



PRESENTATION
RESULTS
1Q2018



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europacgroup.com



1Q2018 MANAGEMENT REPORT

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

MAY 2018

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1.1Q2018 GROUP RESULTS

EXECUTIVE SUMMARY

(Figures en K€)	Q1 2017	Q1 2018	Var%
Aggregate income	281.786	317.740	12,8%
Consolidated income	210.071	235.360	12,0%
Recurring EBITDA	29.521	50.137	69,8%
Consolidated EBITDA	31.030	49.354	59,1%
PROFIT before TAX	16.489	35.111	112,9%
NET PROFIT	11.177	25.203	125,5%
Consolidated EBITDA Margin	14,8%	21,0%	

OVERALL RESULTS

Consolidated EBITDA grew in the first quarter of the financial year by 59.1% compared with the same period of the previous year, rising to a level of 49 million euros, against a backdrop of pressure on final demand for paper, an increase in recovered paper availability in Europe, and a gradual transfer of the rise in Packaging Division raw materials costs to the market. Meanwhile, the Group's Recurrent EBITDA rose by 69.8% compared with the same period of the previous year, and 17.7% compared with 4Q2017.

As a result, the consolidated EBITDA margin rose by 21%, an increase of 6.2 percentage points on the same period of the previous financial year.

PAPER DIVISION

The Paper Division registered an increase of 106.6% in EBITDA compared with 1Q2017, as a result of the rise in sale prices and the progressive fall in the price of raw materials, namely recovered paper. Meanwhile, revenues grew by 16.2%, up to a level of 210 million euros, compared with the first quarter of 2017.

PACKAGING DIVISION

The Packaging Division saw a downturn in EBITDA as a result of the substantial impact of the rise in the price of raw materials, which is gradually being passed on to the market. Revenues, meanwhile, were up 6.6% to 108 million euros.

PROFIT

The profit before tax increased by 112.9% compared with 1Q2017, rising to 35 million euros, including a reduction in financial expenses of 3.2%.

The net profit, meanwhile, was 125.5% up on the first quarter of the previous financial year, at 25 million euros.

DIVIDEND

On 26 February 2018, an interim dividend was paid out from the 2017 profits in the amount of €0.125/share, an increase of 31% on the previous interim dividend (€0.0951 in 2017).

2. ACTIVITY

PAPER

(Figures en K€)	Q1 2017	Q1 2018	Var%
Aggregate income	180.601	209.872	16,2%
Recurring EBITDA	25.672	53.035	106,6%
EBITDA margin	14,2%	25,3%	

REVENUES

Sales in the Paper business grew by 16.2% as a result of increased sale prices and reduced costs of raw materials (recovered paper) as a result of the change in the recovery model.

VOLUMES

Increase in kraft paper production volumes (+4% on 1Q2017) as a result of the increase in production capacity following the scheduled shutdown in May 2017, along with an increase in recycled paper (+4% on 1Q2017) as a consequence of the efficiency improvements made to the machinery.

PRICES

As for kraft paper, sale prices continue the upward trend begun in 2017, essentially as a result of strong demand in Europe and the reduction in US exports (12% cumulative decline by February). Meanwhile, stocks maintained a downward trend, although this is subject to seasonal influences at this time of the year. Shipments were affected by the stockpiling of paper as a result of the machinery shutdown at one European manufacturer at the end of the quarter.

With regard to recycled paper, the price increase noted over the course of the 2017 financial year continued during the first three months of 2018, based on strong final demand. Shipments by European manufacturers remained solid, with an increase of 3%, taking into account the seasonal impact of Easter on deliveries along with an upturn in stock levels in the last week of March.

Lastly, the average price of recovered paper - the raw material for recycled paper - registered an average downturn of €21/tonne compared with the same quarter of the previous year because of increased availability in Europe as a consequence of new legislation by the Chinese government, restricting imports of certain qualities of recovered paper. As a result, stock levels continue to rise (+15% on 1Q2017), accompanied by a downturn in exports to China (-53%) from CEPI countries during the first few months of the year.

EBITDA AND MANAGEMENT

The EBITDA of the Paper business stood at 53 million euros, 106.6% higher than in 1Q2017, mainly as a result of the increase in sale prices and the fall in the price of raw materials, as well as the increased production volume and cost optimisation, serving to improve the margin by as much as 25%.

PACKAGING

(Figures en K€)	Q1 2017	Q1 2018	Var%
Aggregate income	101.185	107.868	6,6%
Recurring EBITDA	3.849	-2.898	
EBITDA margin	3,8%	-2,7%	

REVENUES

Revenues maintain their positive trend, amounting to 107.8 million euros during the first quarter of the year, 6.6% up on the same period of the previous year. Work continues on the implementation of new applications and product developments focused on client needs.

VOLUMES

Increase in production volumes in all markets.

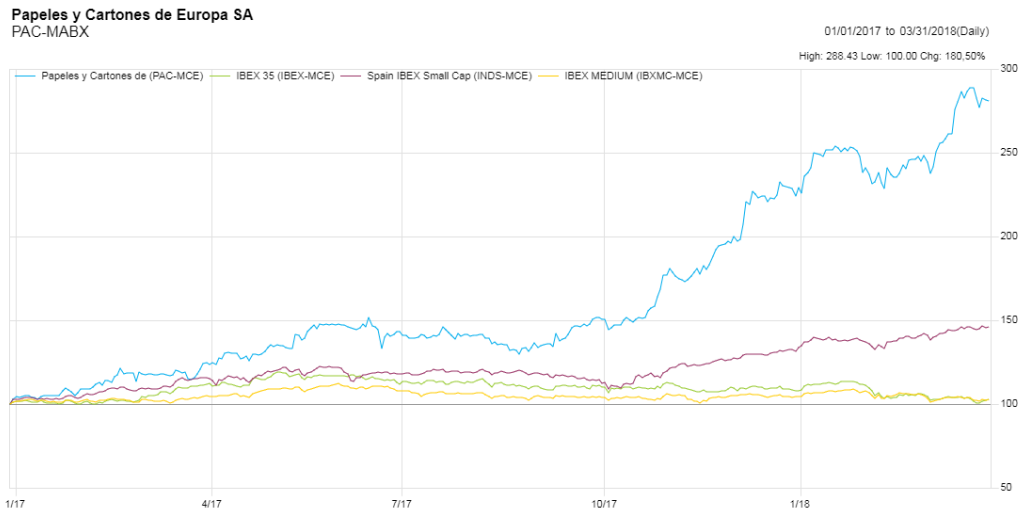
EBITDA AND MANAGEMENT

The Packaging Division registered a decline in EBITDA in the first quarter of 2018 compared with the first quarter of 2017 as a result of the impact of the rise in the price of paper - its raw material - although efforts continue to pass these prices on to the market. Meanwhile, management projects have dampened the impact of the rise in raw material costs.

3. EUROPAC ON THE STOCK EXCHANGE

During the first few months of the financial year growth forecasts for Spain over the year have been upgraded to 2.8%, making the Spanish economy one of the most dynamic in the world according to the latest update by the IMF.

Meanwhile, the Europac share price rose significantly during the first quarter of the year, a trend that had already begun in the final quarter of the previous year, climbing by 25% as opposed to a drop of 4% and 1% in the case of the Ibex 35 and Ibex Medium Cap indices respectively, and an upturn of 11% in the Ibex Small Cap.



Source: Nasdaq

IR Insight

Meanwhile, on 26 February the company distributed an interim dividend of €0.125/share from the 2017 financial year. This interim dividend represents an increase of 31% on the €0.0951/share handed out in the same period of the previous year. Meanwhile, the Board of Directors will propose that the General Shareholders' Meeting approve the distribution of a supplementary dividend with the aim of increasing the payout to 50%. The GSM will also vote on the approval of a released capital and an amortisation of treasury stock.

4. RESULTS OF THE CONSOLIDATED GROUP (as per IFRS)

CONSOLIDATED INCOME STATEMENT

(€'000)	Q1 2017	Q1 2018
Net turnover	210.071	235.360
Change in inventories of finished products and work in progress	1.200	1.187
Own work capitalised	726	216
Supplies	(106.395)	(105.570)
Other operating revenue	3.563	1.148
Personnel expenses	(28.205)	(31.495)
Other operating expenses	(50.123)	(52.127)
Amortisation	(12.411)	(12.179)
Allocation of subsidies of non-financial fixed assets	520	617
Impairment and gain (loss) on disposal of fixed assets	(327)	19
OPERATING PROFIT (LOSS)	18.620	37.174
Financial revenue	449	62
Financial expenses	(2.630)	(2.077)
Change in fair value of financial instruments	441	(38)
Exchange differences	(435)	(10)
Impairment and gain (loss) on disposal of financial instruments	-	-
NET FINANCIAL EXPENSE	(2.175)	(2.063)
Profit (loss) of companies accounted for using the equity method	44	-
PROFIT BEFORE TAX	16.489	35.112
Corporate income tax	(5.312)	(9.908)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	11.176	25.203
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	11.176	25.203
Net profit attributable to the parent company	11.176	25.203
	-	-
EBITDA	31.030	49.354

The Europac Group obtained **EBITDA** of 49.4 million euros in the first three months of 2018, 59.1% higher than in the same period of the previous year.

Net Turnover at 31 March 2018 amounted to 235.4 million euros (12% higher than in the same period of 2017).

The **Change in Inventories of Finished Products** was 1.2 million euros.

Procurement amounted to 105.6 million euros in the first three months of 2018, 0.8% lower than the same period in 2017.

Staff Costs stood at 31.5 million euros.

Other operating expenses amounted to 52.1 million euros, 4% higher than the previous year.

Depreciation/Amortisation fell by 1.9% to 12.2 million euros.

The **Financial Result** was -2.1 million euros, an improvement of -2% on the first three months of the previous year, reflecting the significant drop in Net Financial Debt.

Corporate Income Tax was up by 4.6 million euros to a level of 9.9 million euros in the first three months of 2018, because of the increase in the profits for the quarter.

Net Profit for the financial year attributed to the parent company at March 2017 was 25.2 million euros, 125.5% higher than the same period of the previous year, as a result of the variations discussed above.

5. KEY EVENTS DURING 1Q2018

07/02/2018 New scenario in the European recovered paper market

16/02/2018 Distribution of interim dividends from the 2017 financial year in the amount of 0.125 euros per share, payable on 26 February

19/02/2018 Key payment characteristics regarding the distribution of interim dividends from the financial year closed at 31 December 2017, in the amount of 0.125

28/02/2018 Information from the Company on results for the second half of 2017

28/02/2018 Europac increases net profit by 59.4%

28/02/2018 The Company issues its Annual Corporate Governance Report for the 2017 financial year

28/02/2018 The Company issues the Annual Report on the Remuneration of Directors for the 2017 financial year

01/03/2018 The Company publishes the 2017 Management Report

01/03/2018 Presentation of 2017 results. Medium-term plan

6. CONCLUSION

The Europac Group results for the first quarter of 2018 are very positive and reflect the gradual trend towards sustainable growth against a market backdrop that has improved quarter-by-quarter. The results for 2018 are forecast to be better than those of 2017.

The corrugated board packaging market is on an upward curve and is replacing packaging manufactured from unsustainable materials due to its differentiation based on customisation and its adaptability to different distribution channels, the inclusion of features integrated in the packaging design, cost savings associated with logistical packaging and innovation as a competitiveness factor.

The sector has increased its market share in alternative packaging and is developing new packaging uses. These two circumstances, together with heightened demand, demographic growth and the trend towards replacing plastic packaging, as demanded by consumers, have led to greater growth in the packaging market at a global level than in the share of consumption.

Europac has an integrated business model that is a sustainability factor in its own right and fully participates in these trends in a highly favourable market environment.

7. 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 1Q 2018 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.

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.

Consolidated EBITDA MARGIN

The consolidated EBITDA Margin is obtained by dividing the Consolidated EBITDA by the consolidated net turnover.

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 percentage applied to remunerate shareholders is approved by Europac's General Shareholders' Meeting following a proposal from the Board of Directors.
