

NOTES TO THE INTERIM FINANCIAL STATEMENTS

31 December 2017.



BUSINESS PERFORMANCE

(Report at 31/12/2017)

In a stable market environment, with a moderate 1.50% rise in paper prices as compared with 2016, the Iberpapel Group continued along the positive path followed in recent years.

In 2017, the Group improved in all business areas except forestry, generating a net profit of €22,906 thousand (2016: €20,105 thousand), 13.93% up on 2016.

EBITDA also rose by 3.67% on the previous year to reach €36,907 thousand.

1. CONSOLIDATED HIGHLIGHTS AT 31 DECEMBER 2017

Revenue (€217,053 thousand) rose by 7.51% on the same period of the previous year (2016: €201,893 thousand).

EBITDA (€36,907 thousand) (2016: €35,599 thousand) increased by 3.67%. The gross operating margin reached 17.00% (2016: 17.63%).

Net profit for 2017 totalled €22,906 thousand (2016: €20,105 thousand), entailing 13.93% growth.

2. CONSOLIDATED INCOME STATEMENT

a) COMPARATIVE INCOME STATEMENT (THOUSAND EURO)

	31/12/2017	31/12/2016	% change
Revenue	217,053	201,893	7.51%
Other income	3,696	2,514	47.02%
Income	220,749	204,407	7.99%
Changes in inventories of finished goods and work in progress	(2,519)	2,774	
Raw materials and consumables	(84,907)	(84,469)	0.52%
Staff costs	(20,102)	(19,254)	4.40%
Other expenses	(76,314)	(67,859)	12.46%
EBITDA	36,907	35,599	3.67%
Depreciation/amortisation	(10,874)	(10,623)	2.36%
Profit/(loss) on fixed asset disposals	476		
EBIT	26,509	24,976	6.14%
Net financial income/(expense)	(578)	14	
Profit before tax	25,931	24,990	3.77%
Taxes	(3,025)	(4,885)	(38.08)%
NET PROFIT	22,906	20,105	13.93%

b) OPERATING INCOME

Cumulative revenue at 31 December 2017 totalled €217,053 thousand (2016: €201,893 thousand), having risen by 7.51%. The most significant items are set out below:

Thousand euro	31/12/2017	31/12/2016	Change %
Paper sales	174,490	164,583	6.02%
Electricity sales	40,295	31,318	28.66%
Timber sales	2,268	5,992	(62.15)%

i. Paper sales

The 6.02% increase in paper sales is due mainly to the growth in the number of physical units sold and, to a lesser extent, the slight rise in paper selling prices.

ii. *Electricity sales*

Revenue growth in the item “electricity sales” is explained by the increased efficiency of our gas cogeneration turbine and a rise in the pool price.

iii. *Timber sales*

In 2017, 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 Uruguayan markets totalling €2,268 thousand (2016: €5,992 thousand).

c) **OPERATING EXPENSES**

i. *Staff costs*

The average number of employees in 2017 was 291, including senior management (2016: 296). The Group employed an average of 12 people with recognised disabilities in 2017 (2016: 13 people).

	2017	2016
Board directors	1	1
Executives	8	9
Technical specialists and administrative staff	76	74
Workers and specialists	206	212
	291	296

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



Chart I

d) The Group's EBITDA amounted to €36,907 thousand (2016: €35,599 thousand), representing a 3.67% rise.

3. CONSOLIDATED BALANCE SHEET AT 31/12/2017 AND 31/12/2016

ASSETS		Date	Date
Thousand euro		31/12/2017	31/12/2016
I.	Property, plant and equipment	124,696	135,341
II.	Biological assets	13,640	15,419
III.	Other intangible assets	1,510	2,327
IV.	Deferred tax assets	1,547	1,381
V.	Non-current financial assets	3,411	4,421
A) NON-CURRENT ASSETS		144,804	158,889
II.	Inventories	15,859	21,194
II.	Trade and other receivables	41,213	64,235
IV.	Cash and cash equivalents	151,426	31,741
B) CURRENT ASSETS		208,498	117,170
TOTAL ASSETS (A+B)		353,302	276,059

LIABILITIES		Date	Date
Thousand euro		31/12/2017	31/12/2016
I.	Capital	6,558	6,558
II.	Retained earnings and other reserves	213,457	200,415
III.	Profit/(loss) for the year	22,906	20,105
IV.	<i>Less: Treasury shares</i>	(2,418)	(1,060)
V.	Exchange differences	(17,365)	(12,202)
VI.	Share premium account	13,633	13,633
A) EQUITY		236,771	227,449
I.	Bank borrowings	73,901	2,437
II.	Deferred tax liabilities	1,622	2,743
IV.	Other non-current liabilities	2,672	4,914
B) NON-CURRENT LIABILITIES		78,195	10,094
I.	Bank borrowings	2,816	2,840
II.	Trade and other payables	33,083	33,739
III.	Provisions for other current liabilities	2,437	1,937
C) CURRENT LIABILITIES		38,336	38,516
TOTAL LIABILITIES AND EQUITY (A+B+C)		353,302	276,059

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 2017, the Group records cumulative currency translation losses totalling €17,365 thousand (2016: €12,202 thousand), caused by foreign exchange fluctuations affecting those currencies in relation to the euro. The Argentine peso depreciated 25.66% against the euro from 31 December 2016 to 31 December 2017, while the Uruguayan peso fell 10.21% in the same period.

b) Bank borrowings

At 31 December 2017, the Group records a net cash surplus of €79,126 thousand (31/12/2016: €55,131 thousand).

Thousand euro	31/12/2017	31/12/2016
Short- and long-term bank borrowings	74,071	5,277
(Less: Cash and cash equivalents)	(153,197)	(60,408)
Net debt	(79,126)	(55,131)
Equity	236,771	227,449
Leverage ratio	(33.42%)	(24.23%)

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

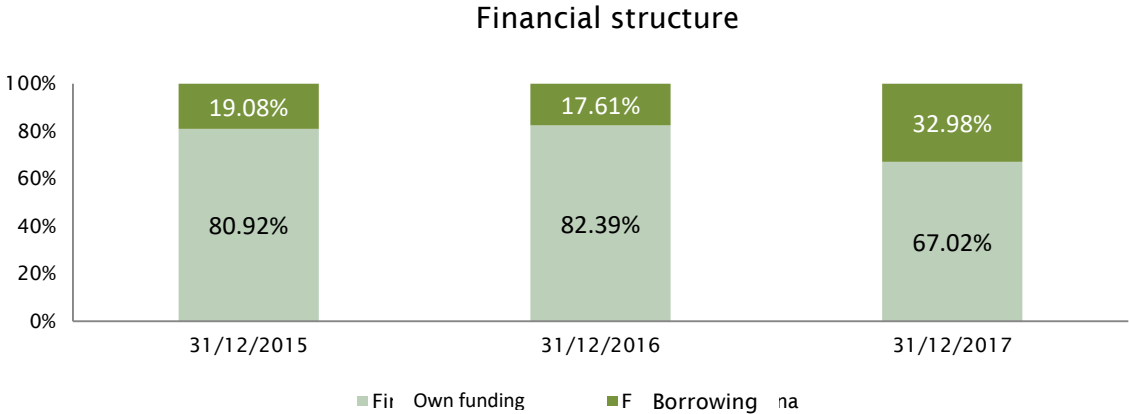


Chart II

4. INVESTMENTS

Property, plant and equipment and intangible assets increased by €2,783 thousand in 2017 (2016: 8,624).

5. ACCOUNTING POLICIES

This accounting information for 2017 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 2017, and with all prevailing IFRIC interpretations and company law applicable to companies reporting under EU-IFRS.

6. SHARE PRICE EVOLUTION

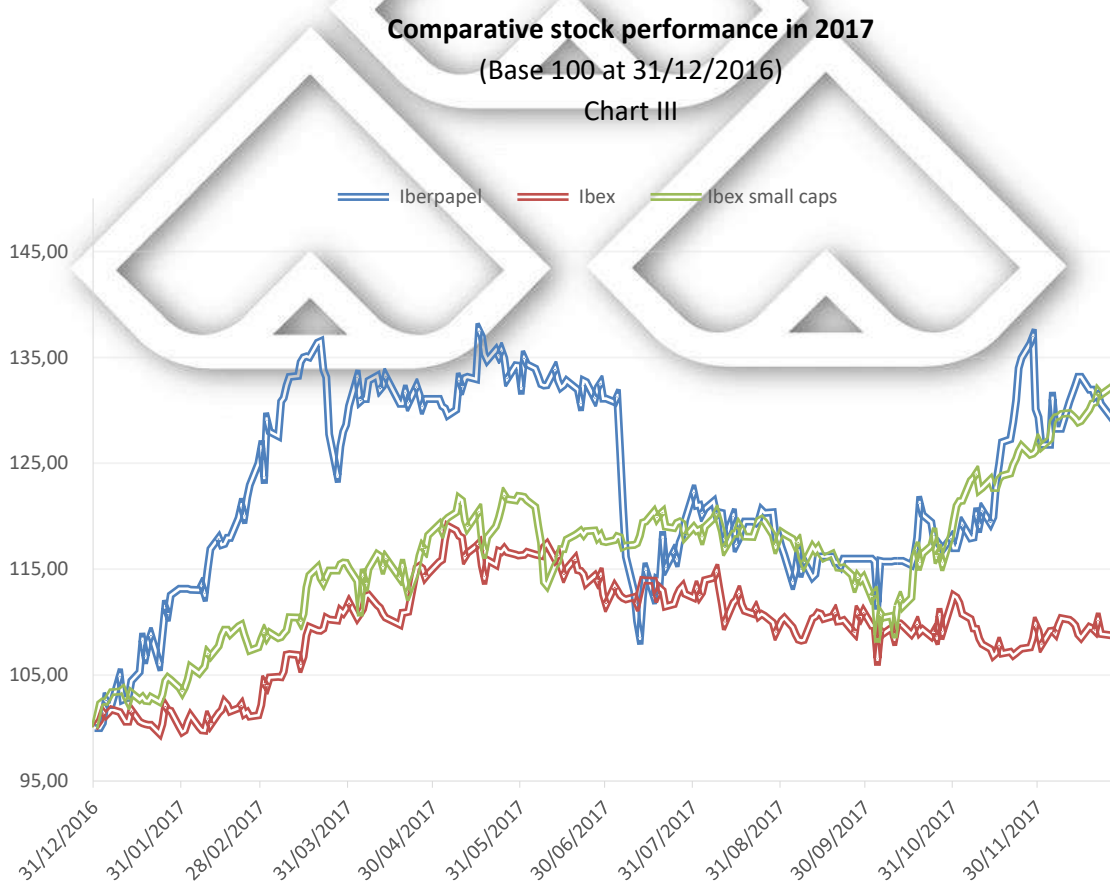
2017 saw historically low levels of volatility in both fixed income and equity markets, driven by positive expectations of worldwide economic growth in the coming years without significant inflationary pressures on the horizon. In this context, Iberpapel's stock performed well, ending the period at €29.20 after having risen by a cumulative 27.57%, as compared with 7.40% in the IBEX-35 or 31.44% in the Ibex Small Caps.

Main stock data

	2017	2016	2015	2014	2013
Shares admitted to trading (€M)	6.56	6.56	6.75	6.75	6.75
No. of shares (x1000)	10,930	10,930	11,247	11,247	11,247
Capitalisation (€M)	319.17	250.20	194.01	142.95	169.84
Volume traded (x 1000 shares)	2,961	1,998	2,796	3,453	1,981
Amount traded (€M)	83.12	38.37	40.25	42.77	28.28
Closing price (€)	29.20	22.89	17.25	12.71	15.10
Maximum price (€)	31.88 (15 May)	22.89 (30 Dec)	17.50 (17 Dec)	16.55 (16 Jan)	15.99 (21 Oct)
Minimum price (€)	22.12 (3 Jan)	15.57 (15 Feb)	12.20 (7 Jan)	11.56 (18 Nov)	13.00 (2 Jan)

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

At the year end, the Company's market capitalisation stood at €319.17 million.



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

28/02/2017.- The Board of Directors resolved to pay out a gross interim dividend of €0.30 per share for 2016.

03/04/2017.- The Annual General Meeting was convened and the proposed resolutions were sent to the shareholders.

10/05/2017.- "Hernani Project" presentation.

24/05/2017.- Attached are the resolutions adopted by the Annual General Meeting held today.

30/05/2017.- Dividend information.

22/06/2017.- The Company announces the temporary suspension of the liquidity agreement.

22/06/2017.- Share buy-back, stabilisation and treasury share plans.

22/06/2017.- The Company announces the resumption of the liquidity agreement on 23 June 2017.

10/07/2017. - The Company reports that a new liquidity agreement has been concluded, pursuant to Spanish National Securities Market Circular 1/2017 (26 April) on liquidity agreements.

28/09/2017.- The Company reports the creation of the Corporate Social Responsibility Committee.