

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 December 2016.



BUSINESS PERFORMANCE

(Report at 31/12/2016)

In 2016 the Iberpapel Group continued along its positive path.

The Group was able to protect profitability at the cost of a reduction in sales of physical units of paper, as well as a decline in electricity sales.

Net profit rose 24.79% on 2015, exceeding €20 million (€20,105 thousand).

EBITDA also rose by 12.95% on the previous year to reach €35,599 thousand.

In its other business areas, Iberpapel performed in line with the year ended in December 2015.

I. CONSOLIDATED HIGHLIGHTS AT 31 DECEMBER 2016

Revenue (€201,893 thousand) decreased by 7.49% on the same period of the previous year (2015: €218,237 thousand).

EBITDA (€35,599 thousand) (2015: €31,516 thousand) rose 12.95%. The gross operating margin was 17.63% (2015: 14.44%).

Net profit for 2016 totalled €20,105 thousand (2015: €16,111 thousand), having risen 24.79%.

2. CONSOLIDATED INCOME STATEMENT

a) COMPARATIVE INCOME STATEMENT (THOUSAND EURO)

	31/12/2016	31/12/2015	% change
Revenue	201,893	218,237	-7.49%
Other income	2,514	6,149	-59.10%
Income	204,407	224,386	-8.90%
Changes in inventories of finished goods and work in progress	2,774	(10,688)	-125.95%
Raw materials and consumables	(84,469)	(79,319)	6.49%
Staff costs	(19,254)	(18,778)	2.54%
Other expenses	(67,859)	(84,085)	-19.30%
EBITDA	35,599	31,516	12.95%
Depreciation/amortisation	(10,623)	(9,897)	7.34%
Profit/(loss) on fixed asset disposals		(3)	
EBIT	24,976	21,616	15.54%
Net financial income/(expense)	14	402	-96.52%
Profit before tax	24,990	22,018	13.49%
Taxes	(4,885)	(5,907)	-17.32%
NET PROFIT	20,105	16,111	24.79%

b) OPERATING INCOME

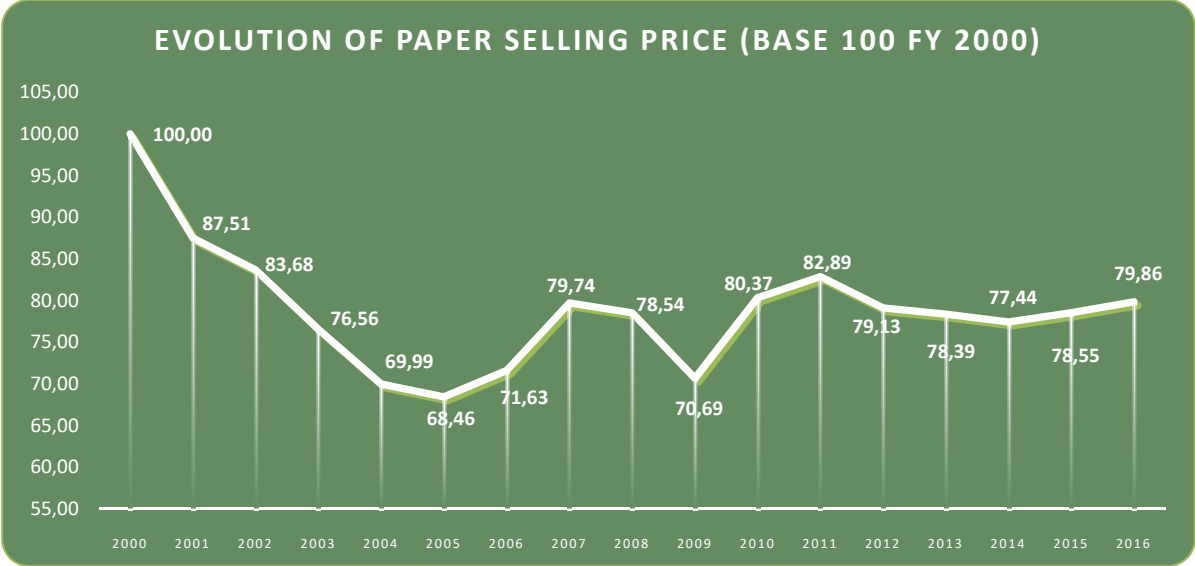
Cumulative revenue at 31 December 2016 totalled €201,893 thousand (2015: €218,237 thousand), having fallen by 7.49%. The most significant items are set out below:

Thousand euro	31/12/2016	31/12/2015	Change %
Paper sales	164,583	175,199	-6.06%
Electricity sales	31,318	37,015	-15.39%
Timber sales	5,992	6,023	-0.51%

i. Paper sales

The 6.06% reduction in paper sales is explained by the decrease in physical units sold in difficult market circumstances.

Chart I below shows the evolution of the Group's average paper selling price, base 100, FY 2000 to December 2016.



Evolution of the Iberpapel Group's average paper selling price, base 100
Chart I

ii. *Electricity sales*

The decline in revenue from “electricity sales” is due basically to the fall in the pool price, which was offset by a reduction in the purchase price of gas.

iii. *Timber sales*

In 2016, in accordance with the Group's strategy in this business area, i.e. “while no tensions are observed in timber prices on the Cantabrian coast, Iberpapel will continue to sell timber in the local markets”, the forestry companies made sales of eucalyptus timber in the Argentine and Uruguayan markets totalling €5,992 thousand (2015: €6,023 thousand).

c) **OPERATING EXPENSES**

i. *Staff costs*

The average number of employees in 2016 was 296, including senior management (2015: 304). The Group employed an average of 13 people with recognised disabilities in 2016 (2015: 13 people).

	2016	2015
Board director	1	1
Executives	9	9
Technical specialists and administrative staff	74	73
Workers and specialists	212	221
	296	304

Chart II reflects the headcount at 31 December in the last five years.

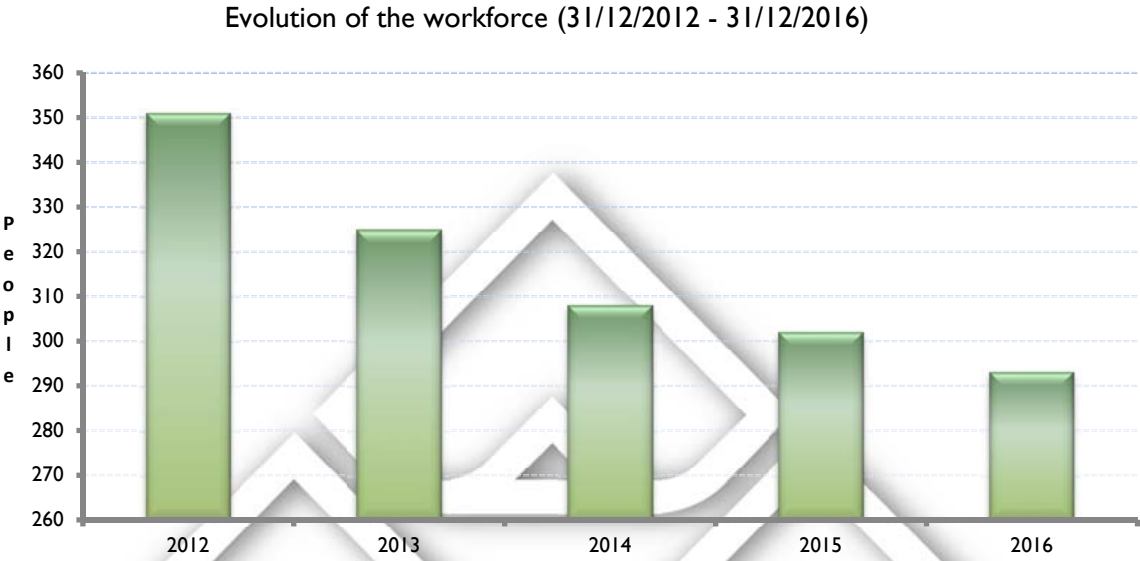


Chart II

- d) The Group's EBITDA amounted to €35,599 thousand (2015: €31,516 thousand), representing a 12.95% rise.

3. CONSOLIDATED BALANCE SHEET AT 31/12/2016 AND 31/12/2015

ASSETS		Date	Date
Thousand euro		31/12/2016	31/12/2015
I.	Property, plant and equipment	135,341	136,591
II.	Biological assets	15,419	13,109
III.	Other intangible assets	2,327	4,671
IV.	Deferred tax assets	1,381	1,857
V.	Non-current financial assets	4,421	2,415
A) NON-CURRENT ASSETS		158,889	158,643
II.	Inventories	21,194	17,668
II.	Trade and other receivables	64,235	56,937
IV.	Cash and cash equivalents	31,741	31,098
B) CURRENT ASSETS		117,170	105,703
TOTAL ASSETS (A+B)		276,059	264,346

LIABILITIES		Date	Date
Thousand euro		31/12/2016	31/12/2015
I.	Capital	6,558	6,748
II.	Retained earnings and other reserves	200,415	197,453
III.	Profit/(loss) for the year	20,105	16,111
IV.	Less: <i>Treasury shares</i>	(1,060)	(7,071)
V.	Gains/(losses) on exchange	(12,202)	(12,975)
VI.	Share premium account	13,633	13,633
A) EQUITY		227,449	213,899
I.	Bank borrowings	2,437	2,400
II.	Deferred tax liabilities	2,743	3,201
IV.	Other non-current liabilities	4,914	3,616
B) NON-CURRENT LIABILITIES		10,094	9,217
I.	Bank borrowings	2,840	3,329
II.	Trade and other payables	5,147	4,641
III.	Provisions for other current liabilities	1,937	4,895
IV.	Current tax liabilities	28,592	28,365
C) CURRENT LIABILITIES		38,516	41,230
TOTAL LIABILITIES AND EQUITY (A+B+C)		276,059	264,346

a) Biological assets

Biological assets are valued annually by the independent expert “Galtier Franco Ibérica, S.A.”

On each balance sheet date, the Group initially recognises biological assets at fair value less estimated point-of-sale costs.

Gains or losses on the initial recognition of a biological asset at fair value less estimated point-of-sale costs and gains or losses resulting from all successive fair value changes less estimated point-of-sale costs are included in net profit or loss for the year.

Government grants associated with a biological asset are recognised when and only when they are payable.

i) *Exchange differences.*

The Group has investments in Uruguay and Argentina through companies operating in currencies other than the euro, which is Iberpapel Gestión, S.A.’s functional and presentation currency. Consequently, the Group is exposed to foreign exchange risks in connection with the Argentine and Uruguayan pesos against the euro.

At 31 December 2016, the Group records cumulative currency translation losses totalling €12,202 thousand (2015: €12,975 thousand), caused by foreign exchange fluctuations affecting those currencies in relation to the euro. During 2016, the Argentine and Uruguayan pesos depreciated against the euro by 15.28% and 6.31%, respectively.

b) Bank borrowings

At 31 December 2016, the Group records a net cash surplus of €55,131 thousand (31/12/2015: €45,012 thousand).

Thousand euro	31/12/2016	31/12/2015
Short- and long-term bank borrowings	5,277	5,729
(Less: Cash and cash equivalents)	(60,408)	(50,741)
Net debt	(55,131)	(45,012)
Equity	227,449	213,899
Leverage ratio	(24.23%)	(21.04%)

The following chart reflects the evolution of the Group's sound financial structure:

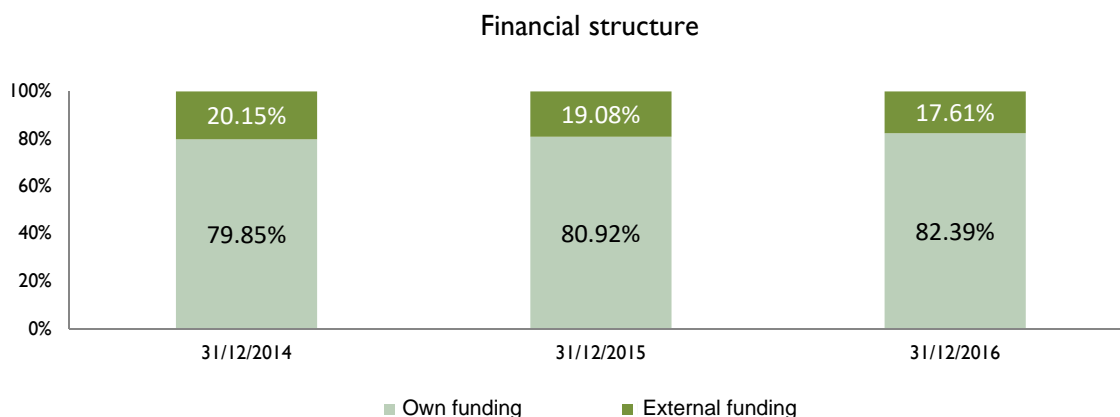


Chart III

4. INVESTMENTS

Property, plant and equipment and intangible assets increased by €8,624 thousand in 2016 (2015: 11,401).

5. ACCOUNTING POLICIES

This accounting information for 2016 has been prepared applying the same accounting policies used in the previous annual financial report, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union and approved by European Council Regulations, and which are in force at 31 December 2016, and with all prevailing IFRIC interpretations and company law applicable to companies reporting under EU-IFRS. This interim information been prepared on a cost basis, as adjusted to measure forestry assets in accordance with IAS 41.

6. SHARE PRICE EVOLUTION

In the second half, in a large majority of indices, the significant recovery in stock markets reversed the losses accumulated during the year. The Ibex Small Caps rose 8.87% in 2016. However, the selective Ibex 35 fell 2.01% and did not achieve growth by the year end. Iberpapel's stock again performed well, having closed the year at €22.89, 32.70% up during 2016.

Main stock data

	2016	2015	2014	2013	2012
Shares admitted to trading (€M)	6.56	6.75	6.75	6.75	6.75
No. of shares (x1 000)	10,930	11,247	11,247	11,247	11,247
Capitalisation (€M)	250.20	194.01	142.95	169.84	147.34
Volume traded (x 1000 shares)	1,998	2,796	3,453	1,981	1,440
Amount traded (€M)	38.37	40.25	42.77	28.28	18.67
Closing price (€)	22.89	17.25	12.71	15.10	13.10
Maximum price (€)	22.89 (30 Dec)	17.50 (17 Dec)	16.55 (16 Jan)	15.99 (21 Oct)	14.30 (13 Feb)
Minimum price (€)	15.57 (15 Feb)	12.20 (7 Jan)	11.56 (18 Nov)	13.00 (2 Jan)	12.06 (23 Apr)

Source: BME and Madrid Stock Exchange (Summary of equity trading)

At the year end, market capitalisation stood at €250.20 million.

Comparative stock performance in 2016 (Base 100 at 31/12/2015)

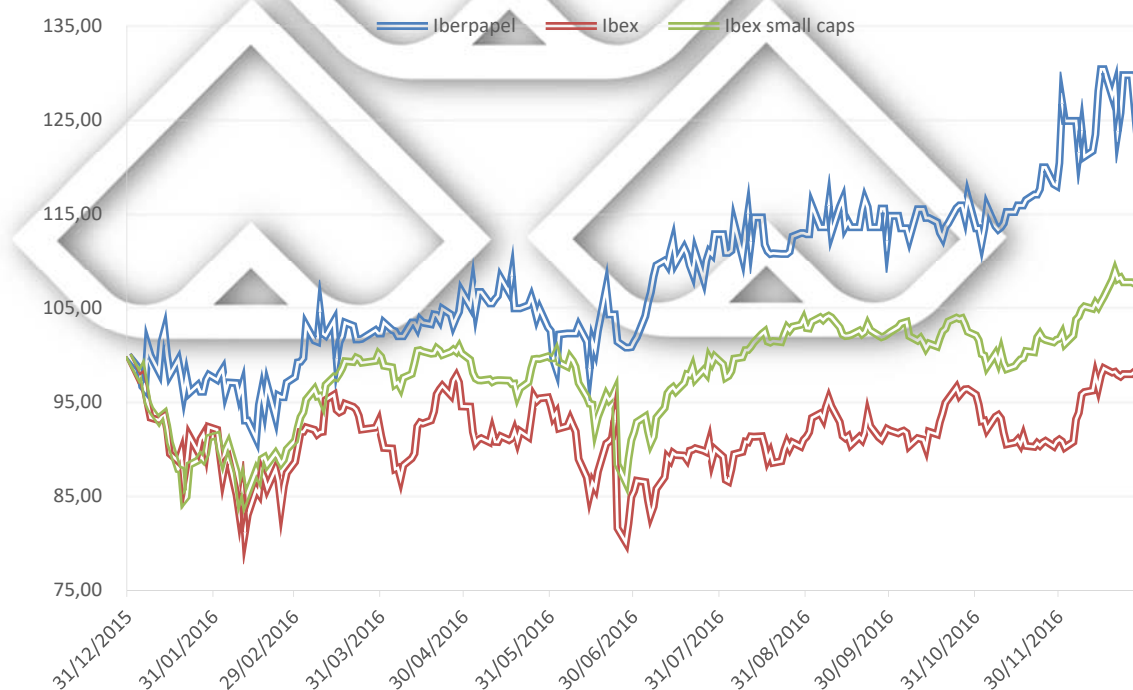


Chart IV

The Iberpapel Group has a relationship with its shareholders and investors based on transparency and adequate information channels to assure a permanent flow of easily accessible information.

The website (www.iberpapel.es) is continuously updated to include all the information necessary on the Company and the Group, as well as quarterly and half-yearly results, relevant events and any other information of interest.

The Investor Relations Department is open to all queries through the website, over the telephone (91 564 07 20) or via e-mail (atención.al.accionista@iberpapel.es).

7. RELEVANT EVENTS

26/02/2016.- The Board of Directors resolved to pay out an interim dividend of €0.30 per share.

13/03/2016.- The Annual General Meeting was announced.

25/04/2016.- Resolutions adopted by the Annual General Meeting, stating the number of votes cast.

21/06/2016.- The capital reduction deed is attached.

30/09/2016.- New text of the Internal Code of Conduct on matters relating to the stock markets.

15/12/2016.- Listing of new shares as a result of the capital increase.

23/12/2016.- Appointment of the Audit Committee chairperson.