MANAGEMENT REPORT 2017

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

FEBRUARY 2018

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.

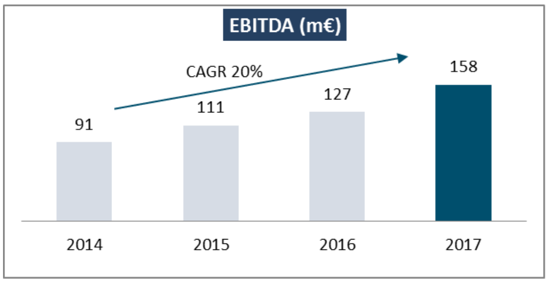
The Paper Division recorded a 42% increase in EBITDA compared with 2016 as a result of the increase in sales prices and segmentation towards higher added value papers (such as kraftliner papers, coated papers and high feature white and brown papers) despite the increase in the price of the raw material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

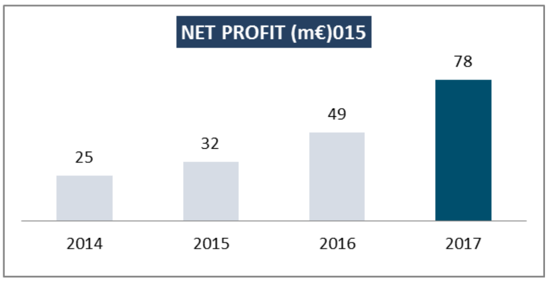
The Packaging Division recorded a 111% fall in EBITDA compared with 2016 as a result of the significant impact of the raw material price rise, which is being progressively passed on to the market. Sales rose by 5% in all markets, with particularly strong sales growth in Spain.

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).

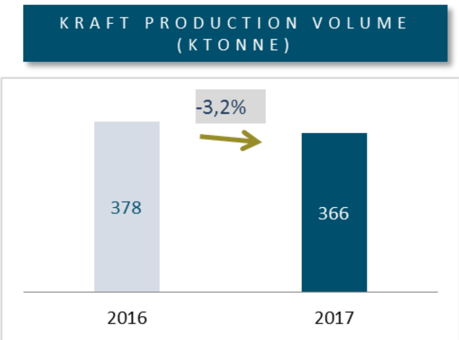
PAPER

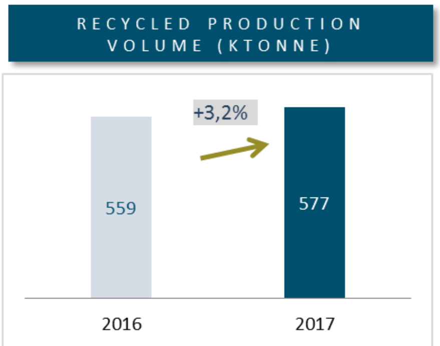
(Figures en K€)	2016	2017	Var%
Aggregate income	673.342	769.201	14,2%
Recurring EBITDA	104.741	148.531	41,8%
EBITDA margin	15,6%	19,3%	

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:

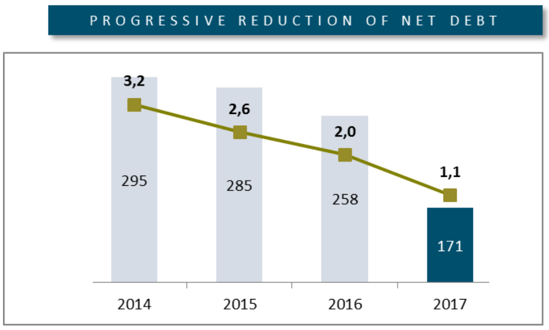
- Improvement in productivity at the Val de Seine, Ovar and Albarraque plants

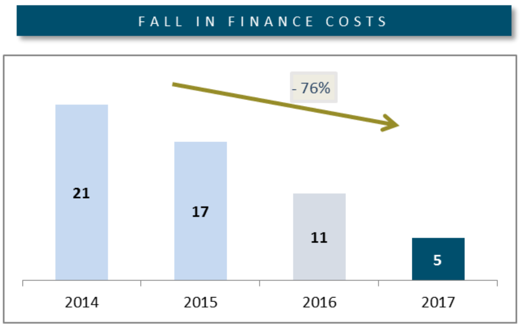
- Increase in production in Dueñas

- 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%.





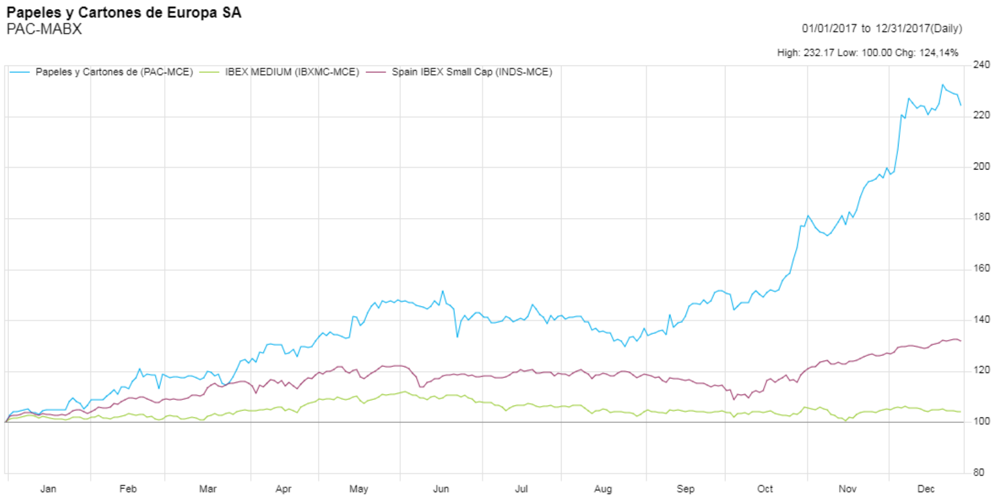
EUROPAC ON THE STOCK EXCHANGE

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%.

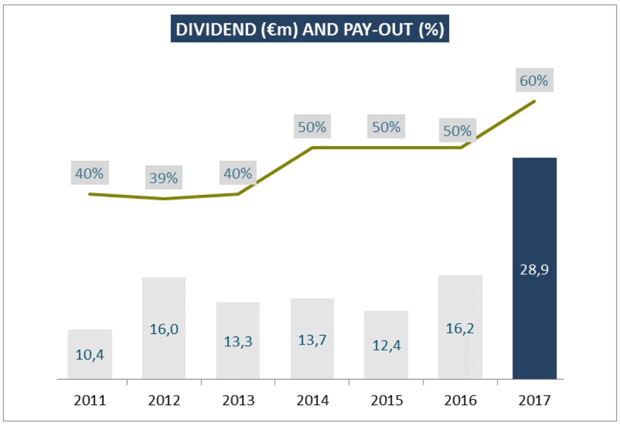
Spain recorded growth of 3.1%, with an increase of 0.7% in the last quarter of the year, mainly driven by private consumption and exports, which contributed to greater foreign confidence.

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 Ibex Small Cap and the Ibex 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 lax 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 Desenvolvimiento 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 (Thousand euros)	% Share Capital	Consideration (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 Desenvolvimiento 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

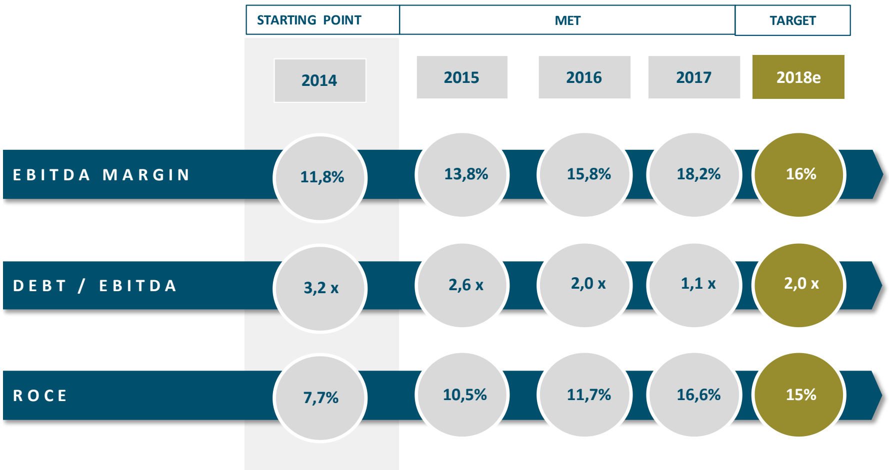
Packaging

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 m^2 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.

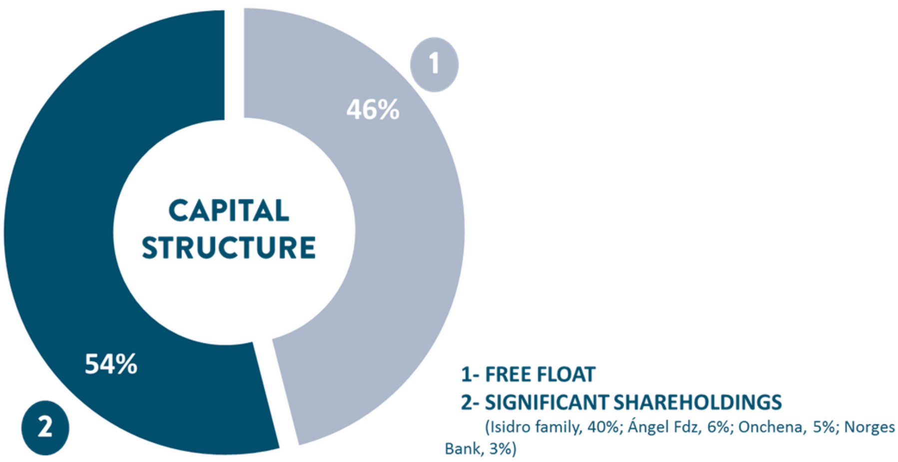


3. MANAGEMENT OF NON-FINANCIAL ASPECTS

- CORPORATE GOVERNANCE

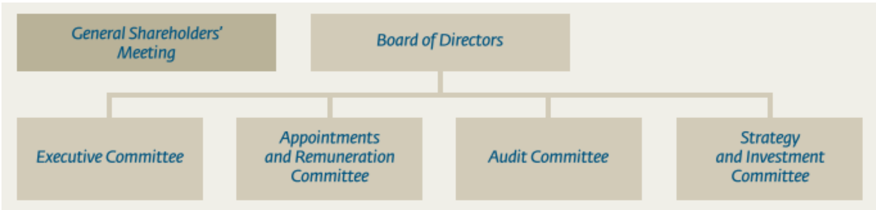
Shares and Capital Structure

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 overseing 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.

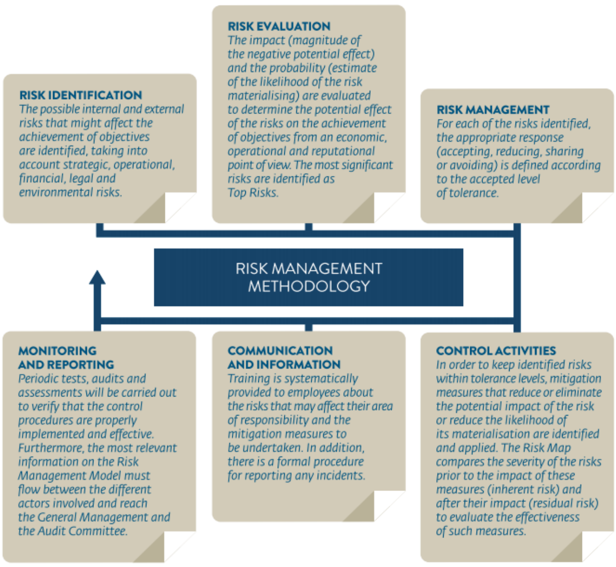
KEY PRINCIPLES OF ACTION

- *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*

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.

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.

- <u>SOCIAL MATTERS</u>

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.

- <u>ENVIRONMENTAL MATTERS:</u>

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.

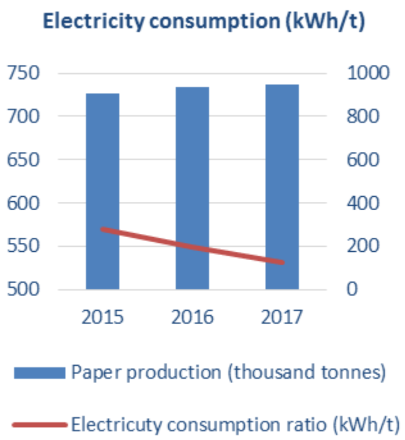
The most significant environmental impacts resulting from the Group's activity correspond to paper production. In this regard, within the framework of the Paper Division's environmental management, the facilities in Spain and Portugal are certified according to the ISO 14001 Environmental Management 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.

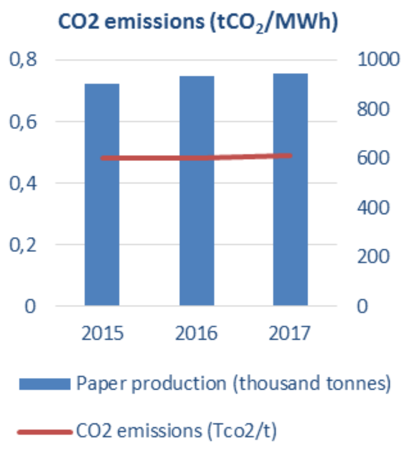
- Water consumption: in the paper production process, water serves as a vehicle for transporting the cellulose fibres, and is used in the washing operations, in the stage of recovered paper defibrillation and in the sheet forming operations in the paper machine. In addition, it is used for the refrigeration 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

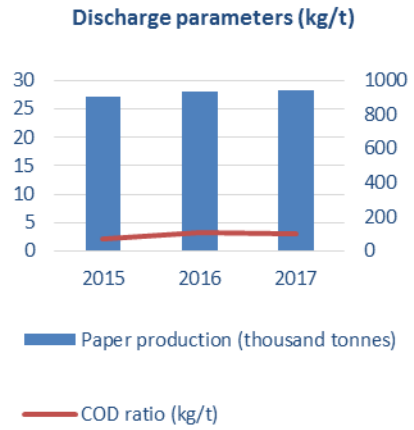


new more efficient agitators for the pulp preparation process were installed. Finally, various energy measures were implemented, including lighting efficiency measures conducted in both Viana do Castelo and Alcolea de Cinca.

- 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, SO_2, H_2S, 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.



- 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 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.