved as the Consolidated EBITDA margin rose to 18%, an increase of 2.4 percentage points on the 2016 margin.

In 2017, the company also acquired an integrated packaging factory in Lucena (Cordoba) and a waste management plant in Laguna de Duero (Valladolid).

Recurring EBITDA for 2017 was 19% up on the same period of the previous year and recurring EBITDA for 4Q17 was 43% higher than for the comparable quarter in 2016.

The Paper Division recorded a 42% increase in EBITDA compared with 2016 as a result of the increase in sales prices and segmentation towards higher added value papers (such as kraftliner papers, coated papers and high feature white and brown papers) despite the increase in the price of the raw material (recovered paper) and the scheduled maintenance halts in the Viana do Castelo and Rouen machines in May.

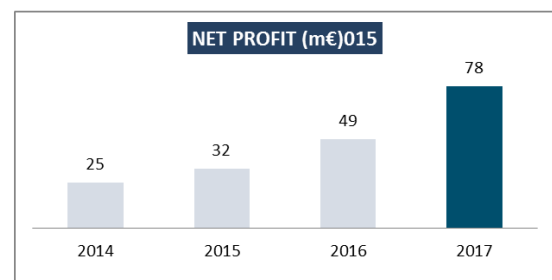
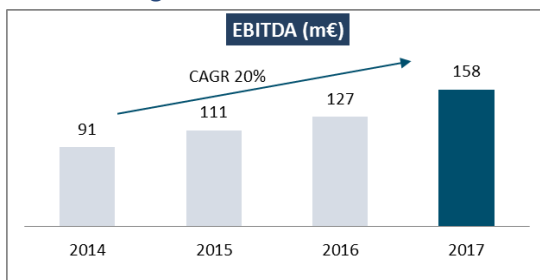
The Packaging Division recorded a 111% fall in EBITDA compared with 2016 as a result of the significant impact of the raw material price rise, which is being progressively passed on

to the market. Sales rose by 5% in all markets, with particularly strong sales growth in Spain.

Profit before tax grew by 51% on the previous year and includes a reduction in net finance costs of 48% due to a lower average balance of financial debt, which reflects the optimisation of financing conditions carried out at year-end 2016 and a net extraordinary effect of €2.5m.

Consequently, Net Profit rose by 59% on 2016 to €78m.

The performance of consolidated EBITDA and Net Profit was extremely positive as shown in the following tables:



Other key management aspects for the period:

- Following a proposal from the Board of Directors, the General Shareholders' Meeting (GSM) of the Europac Group (Papeles y Cartones de Europa, S.A.), held on 28 June, approved payment of a final dividend of 0.223 euros per share, which was paid out on 17 July, and which, when added to the dividend paid in February 2017, amounted to a total dividend of 28.9 million euros against 2016 earnings. This represents a payout or percentage of the profits for shareholders of 60%.

The Europac Group therefore distributed a total of 0.318 euros per share to its shareholders, a dividend yield of 4.3% on the share price at the end of session prior to the holding of the General Shareholders' Meeting.

- Similarly, the GSM approved a bonus issue against unrestricted reserves through the issue of up to 3,894,735 shares with a free allotment of 1 new share for every 25 old shares, which was carried out in November.
- It also approved the cancellation of 1,947,368 treasury shares, which accounted for 2% of the company's share capital, which was carried out in October.
- In addition, on 26 February 2018, an interim dividend for 2017 was paid for an amount of €0.125/share, an increase of 31% on the previous interim dividend (€0.0951 in 2017).

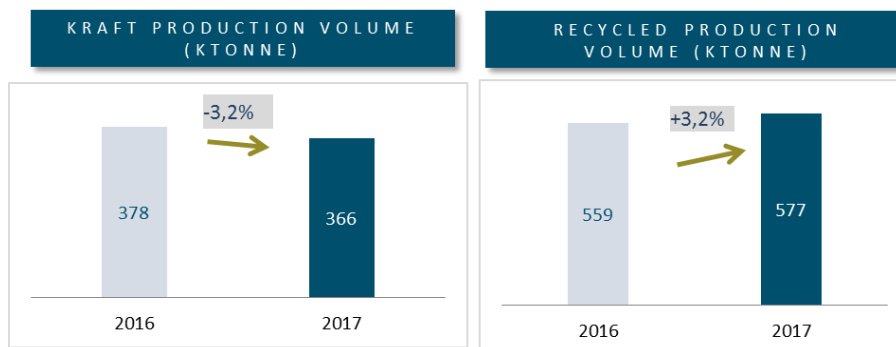
PAPER

(Figures en K€)	2016	2017	Var%
Aggregate income	673.342	769.201	14,2%
Recurring EBITDA	104.741	148.531	41,8%
EBITDA margin	15,6%	19,3%	

Paper sales rose by 14%, mainly as a result of the repeated increases in sales prices, which were partially offset by the reduction in volume as a result of the scheduled halts, and the positioning in higher added value segments, such as kraftliner paper, coated paper and high feature white and brown papers.

The investments made to increase the production capacity and efficiency of the machines made it possible to take full advantage of the impact of the sales price rises.

Production volumes of kraftliner paper fell by 3% on 2016 as a result of the scheduled halt in May in order to increase production capacity by 12,000 tonnes per year, while the production volume of recycled paper rose by 3%.



Prices of kraftliner paper rose over the period, with an average increase of €74/tonne on the previous year. Over the year there were price rises in March, May and August that led to an increase of between 27% and 33% on the start of the year, depending on the market. These price rises were mainly the result of the increase in shipments by European manufacturers (up 4% on 2016), as well as the reduction in exports from the United States (down 7% cumulative to November). As a result, average monthly stocks in 2017 fell by 9% on 2016.

Average sales prices for recycled paper in the year were €45/tonne above the figure for the previous year as a result of very solid demand (up 6% on 2016) that absorbed the new installed production capacities, which led to a very significant reduction in average monthly stocks in 2017 of 11% compared with 2016. Over the year there were price rises in all qualities in February, March, April and August that led to an increase of between 23% and 25% on the start of the year, depending on the market.

The average price of the raw material, recovered paper, rose by €16/tonne in 2017 on 2016. However, with the aim of promoting the domestic recovery of paper for recycling, the Chinese government has banned the import of certain recovered paper qualities and has limited import licences for paper manufactures. Since August, this measure has led to an increase in the availability of recovered paper in Europe, and recovered paper prices have therefore fallen sharply since September.

Consequently, there was a sharp fall in the prices of recovered paper as from the month of September.

The new Chinese legislation entails a structural change in the raw materials market whose affects are being seen in 2018. Recovered paper prices fell by €45/tonne in January and February.

PACKAGING

(Figures en K€)	2016	2017	Var%
Aggregate income	395.628	416.659	5,3%
Recurring EBITDA	18.096	-1.950	-110,8%
EBITDA margin	4,6%	-0,5%	

The Packaging Division recorded an 111% fall in EBITDA compared with 2016 as a result of the impact of the price rise in paper, its raw material, although this is gradually being passed on to the market. The impact of passing this price rise onto the market will be greater in the first quarter of 2018.

The division's sales increased by 5% on the previous year, with growth in all markets, particularly in Spain.

Europac continues to work to optimise costs and improve operations, increase its commercial activity as a tool for growth, pass the paper price rises on to the market and develop greater added value projects based on high-quality printing, structural design for special applications and the competitive advantages of packaging in logistics processes.

INVESTMENTS AND DEBT

INVESTMENTS: Investments for a value of €65m were made in 2017, 26% up on the previous year. Noteworthy among the investment projects were the following:

Paper:

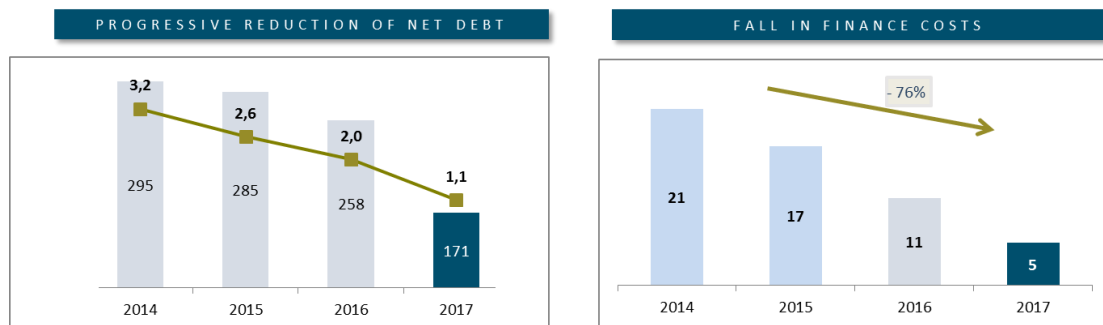
- Increase in capacity and improvements in production in Viana do Castelo
- Reduction in specific costs and increase in volume in Rouen
- Environmental investments

Packaging:

- Improvement in productivity at the Val de Seine, Ovar and Albarraque plants
- Increase in production in Dueñas
- Development of the Lucena plant and new converting lines in Alcolea

DEBT:

- Continuous fall in Net Debt, improving the NET DEBT/EBITDA ratio to 1.1.
- 48% reduction in net finance costs as a result of the lower average balance of financial debt, which reflects the optimisation of financing conditions at year-end 2016 and a net extraordinary effect of €2.5m. Excluding this last effect, the finance costs would have fallen by 27%.



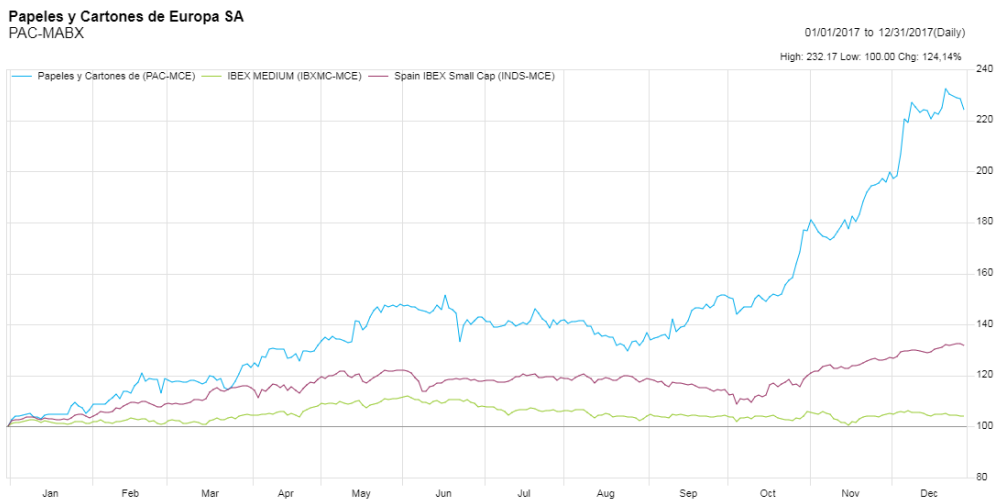
EUROPAC ON THE STOCK EXCHANGE

The global economy grew by 3% over 2017, the largest global growth rate recorded since 2011, thus consolidating the international economic recovery. Conditions for investment have therefore improved in the context of low financial instability and recovery in some commodities sectors.

The European environment was mostly marked by the electoral results in France, as well as general elections in Germany and the bank bailouts in Italy. However, the euro area economy recorded growth of 2.5%.

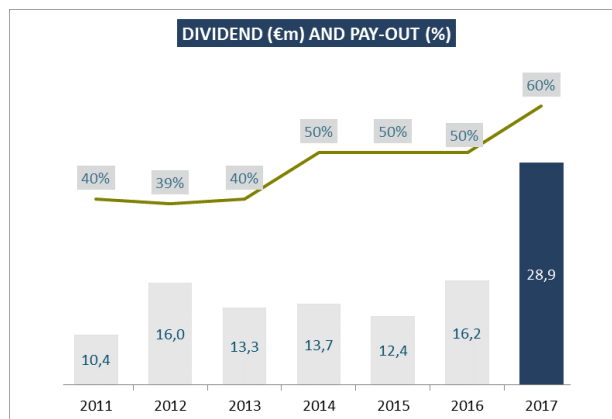
Spain recorded growth of 3.1%, with an increase of 0.7% in the last quarter of the year, mainly driven by private consumption and exports, which contributed to greater foreign confidence.

The Europac share price underwent a significant recovery over the year, with a rise of 124%, compared with rises of 32% and 4% in the Ibox Small Cap and the Ibox Medium Cap, respectively.



(Source: Thomson One)

In addition, on 23 February 2017, the company paid a dividend of €0.0951/share on 2016 earnings. This interim dividend represents an increase of 79% on the €0.0531/share paid in the same period of the previous year. Similarly, on 17 July, the company paid a final dividend of €0.223/share, which represents an increase of 76% on the €0.127/share paid a year earlier. This represents a payout or percentage of the profits for shareholders of 60%.



In addition, the resolutions adopted at the 2017 General Shareholders' Meeting include approval of the bonus issue against unrestricted reserves by means of the issue of 3,894,734 shares with a free allotment of one new share for every 25 old shares, which was carried out

in November, together with approval of the cancellation of 1,947,368 treasury shares, accounting for 2% of the company's share capital, which was carried out in October.

In addition, on 26 February 2018, an interim dividend for 2017 was paid for an amount of €0.125/share, an increase of 31% on the previous interim dividend (€0.0951 in 2017).

2. RESULTS OF THE CONSOLIDATED GROUP

CONSOLIDATED INCOME STATEMENT

(€'000)	2017	2016
Net turnover	868.219	801.150
Change in inventories of finished products and work in progress	4.408	(2.743)
Own work capitalised	4.818	2.833
Supplies	(427.796)	(396.844)
Other operating revenue	22.065	13.161
Personnel expenses	(117.252)	(113.878)
Other operating expenses	(198.158)	(179.939)
Amortisation	(51.789)	(48.912)
Allocation of subsidies of non-financial fixed assets	2.311	2.492
Impairment and gain (loss) on disposal of fixed assets	(361)	338
OPERATING PROFIT (LOSS)	106.464	77.659
Financial revenue	621	3.365
Financial expenses	(9.293)	(13.155)
Change in fair value of financial instruments	698	(1.186)
Exchange differences	(1.659)	425
Impairment and gain (loss) on disposal of financial instruments	4.106	-
NET FINANCIAL EXPENSE	(5.527)	(10.552)
Profit (loss) of companies accounted for using the equity method	369	115
PROFIT BEFORE TAX	101.306	67.222
Corporate income tax	(23.343)	(18.321)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	77.963	48.901
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	77.963	48.901
Net profit attributable to the parent company	77.963	48.918
Resultado atribuido a intereses minoritarios	-	(17)
EBITDA	158.253	126.571

The Europac Group closed 2017 with **EBITDA** (earnings before interest, tax, depreciation and amortisation) of 158.3 million euros, up 25% on the previous year.

Net turnover at 31 December 2017 totalled 868.2 million euros, up 8.4% on 2016.

The **Change in inventories of finished products** totalled 4.4 million euros.

Raw materials and consumables used rose by 7.8% to 427.8 million euros.

Other operating revenue totalled 22.1 million euros, an increase of 8.9 million on the previous year as a result of the gains from the sale of subsidiaries and settlements of guarantees in corporate transactions.

The **Employee benefits expense** totalled 117.3 million euros.

Other operating expenses rose to 198.2 million euros, 10.1% up on the previous year, as a result of the increase in energy costs and other costs, due in part to the increase in verified activity.

Depreciation/amortisation rose by 5.9% to 51.8 million euros.

Grants related to non-financial non-current assets increased by 2.3 million euros.

Net finance costs amounted to 5.5 million euros, an improvement of 5 million euros on 2016 as a result of the disposal of financial instruments and the improvement in the interest expense as a consequence of the reduction in net financial debt and the reduction in interest rates due, among other factors, to the renewal of the syndicated loan in December 2016.

Corporate income tax amounted to 23.3 million euros compared with 18.3 million euros in 2016.

Net profit for the year attributable to the parent company rose by 29.1 million euros to 78 million euros, an increase of 59.4% on the previous year as a result of the aforementioned changes.

CONSOLIDATED BALANCE SHEET

ASSETS (€'000)	2017	2016
NON-CURRENT ASSETS	836.737	854.854
Intangible assets	98.537	95.632
- Goodwill	94.448	89.422
- Other intangible assets	4.089	6.210
Property, plant and equipment	678.062	685.466
Investment property	2.016	2.028
Investments recorded using the equity method	2.045	1.693
Non-current financial assets	3.584	14.765
Deferred tax assets	45.782	48.281
Other non-current assets	6.710	6.990
	-	-
CURRENT ASSETS	251.874	264.422
Inventories	88.110	79.152
Trade and other receivables	77.389	88.217
- Receivables for sales and services rendered	56.302	50.139
- Other receivables	18.061	37.385
- Current tax assets	3.026	693
Other current financial assets	877	2.284
Cash and cash equivalents	85.499	94.768
	-	-
TOTAL ASSETS	1.088.611	1.119.276
LIABILITIES AND EQUITY	2017	2016
EQUITY	411.965	369.548
CAPITAL AND RESERVES	412.213	368.055
Capital	198.476	194.737
Reserves	163.924	160.127
Less: Treasury stock	(34.370)	(38.013)
Profit (loss) for the year attributable to the parent company	77.963	48.884
Otros instrumentos de patrimonio neto	6.221	2.321
ADJUSTMENTS FOR CHANGES IN VALUE	(336)	1.401
Activo financieros disponibles para la venta	-	1.664
Hedging	(336)	(399)
Translation differences	-	135
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	411.877	369.456
Minority interests	88	92
	-	-
NON-CURRENT LIABILITIES	397.378	462.134
Subsidies	5.924	6.562
Non-current provisions	15.554	16.838
Non-current financial liabilities	315.885	376.984
- Debts with financial institutions and bonds or other negotiable securities	301.999	329.821
- Other financial liabilities	13.887	47.163
Deferred tax liabilities	60.015	61.750
	-	-
CURRENT LIABILITIES	279.268	287.594
Current provisions	3.367	3.670
Current financial liabilities	42.373	54.778
- Debts with financial institutions and bonds or other negotiable securities	16.473	32.221
- Other financial liabilities	25.900	22.556
Trade and other payables	233.528	229.147
- Suppliers	192.097	175.068
- Other payables	33.555	50.971
- Current tax liabilities	7.875	3.108
	-	-
TOTAL LIABILITIES AND EQUITY	1.088.611	1.119.276

Property, plant and equipment and Intangible assets at year-end 2017 amounted to 776.6 million euros, 4.5 million euros down on year-end 2016, mainly as a result of the depreciation/amortisation charge for the year of 51.8 million euros and the impact of assets amounting to 26.3 million euros leaving the consolidation scope (mainly as a result of the sale of the subsidiary in Morocco), offset by organic investments totalling 65.3 million euros and the impact of the additions to the consolidation scope amounting to 6.2 million euros resulting from the acquisition of the Europac Packaging Lucena and Europac Recicla Duero plants, as well as the Goodwill of 5 million euros generated in said transactions.

Deferred tax assets fell by 5.2% mainly as a result of the application of tax credits.

Inventories increased by 11.3% on year-end 2016 due to the increase in the balance of finished products and raw materials.

Trade and other receivables fell by 10.8 million euros, mainly as a result of collection of the debt from Empresa de Desenvolvimento e Infraestructuras do Alqueva, S.A. (EDIA) (Note 12 of the consolidated accounts).

Equity rose by 11.5% on year-end 2016, mainly as a result of the impact of profit for the year of 78 million euros, offset by the ordinary dividends of 28.9 million euros approved at the General Shareholders' Meeting and the increase in treasury stock of 8.8 million euros.

Non-current liabilities fell by 14% to 397.4 million euros, mainly as a result of:

Non-current financial liabilities falling by 61.1 million euros to 315.9 million euros, mainly as a result of the amortisation of long-term debts.

Non-current provisions falling by 1.3 million euros to 15.6 million euros due to the reduction in long-term liabilities with employees.

Deferred tax liabilities falling by 1.7 million euros on the end of the previous year.

Current liabilities fell by 2.9% to 279.3 million euros, mainly as a result of:

Current financial liabilities falling by 12.4 million euros to 42.4 million euros, mainly as a result of the reduction in short-term bank borrowings and the increase in other financial liabilities.

Trade and other payables rose by 1.9% to 233.5 million euros, mainly due to the increase in the balance of current tax liabilities.

Consolidated **net debt** fell by 33.9% on the previous year to 170.7 million euros.

With regard to commercial risk control, Europac continues to follow its strict risk management policy and closed the year with a bad debt ratio of 0.009%.

TREASURY SHARES

	No. Of shares	Par Value	% Share Capital	Consideration
	(Thousand euros)			(Thousand euros)
Balance at 31.12.2016	6.021.697	12.043	6,2%	38.013
Acquisitions	1.184.066	2.368	1,2%	8.933
Disposals	-20.099	-40	0,0%	-146
Capital increase	199.812	400	0,2%	0
Redemption of shares	-1.947.368	-3.895	-2,0%	-12.431
Balance at 31.12.2017	5.438.108	10.876	5,6%	34.370

3. TRENDS IN THE INDIVIDUAL FINANCIAL STATEMENTS

INDIVIDUAL INCOME STATEMENT AND BALANCE SHEET

Individual Income Statement

Europac's **net turnover** rose by 17.1% to 284.9 million euros, mainly as a result of the increase in recycled paper sales price and the sale of electric power.

The **Change in inventories** of finished products totalled 1.1 million euros.

Raw materials and consumables used increased by 20.21% to 143 million euros, mainly due to the increase in recycled paper prices and the gas price rise.

Other operating revenue fell by 8.2 million euros, mainly due to the impact of recognition in the previous year of a receivable from Empresa de Desenvolvimento e Infraestruturas do Alqueva, S.A. (EDIA) as a result of the judgement in favour of the group issued by the Supreme Court of Justice of Portugal (Note 9(d) of the individual accounts).

The **Employee benefit expense** rose by 9.5% to 42.6 million euros.

Other operating expenses rose by 8.5%, to 50.5 million euros, mainly as a result of expenses for independent professional services and higher electricity costs.

Depreciation/Amortisation rose by 1.2%.

EBITDA rose by 5.7% on 2016 to 53.2 million euros, as a result of the aforementioned effects.

Finance income fell by 15.5% to 34.8 million euros, mainly as a result of recognition in the previous year of interest relating to the aforementioned legal dispute with EDIA.

Finance costs fell by 37.8% to 7.3 million euros, mainly due to the fall in net financial debt and the reduction in interest rates as a result, among other factors, of the renewal of the syndicated loan in 2016.

Impairment and gain (loss) on disposal of financial instruments rose to 4.1 million euros as a result of the disposals of shares in listed companies.

Finally, the **Net profit** of the individual company for 2017 was 60.4 million euros, up 10% on the 54.9 million euros recorded in 2016.

Individual Balance Sheet

Property, plant and equipment rose by 5.6 million euros on year-end 2016 to 224.1 million euros, mainly as a result of investments for 23.2 million euros, offset by the depreciation/amortisation charge for the year of 17.8 million euros.

Long-term investments in group companies and associates increased significantly by 45.6% to 319.9 million euros, mainly due to the acquisition of new group companies and the capital increase of a French subsidiary.

Inventories increased by 1.7%, to 24.9 million euros.

Trade and other receivables fell by 14.7 million euros compared with year-end 2016, mainly as a result of the aforementioned receipt of the debt from EDIA.

Short-term investments in group companies and associates fell by 111.7 million euros compared with December 2016 to 81.9 million euros, mainly as a result of the offsetting of lending to the French subsidiary as a result of the aforementioned capital increase.

Total assets amounted to 731.4 million euros, 4.6% down on year-end 2016 as a result of the effect of the aforementioned headings.

Equity rose by 8.5% to 314.9 million euros, mainly as a result of the profit for the year of 60.4 million euros, offset by the payment of dividends of 28.9 million euros and the increase in treasury stock of 8.8 million euros.

Long-term debts fell by 14.2% to 301.8 million euros, mainly due to the amortisation of long-term debts with financial institutions.

Short-term debts fell by 0.9% to 40.3 million euros.

Trade and other payables rose by 23.3% to 70.6 million euros.

AVERAGE PERIOD FOR PAYMENT TO SUPPLIERS

In accordance with the provisions of Article 539 of Royal Legislative Decree 1/2010, of 2 July, approving the recast text of the Capital Companies Act, the average period of payment to suppliers corresponding to 2017 is available in Note 24 to the Company's Individual Annual Accounts.

4. KEY EVENTS IN 2017

30/01/2017 Dividend information: distribution of interim 2016 dividend of 0.0951 euros per share, to be made effective on 23 February 2017

13/02/2017 Main features of payment relating to interim dividends for the financial year ended 31 December 2016 for 0.0951 euros per share

17/02/2017 Situation of the European market for packaging paper

28/02/2017 The company reported information on the results of the second half of 2016

28/02/2017 Europac increased its net profit by 51%

28/02/2017 The company filed its 2016 Annual Corporate Governance Report

28/02/2017 The company filed its 2016 Annual Directors' Remuneration Report

28/02/2017 Report to analysts of 2016 results

01/03/2017 Presentation to analysts of 2016 results

30/03/2017 Europac raised the price of Kraftliner and white paper by €50 and €40 per tonne

30/04/2017 Europac purchased an integrated packaging factory in Lucena

18/04/2017 Europac sold its logistics operator in the Port of Viana do Castelo

08/05/2017 Europac purchased the waste management company from Valladolid Transcon, S.A.

09/05/2017 The company reported information on the results of the first quarter of 2017

09/05/2017 The Europac Group increased its net profit by 10%

09/05/2017 Presentation to analysts of 1Q17 results

26/05/2017 Calling of the Ordinary General Shareholders' Meeting

21/06/2017 Sale of 6.59% of Papeles y Cartones de Europa, S.A.

21/06/2017 Closure of the sale of 6.59% of Papeles y Cartones de Europa, S.A.

22/06/2017 Europac announced price rises of €50 per tonne throughout its range of papers

28/06/2017 Sale of the Tangier factory

28/06/2017 Europac to distribute 29.8 million euros to its shareholders, 78% more than in 2016

29/06/2017 Approval of the resolutions of the General Shareholders' Meeting

10/07/2017 Distribution of 2016 dividends for an amount of 0.223 euros, to be made effective on 17 July 2017

27/07/2017 The company reported information on the results of the first half of 2017

27/07/2017 The Europac group increased its net profit by 54.6%.

27/07/2017 Europac presentation of 1H2017 results

28/07/2017 Changes in the Board of Directors and in the Appointments and Remuneration Committee

27/09/2017 Capital reduction through the cancellation of treasury shares

18/10/2017 Registration of the share capital reduction

25/10/2017 Execution of the bonus issue approved by the General Shareholders' Meeting of 28 June 2017.

25/10/2017 The company reported information on the results of the third quarter of 2017

25/10/2017 Europac increased its net profit by 82% to 58 million euros

25/10/2017 Europac presentation of 9M2017 results

22/11/2017 Admission to trading of new shares

20/12/2017 Europac raised the price of all qualities of kraftliner and recycled paper by €60 per tonne.

5. SIGNIFICANT EVENTS SUBSEQUENT TO END OF THE PERIOD

07/02/2018 New scenario in the European recovered paper market

16/02/2018 Payment of amounts for interim dividends for 2017 of 0.125 euros per share, to be made effective on 26 February 2018.

19/02/2018 Main features of payment relating to interim dividends for the financial year ended 31 December 2017 for 0.125 euros per share

B. NON-FINANCIAL REPORTING

1. ABOUT THIS CHAPTER

This chapter aims to present the most significant information on the business model of the Europac Group and its management of significant non-financial aspects (governance, employee-related matters and social and environmental matters). Matters relating to respect for human rights refer to appropriate management of employees and the guarantee of compliance with their fundamental rights by means of collective bargaining agreements that cover the entire staff and the channels established to promote two-way communication.

In drawing up this statement, the company has taken into account the requirements established in **Royal Decree Law 18/2017**, approved on 25 November, amending the Code of Commerce, the recast text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Account Auditing, in the matter of non-financial information and diversity. The company has taken into account the guidelines on non-financial reporting of the European Commission (**2017/C 215/01**) resulting from Directive 2014/95/EU and the **Global Reporting Initiative's** G4 Sustainability Reporting Guidelines.

The information included in this chapter is supplemented by the Integrated Annual Report which Europac has published since 2014, in accordance with the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and the aforementioned Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

In this regard, since 2014 Europac has conducted a materiality analysis with the aim of identifying the most significant issues for the Company and its stakeholders.

2. BUSINESS MODEL

The Europac Group's business model is based on the **vertical integration** of the Paper and Packaging Divisions and their balanced growth from a corporate and organic perspective. Its presence throughout the value chain of paper and corrugated board for packaging allows the Group to guarantee a significant part of its raw material needs.

Paper

The Europac Group has five paper production lines spread over its four factories in Dueñas and Alcolea (Spain), Viana do Castelo (Portugal) and Rouen (France), with a total annual production capacity of **1,090,000 tonnes**. Of this capacity, 425,000 tonnes correspond to the kraftliner paper manufactured in Viana do Castelo. This type of paper is only produced by five companies in Europe. In addition, at the Dueñas, Alcolea de Cina and Rouen plants, the company has a production capacity of 665,000 tonnes per year that includes coated white liners, high and low weight fluting, as well as a wide variety of brown papers, including dual-use paper. The factories in Spain and Portugal have power plants associated with the paper production process. In addition, Europac Recicla, a subsidiary of the Europac Group with a

presence in Spain (two plants in Valladolid and one in Madrid) and Portugal (Figueira, Porto and Lisbon), performs **integrated waste management** with an annual managed volume of over 355,000 tonnes. Similarly, the Europac Group undertakes **management of forestry assets** in accordance with the highest international standards of forestry certification, with a managed area of 8,000 hectares. 88% of the area managed by the Group is certified according to sustainable forest management standards (70% FSC - Forest Stewardship Council - and 18% PEFC - Programme for the Endorsement of Forest Certification). Europac thus has a chain of custody policy whereby it undertakes to promote sustainable management of forestry assets and to train and inform employees in the proper functioning of said chain of custody.

[Financial information and main environmental factors that have influenced the performance of Paper Division business on pages 4 and 5 of this report](#)

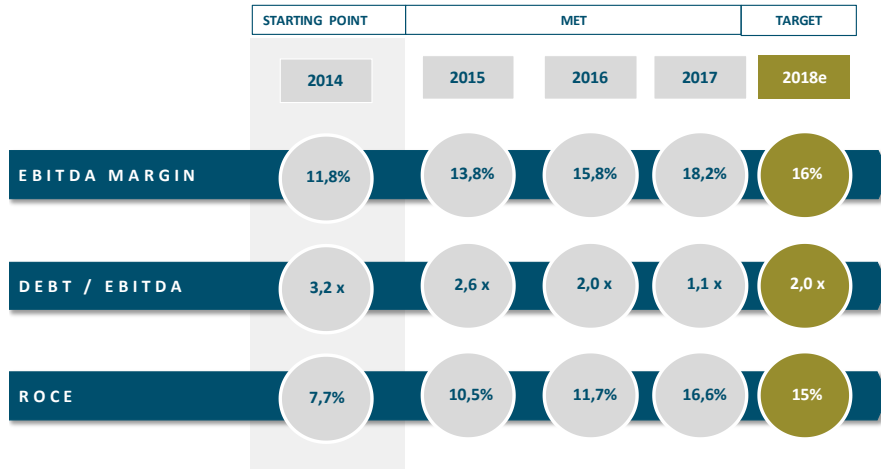
Packaging

The Europac Group has 14 facilities engaged in the production and distribution of corrugated board sheets and packaging spread over Spain, France and Portugal. With a production capacity of **850 million m² per year**, it is a benchmark supplier in the markets in which it operates. The Europac Group is able to supply any packaging, from shelf-ready packaging to consumer packaging, including heavy-duty packaging, e-commerce packaging, large format packaging, premium packaging, display cases, pallets and corrugated board sheeting. In addition, as part of its high-quality printing strategy, the Group has flexographic, offset and digital printing lines. In addition, the Packaging Division has 12 design centres for developing packaging solutions tailored to customers' needs.

[Financial information and main environmental factors that have influenced the performance of Packaging Division business on page 5 of this report](#)

- Strategy:

The Europac Group's strategy aims to generate value for the company's shareholders and is based on three pillars: organic growth, leadership in cost management and leadership in cash generation. This is all based on a culture of pride and performance that cuts across the entire strategy, giving it corporate meaning and consistency. Thus in 2014, Europac defined its **Strategic Objectives for 2015-2018** with the clear aim of maximising the profitability of its assets as the basis for future growth and for the creation of value for all its significant stakeholders. And this has been specified by means of ambitious objectives that highlight the importance of optimising the profitability of each business, process and operation and returning to shareholders the trust placed in the industrial project. At year-end 2017, the objectives set for 2018 had been completed one year in advance.

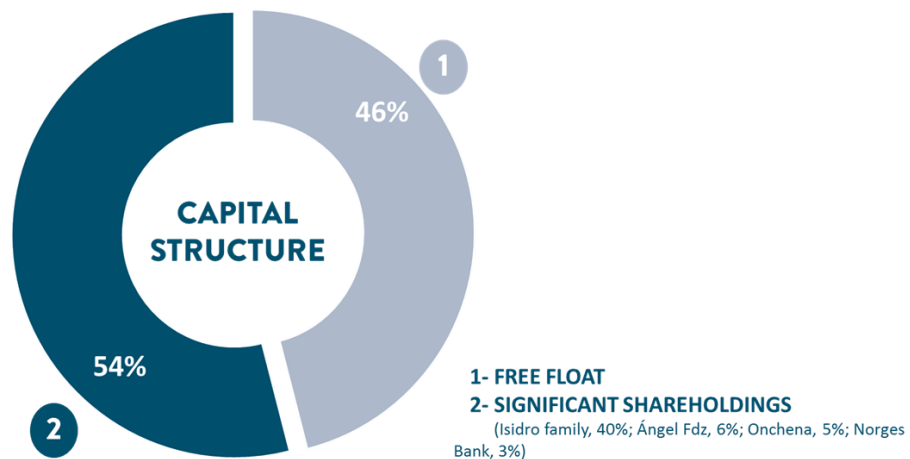


3. MANAGEMENT OF NON-FINANCIAL ASPECTS

- CORPORATE GOVERNANCE

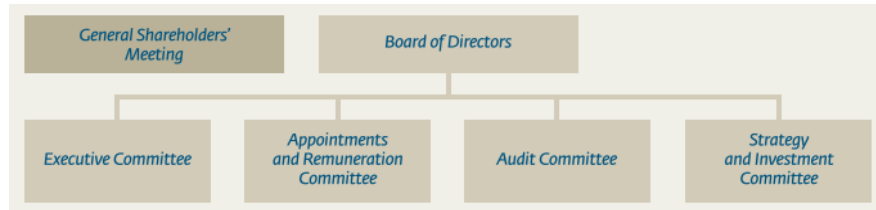
Shares and Capital Structure

The shares are admitted to trading on the Madrid and Barcelona stock markets and the shareholder structure is as follows:



Source: CNMV, internal

Governance model



The **General Shareholders' Meeting** is the body authorised to decide on issues attributed to it by law and the Articles of Association, which include approval of the annual accounts and corporate management and determining the number of members of the Board of Directors. The General Shareholders' Meeting was held on 28 June 2017, following an ordinary call, with 81.43% of the share capital present or represented. It also has the authority to appoint and remove directors, without prejudice to the appointment of directors by the Board of Directors by co-optation.

The **Board of Directors** is the highest management and representational body of Europac. It holds the broadest powers for managing the Group, except in matters reserved to the authority of the General Shareholders' Meeting. The Board of Directors met on 10 occasions in 2017.

- Composition:

JOSE MIGUEL ISIDRO RINCÓN (Chairman)	Executive
ENRIQUE ISIDRO RINCÓN (Vice-chairmen)	Executive
FERNANDO ISIDRO RINCÓN	Executive
ROCÍO HERVELLA DURÁNTEZ	Independent
CELINE ABECASSIS MOEDAS (Coordinator)	Independent
RICARDO DE GUINDOS LATORRE	Independent
AGUASAL SAU – Maria Amelia Isidro Rincón	Proprietary
JUAN JORDANO PÉREZ	External
VICENTE GUILARTE GUTIÉRREZ	External
TRES AZUL, S.L. – Fernando Padrón Estarriol	External

- Categories in the composition of the Board of Directors: 60% of the directors are independent and external.

- Percentage of women: 30%, with the director selection process being the most effective tool for guaranteeing equal opportunities.

- Diversity on the Board: The age of the directors covers a wide range. Europac seeks diversity in the governing bodies in order to ensure that the best decisions are taken based

on the strategic objectives. The Board of Directors, through the Appointments and Remuneration Committee, proposes to the General Shareholders' Meeting the number and profile of directors that are most appropriate to the good governance recommendations. The aim is to ensure due representation and effective functioning of the board and to reflect an appropriate balance of experience and knowledge that will enrich the decision-making process and provide plural points of view for debating the issues addressed by the Board, ensuring that all the directors are suitable persons of good repute, skill, experience, training and availability for discharging the functions of the office. During the selection process for director candidates, the Board of Directors aims to ensure transparency, by assessing the candidates' competencies and knowledge and defining the necessary functions and skills, assessing the time and dedication necessary for effectively discharging the functions of the office, and guaranteeing at all times that there is no discrimination for any reason between the candidates.

The Europac Group has the following **Board Committees**:

- **EXECUTIVE COMMITTEE:** It exercises the powers delegated by the Board of Directors, except those that cannot be delegated by law and Bylaws, in relation to the management, administration and ordinary representation of the Company in accordance with the same principles of action in Bylaws and the Board of Directors Regulations. Without prejudice to the Executive Committee's autonomy of decision with respect to the powers delegated, its resolutions being fully valid and effective without the need for any ratification by the Board of Directors, in those cases in which, in the Chairman's opinion, circumstances so require, the resolutions adopted by the Executive Committee shall be submitted for ratification by the Board, the same regime being applied in respect of those matters on which the Board of Directors has delegated its study to the Committee, but the Board of Directors reserves the final decision in this respect.

The Executive Committee met on 14 occasions in 2017.

- **APPOINTMENTS AND REMUNERATION COMMITTEE:** responsible for submitting proposals to the Board for the appointment of Independent Directors for their appointment by co-optation or for submission to a decision of the General Meeting, as well as proposals for the re-election or removal of said directors. It also proposes to the Board the remuneration policy for directors and managers, the board committees or the Chief Executive Officer, as well as the individual remuneration and contractual conditions of Executive Directors.

The Appointments and Remuneration Committee met on 6 occasions in 2017.

- **AUDIT COMMITTEE:** responsible, among other functions, for reporting to the General Shareholders' Meeting on the issues raised by shareholders in its area of responsibility, overseeing the effectiveness of the internal control, the internal audit and the risk management systems, supervising the process of preparation and presentation of the financial information and proposing the appointment of external auditors.

The Audit Committee met on 6 occasions in 2017.

- **STRATEGIES AND INVESTMENTS COMMITTEE:** responsible for formulating proposals and reports on strategic decisions, as well as their management and follow-up, ensuring the implementation of action plans in financial and corporate transactions, and formulating proposals and reports on investments and disinvestments that may affect Europac's strategy, establishing the investment policy and ensuring it is properly implemented.

This Committee has not held meetings in 2017, due to the fact that for functional reasons and given that its members are, in fact, members of the Executive Committee, the powers that belong to it and which are described in article 19 of the Board Regulations have been performed within the Executive Committee.

In addition to the Bylaws, the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors, the Europac Group has its **Internal Regulation**, which aims to self-regulate certain aspects of its activity, paying special attention to managing the information that affects the securities traded on the Stock Exchange, such as financial information on significant events, transactions, conflicts of interest and related-party transactions. Since 2015, Europac has an Independent Coordinating Director overseeing the functions of Chairman, coordinating and bringing together non-executive directors of the Board of Directors.

Relations with shareholders and investors:

As part of its commitment to transparency, the relationship with shareholders, investors and analysts determines the correct formation of expectations about the value of the company. In this context, particularly noteworthy is the information on business management and adaptation of the strategy to the environment and the demands of investors and other stakeholders. Communication is therefore ongoing and two-way, whether through the Shareholder Office or the Group's website, or by means of meetings with local analysts and investors in different European markets and visits to the Group's factories.

Over 140 meetings were held with national and international investors in 2017 through roadshows (Madrid, Copenhagen, Paris, London, Barcelona and Geneva), investor forums, one-on-one meetings and visits to the company's industrial facilities. In addition, there were a total of 65,945 visits to the Investor Relations section of the corporate website in 2017.

[The shareholder remuneration policy is described on page 7 of this report](#)

Code of Conduct

The Europac Group has a Code of Conduct approved by the Board of Directors in 2014 and amended in 2016 that sets out the basic principles of action applicable to employees, members of management bodies, suppliers, subcontractors and any third party that has a legal relationship with the company.

The body responsible for monitoring and supervising compliance with this Code is the **Corporate Ethics and Compliance**

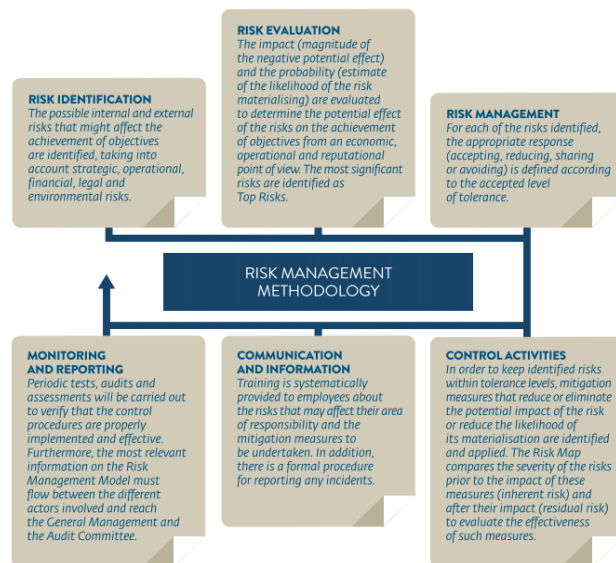
Committee, which is responsible for investigating, considering and sanctioning possible breaches in accordance with the Group's Disciplinary System.

KEY PRINCIPLES OF ACTION

- Regulatory compliance
- Health and safety at work
- Respect for the environment
- Commitment to sustainability from an economic, environmental and social point of view
- Commitment to human rights
- Diversity, equality and respect
- Professional independence
- Prevention of money laundering
- Quality and customer service
- Fair competition
- Protection of confidential information

Risk management:

Europac has a Risk Management System that covers all the activities and processes associated with the performance of the Group's business activities, considering different types of risks (strategic, operational, financial, legal, reputational and environmental risks). This risk management aims to comply with the defined strategy, by focusing on protecting the Group's reputation, financial soundness and sustainability, as well as protecting the rights of shareholders by assigning responsibilities to employees, directors and senior management, with a comprehensive operating system, consolidating said management by business unit, geographical areas and support areas at a corporate level.



In response to the increased regulation of Spanish listed companies in recent years - more specifically under Law 31/2014 and Circular 5/2013 - and the new Code of Good Governance, Europac has undertaken the necessary steps to adapt its operations to the new regulatory requirements in terms of both corporate governance and its internal control systems.

Europac has updated its integrated risk management system. A global and integrated focus has been applied to the Group's risk map and the Board of Directors has approved the group's risk management policy. With regard to ICFR, the control system has been established.

Finally, with the reform of the Spanish Criminal Code, Europac has implemented a specific control system for the prevention and detection of criminal offences. This control system will be subject to external guarantees on an annual basis, and an audit on the design and effectiveness of the controls will be included in the audit plan each year.

The Group's activities are exposed to diverse financial risks: market risk, credit risk, liquidity risk, exchange-rate risk and interest-rate risk in cash flows. The Group analyses uncertainty in financial markets and takes steps to minimise the adverse effects that it may have on the Group's financial profitability by using derivative instruments, among other measures.

The contracting of derivative instruments is limited to hedging interest-rate risk in cash flows and, occasionally, exchange-rate risks.

Cash flows from the group's operating activities are independent of variations in market interest rates. Therefore, there is no natural hedging between operating cash flows and financial cash flows. The Group's exposure to interest rate risk is mainly present in long-term debt which is almost all indexed to floating rates, thus exposing the Group to interest-rate risk in cash flows. Fixed-rate borrowings, which are not significant in the Group, expose the Group to fair value interest-rate risk. The group's policy consists of using derivative instruments to swap the floating rate for a fixed rate or to limit the volatility of floating interest rates to a determined range, maintaining a reasonable balance between fixed and floating interest rates.

For further information on the risk management policy, see Note 9(f) in the Notes to the 2017 Individual Annual Accounts and Note 26 in the Notes to the Consolidated Annual Accounts.

The main risks, including tax risks, that might affect achievement of the business objectives may be consulted in Chapter E: Risk control and management systems, Section 4 of the 2017 ACGR.

- EMPLOYEE-RELATED MATTERS:

Europac's total headcount in 2017 was 2,278, thus continuing the stability that began in 2015, following a few years of gradual growth. 96% of the employees have permanent contracts.

Of this total, 82% are men and the rest are women. In Europac, a company that is present in all sectors of the paper and corrugated board for packaging industry and which operates globally, the board of directors has ten members, three of whom (30%) are women. In addition, the Secretary and the Technical Secretary of the board are also women. The

Steering Committee has a gender balance. In addition, throughout the company, discounting the professional category of factory workers, this percentage of women stands at 44%.

Europac considers its staff as a key driver for the Group's development and the achievement of its objectives. In 2017, Europac continued to develop its **management strategy** with its employees, which establishes the priorities for the coming years and the main initiatives to be consolidated or developed. With regard to the actions performed by Europac in relation to attracting and developing talent, the **executive search** policy allows the Group to attract the best profiles in the market to management positions. In addition, the **Junior Talent Development Programme** has been extended to the Group's industrial areas. This programme promotes the incorporation of young graduates with leadership, learning and teamwork skills, with the prospect of occupying a position of responsibility in the Company in the future. In 2017, the Europac Group had ten junior talents, an increase of 67% on the previous year.

In addition, with the focus of developing its human capital, the Group has developed the **Trisquel Project**, a competency model that makes it possible to assess certain professional groups and establish specific development plans. A total of 223 employees were assessed in 2017 using this model.

Similarly, **Training** at Europac is managed at three levels: corporate level, for core skills, group knowledge, culture and strategy; division level, for business-orientated training and technical specific skills; and plant level, for specific technical training coordinated at country level. The contents of this training, included under UNIPAC, are aligned with the results of the competency model assessments. A total of 56,019 training hours, i.e., an average of 25 hours per employee, were given in 2017

Europac's new **remuneration policy** is aimed at maintaining people in the teams and involves defining salary levels, analysing variable remuneration, implementing new remuneration models, competency-based appraisals and promoting geographical mobility.

In this regard, it is essential for Europac to maintain a direct and fluent relationship with employees at all levels. Consequently, **internal communication** is considered one of the most important levers for managing change and implementing strategic projects. Consequently, the Internal Communication Plan, which began in 2015, seeks to generate cultural identity by involving people in the organisation at various levels, generating employee commitment to the Group's objectives, knowledge and application of the aspects that characterise the corporate culture, retaining employees and increasing their sense of belonging.

With regard to **occupational risk prevention**, Europac applies Prevention Programmes and a General Health and Safety Policy, providing employees with the resources to perform their tasks safely and developing policies for training regarding good practices, with an average of four training hours per employee in 2017.

- SOCIAL MATTERS

Customers

Europac's activity is orientated towards responding to its customers, anticipating their needs and offering products and services of the highest quality. Thus, all Europac teams share the vision that the only way to work as suppliers is by being in contact with their customers, understanding their business and bringing value not only to them, but also to their customers. That is why Europac offers its customers several communication channels, such as the Technical Customer Service Department, which offers pre-and post-sales technical advice, 12 design centres, satisfaction surveys regularly sent to customers in order to discover their assessment of the Group's performance, regular meetings with the customers of each factory in order to monitor the commercial relationship, and a section of exclusive access for customers on the corporate website.

In addition, satisfaction surveys are regularly conducted by the Paper and Packaging Divisions so that customers can evaluate Europac's performance with regard to the commercial service, the product and the logistics. Europac manages customer complaints based on a review of the causes, the pooling of the teams involved and the search for corrective actions, so that all complaints received are addressed within 24 hours and a solution proposed to the customer within 48 hours. For example, the number of complaints in the Paper Division fell by 28% in 2017.

Suppliers

Europac considers its suppliers to be of particular importance due to their influence on the company in its capacity to offer customers higher quality products and services at a fair price. Through direct and ongoing interaction, contact in bidding and/or tender processes, as well as certification processes, the company strives to achieve mutual benefit and the creation of solid relationships that will allow us to achieve maximum operational and economic efficiency. Europac seeks to create value in the areas in which it operates, encouraging purchasing from local suppliers with the aim of increasing and consolidating sustainable economic development. The percentage of local purchases in 2017 stood at 79%, three points higher than the figure recorded in the previous year.

- ENVIRONMENTAL MATTERS:

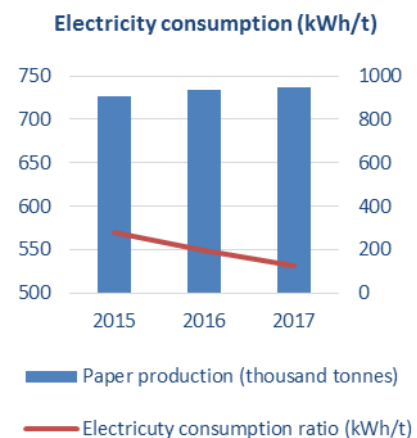
Sustainability is part of Europac's business model philosophy, which is set up as a cycle in which the outputs of certain processes become inputs for others, with the search for greater efficiency and a better use of resources. Therefore, aware of the impact that the Group's activity might have on the environment, the company develops an environmental management policy based on best sectoral practices and promotes action plans aimed at optimising and utilising available natural resources as well as suitable waste management. In addition, compliance with applicable legislation at the facilities is guaranteed and awareness and training programmes are implemented for all employees.

The most significant environmental impacts resulting from the Group's activity correspond to paper production. In this regard, within the framework of the Paper Division's environmental management, the facilities in Spain and Portugal are certified according to the ISO 14001 Environmental Management System standard. In addition, both the plant in Viana do Castelo

in Portugal and the Rouen Paper plant in France are certified according to the ISO 50001 Energy Management System standard. The French factory obtained this certification in 2017.

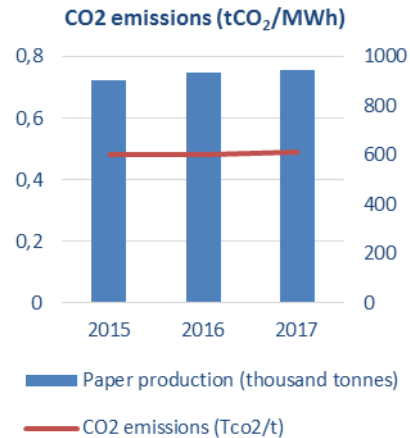
The **Environmental Management Manual** is the basic document for complying with the Group's Environmental Policy. This document identifies and evaluates the environmental aspects of the Group's operations and defines the **Environmental Improvement Programmes**, with the corresponding actions, objectives and targets. Monthly monitoring is carried out using the Environmental Indicators Map, which brings together the main vectors, such as water and energy consumption, effluent discharge, gaseous emissions and waste generation.

- The production of paper for packaging entails significant consumption of certain raw materials and auxiliary materials, including wood from sustainably managed fast-growing species such as pine and eucalyptus, and paper for recycling, partly from the Group's waste management facilities. Similarly, although the consumption of raw materials in Europac's facilities is highly stable, the Group has carried out different improvement initiatives aimed at optimising resources in the production processes, such as the improvement of the screening process of the impurities removed from the recycled paper pulp, thus reducing the loss of fibres as far as possible and achieving an increasingly efficient process.
- Water consumption: in the paper production process, water serves as a vehicle for transporting the cellulose fibres, and is used in the washing operations, in the stage of recovered paper defibrillation and in the sheet forming operations in the paper machine. In addition, it is used for the refrigeration of equipment and liquid currents. To achieve efficient water use, Europac establishes comprehensive process control systems and production planning to prevent and mitigate the risks associated with water consumption, preventing leaks and losses.
- Energy consumption: the factory at Viana do Castelo uses biomass (black liquor and bark) and bi-products from the process to generate most of the heat (steam) necessary to produce paper and two combined-cycles meet the additional needs. In addition to producing electric power, the Dueñas factory also generates the necessary heat using combined cycle energy co-generation. The factory at Alcolea de Cinca, in turn, uses a simple cycle to generate electricity and steam. In 2017, the Rouen paper factory obtained certification according to the ISO 50001 Energy Management System standard. In Viana do Castelo, the liquid ring vacuum pumps were replaced with turbo blowers, and

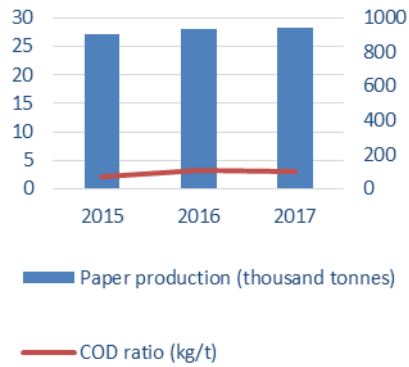


new more efficient agitators for the pulp preparation process were installed. Finally, various energy measures were implemented, including lighting efficiency measures conducted in both Viana do Castelo and Alcolea de Cinca.

- Gaseous emissions: the main gaseous emissions produced by Europac are the gases generated in the production of kraft pulp which is used for the production of kraftliner paper and in the burning of natural gas for producing electric power through co-generation and combined cycle systems. In addition, there are diffuse emissions from the cellulose treatment process. Therefore, particulate emissions, SO₂, H₂S, NO_x and CO are measured continuously at the facilities, and are regularly monitored by Accredited Inspection Bodies. The improvements made in this area in 2017 include improvements to the gas purification equipment of the recovery boiler.
- Management of liquid effluents: after being used in the production process, water is recycled and used again in operations for which its quality is suitable. When water can no longer be used in the production process, it is treated and returned to the natural environment. Discharges from the facilities show an index of suspended matter (SM) and Chemical Oxygen Demand (COD) within the strictest parameters of legislation in force. Effluents from Europac facilities present negligible quantities of heavy metals, they do not show any toxicity and their discharge into the natural environment is carried out in aqueous mediums with high flow rates in which no significant impact is caused. The efficiency measures implemented over 2017 include the start-up of a project of a new liquid effluent treatment plant at the Dueñas paper factory, as well as the strengthening of the capacity of the treatment plants at the Alcolea de Cinca and Rouen factories. In addition, a fibre recovery system has been installed at Alcolea, and the underground effluent piping replaced by above-ground piping in Rouen.



Discharge parameters (kg/t)



- Solid waste management: In 2017, Europac maintained its commitment to take advantage of the waste generated at the Group's facilities, promoting material, energy and agricultural recovery. This waste is classified according to the type of paper produced into waste from the production of kraftliner paper (bark, wood chips and black liquor) and the production of recycled paper (plastics, sand, etc.) and from the treatment of effluents (biological sludge, organic material from waste water treatment, etc.).

C. ALTERNATIVE PERFORMANCE MEASURES **(APMs)**

The Management Report of the Europac Group that accompanies the 2017 consolidated annual accounts contains figures and measures prepared in accordance with applicable accounting standards, as well as a series of measures prepared in accordance with internally established and developed reporting standards, which are referred to as Alternative Performance Measures (APMs) and which improve the comparability, reliability and comprehensibility of these measures.

These APMs should be considered as complementary, but not as substitutes for the measures presented in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which is the accounting framework applicable to the Europac Group's consolidated financial statements.

The APMs are important for the users of management information as they are the measures that Europac's Management uses to assess the performance of the businesses or to make the Group's operational and strategic decisions. These APMs are consistent with the main indicators used by the community of investors and analysts in capital markets.

In this regard, and in accordance with the Guidelines issued by the European Securities and Markets Authority (ESMA) in force since 3 July 2016 on the transparency of Alternative Performance Measures, Europac provides information below on the APMs included in the 2017 management reporting that it deems significant.

CONSOLIDATED EBITDA

Consolidated EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is an indicator that is calculated as the Operating Profit (Loss) before depreciation and amortisation charges.

EBITDA is calculated as the Operating Profit (Loss) before depreciation and amortisation charges.

It provides an analysis of the operating profit (loss) excluding depreciation and amortisation as these variables do not represent cash flows and may vary substantially from company to company depending on accounting policies and the value of the assets.

It is used by management to assess earnings over time, allowing comparison with other companies in the sector. Finally, it is an indicator that is widely used by investors and analysts and by financial institutions.

The consolidated EBITDA for 2016 and 2017 appears in the Notes to the 2017 Consolidated Annual Accounts, Appendix III "Segment and geographical reporting" and is named "Operating profit before sector amortisation".

RECURRING EBITDA

Recurring EBITDA is an indicator that measures the company's operating margin deducting interest, taxes, depreciation and amortisation, but without taking into account non-recurring items that by their nature are not assigned to the operations, such as termination payments or gains and (losses) on mergers and acquisitions.

Europac's management uses this indicator as the best reflection of the company's business and one which allows comparison over several years as it is not distorted by one-off, extraordinary or recurring effects.

The recurring EBITDA for 2016 and 2017 appears in the Notes to the 2017 Consolidated Annual Accounts, Appendix III "Segment and geographical reporting" and is named "Operating profit before depreciation/amortisation for the segment".

Consolidated EBITDA MARGIN

The consolidated EBITDA Margin is obtained by dividing the Consolidated EBITDA by the consolidated net turnover.

The consolidated net turnover appears in the 2017 Consolidated Annual Accounts, specifically in the "Consolidated Income Statement for the years ended 31 December 2017 and 2016".

This ratio is used to obtain the operating performance achieved from the sales figure and is extensively used by investors, analysts and financial institutions when analysing any type of company in any type of sector.

Europac's management also uses this ratio to make comparisons with other companies in the sector and it is one of the variables established in the Europac Group's Strategic Plan for measuring compliance.

PAYOUT

The payout is the percentage of the consolidated profit for the year or net profit used to remunerate shareholders.

The consolidated profit for the year appears in the 2017 Consolidated Annual Accounts, specifically in the "Consolidated Income Statement for the years ended 31 December 2017 and 2016".

The percentage applied to remunerate shareholders is approved by Europac's General Shareholders' Meeting following a proposal from the Board of Directors. The percentage applied to the 2015 consolidated profit was 50%, while that applied to the 2016 consolidated profit was 60%.

NET DEBT

Net debt is calculated as the difference between the balance of "Debts with financial institutions and oblig. or other negotiable securities" on the balance sheet liability and "cash and cash equivalents" on the balance sheet asset (contained in the Notes to the Consolidated Financial Statements for 2017, specifically in the Consolidated Financial Statements at 31 December 2017 and 2016) and the amount of treasury stock valued at market prices at year-end 2017.

Net debt provides the company's borrowing position and is a widely used indicator in capital markets to compare different companies.

D. APPENDIX: ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report is available at the website www.europacgroup.com, and published on the website of the Spanish securities market regulator (Comisión Nacional del Mercado de Valores) on 28 February 2018.