



2017 INTEGRATED  
ANNUAL  
REPORT



JUNE 2018

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The 2017 Integrated Annual Report of the Europac Group began to be prepared prior to the takeover bid made by DS Smith PLC.

# LETTER FROM THE CHAIRMAN



Dear Reader,

It gives me great pleasure to present the fourth Europac Group Integrated Annual Report\*, which consolidates the efforts made by the company in the sphere of reporting and transparency, and consolidates the company's position as a flagship for good practices among listed companies. This report is intended to provide information for our stakeholders concerning the development of the company and its business lines, its management and business model and its strategy for the future, as well as its commitment to the environment and to all those groups that are directly or indirectly tied to the activity of the Europac Group. In short, this report contains the most significant financial and non-financial aspects of the 2017 financial year, which reflect our ongoing development in search of value creation.

Europac underwent an intense process of corporate growth and internationalisation until 2014, with the aim of having the necessary specific weight to be a leading player in the packaging industry in southern Europe. The 2015-2018 Strategic Plan opened a new period in which, without forgoing corporate growth and based on the group's traditional financial soundness, the focus was redirected towards organic growth, operational excellence, cost reductions, a heightened return on assets and the promotion of the Europac culture as a common denominator of the whole group. In short, the aim was to consolidate past investments to ensure future growth.

The work carried out by Europac in these strategic areas of action, together with favourable market conditions in 2017 and an integrated business model that optimises results when the market is buoyant, while limiting its impact when it is not, led to the objectives of the 2015-2018 Strategic Plan being fulfilled one year ahead of schedule.

At the close of 2017, the EBITDA margin and ROCE stood at 18.2% and 16.6%, respectively, well above the 16% and 15% set for 2018, while the debt/EBITDA ratio was down to 1.1, surpassing the target of 2.

Furthermore, the 2017 accounts posted a net profit of 78 million euros, 59.4% up on 2016, in a context of growth in aggregate sales, which rose by 10.9% to 1.19 billion euros. Consolidated EBITDA stood at 158 million euros, 25% up on the 127 million euros the previous year, while recurring EBITDA stood at 147 million euros, 19.3% up on 2016. In turn, consolidated EBIT grew by 37.1% to 106 million euros. Hence, in 2017, the Europac Group not only comfortably met its targets one year ahead of schedule, but also beat its own results record for the third year in a row.

When these results were notified to the market, the 2018-2020 Strategic Plan was also presented. This plan continues to place the customer at the heart of all the company's strategic actions. The development of the strategic areas which led to such good results in the previous plan should allow the company to achieve EBITDA and ROCE Margins over the next three years of 20%, with a debt/EBITDA ratio of 2. Now that the previous period has come to an end and thanks to the extremely sound balance sheet and minimal debt, together with its capacity for cash generation, the company will once again focus on corporate growth as a priority.

And all of this in a sector that is growing, backed by new market trends, which point to the replacement of unsustainable packaging, personalisation, the ability to adapt to different distribution channels, cost savings associated with logistics and innovation as a factor of competitiveness. This set of factors are not a passing fad

but a new imperative condition for competition, which supposes that the market share of cardboard packaging will grow at a global level by more than the share of consumption. In this regard, both the company's assets and the knowhow of its stakeholders will allow the group to benefit from these new market trends.

Last but not least I would like to thank our stakeholders for the trust they place in the Europac Group. Firstly, our shareholders, for sharing with the company a project that has constantly evolved over the last 20 years. Secondly, all our customers and suppliers, who form a key part of the Europac value chain and who, working together with the company, have allowed it to continue to grow and make progress. Lastly, I would also like to thank the public authorities, media and analysts, financial institutions and all those associations connected with our company.

And my thanks, of course, to our employees because nothing that this company has achieved would have been possible without the hard work of the 2,300 people who work every day to ensure that the Europac Group adds up to more than the sum of the parts.

**José Miguel Isidro**  
Chairman of the Europac Group

\* On preparing this document, the company has taken into account the guidelines established in the International Integrated Reporting Framework by the IIRC (International Integrated Reporting Council) and the Global Reporting Initiative's G4 Guidelines on sustainability reporting.

# EXECUTIVE SUMMARY

Since its constitution in 1995, the Europac Group has always been characterised by its permanent evolution, value creation and the integration of different business cultures. Its capacity to adapt to the context and customer demands has allowed it to grow and consolidate its leading position in the markets where it operates. And the fulfilment of 2015-2018 targets in 2017 ahead of schedule, along with the Group's financial robustness, operational excellence and market position, all demonstrate its capacity for value creation.

Value creation which addresses all its stakeholders, and is set out below in the form of value levers and key indicators for the different forms of capital:

CAPITAL	DESCRIPTION	VALUE LEVERS
 <p><b>INDUSTRIAL AND INTELLECTUAL CAPITAL</b></p>	<p>Industrial capital is made up of the assets available to an organisation for use in the production of goods or provision of services. Intellectual capital corresponds to the knowledge-based intangibles of the organisation, including intellectual property and "organisational capital", in the sense of know-how, systems and procedures.</p>	<p><b>BUSINESS MODEL STRATEGY</b> <b>GOOD GOVERNANCE</b></p>
 <p><b>FINANCIAL CAPITAL</b></p>	<p>This refers to the overall funds available at organisations to be used in the production of goods or provision of services, obtained through financing, such as debt, capital or subsidies, or generated through operations or investments.</p>	<p><b>POSITIVE FINANCIAL PERFORMANCE: 2017 Results</b></p>
 <p><b>SOCIAL AND RELATIONAL CAPITAL</b></p>	<p>This corresponds to the set of shared standards, behaviours and values, relationships with key stakeholders, and intangibles associated with the brand and reputation that the company has built up.</p>	<p><b>OUR COMMITMENT:</b> Contributing value to customers Shareholders, investors and analysts Suppliers Society Public authorities, sector associations and bodies</p>
 <p><b>HUMAN CAPITAL</b></p>	<p>This refers to the skills, capabilities and experience of the people who work at the company.</p>	<p><b>NUESTRO COMPROMISO:</b> Empleados</p>
 <p><b>NATURAL CAPITAL</b></p>	<p>Natural capital corresponds to variations and transformations in all environmental resources and processes, both renewable and non-renewable, connected with the production of goods and provision of services.</p>	<p><b>NUESTRO COMPROMISO:</b> Medio ambiente</p>



INDUSTRIAL  
AND INTELLECTUAL  
CAPITAL

# BUSINESS MODEL AND STRATEGIC FOCUS

2015-2018: INTERNAL TRANSFORMATION  
FOCUSED ON VALUE CREATION

## LINES OF ACTION

- Increased returns on assets
- Organic growth in businesses and markets
- Operational excellence
- Financial robustness
- Innovation
- Europac Culture

## 3B PROGRAMME



### TRANSFORMATION OFFICE

- ✓ 133 projects managed

### PROGRAMME CORNERSTONES

- Leadership in cash generation
- Organic growth
- Reduction in costs
- Culture of pride and performance

## FINANCIAL TARGETS

	2014		OBJETIVO 2018
MARGEN EBITDA	11.8%	➔	16.0%
DEUDA/EBITDA	3.2x	➔	2.0x
ROCE	7.7%	➔	15.0%

● VALUE LEVERS  
✓ KEY INDICATORS

## INTEGRATED BUSINESS MODEL

- Increased overall returns at Group level
- Reduced volatility in results
- Improved service through greater control of the integrated supply chain
- Generation of economies of scale in processes
- Specialisation of assets
- Circular economy: sustainability



## PAPER DIVISION

- 5 production lines and 4 factories in 3 countries
- Wide range of paper manufactured: kratfliner and recycled.
- ✓ Annual production capacity of 1.1 M of tonnes
- ✓ Installed power generation capacity of 153 MW



## PACKAGING DIVISION

- 14 factories in 3 countries
- Market trends (high print quality, shelf-ready packaging, consumer packaging, heavy duty, etc.)
- ✓ Volume of 850 Mm<sup>2</sup>



## USAGE OF RAW MATERIALS

- Europac Recicla: 3 sites in Spain and 3 in Portugal
- ✓ 365,000 tonnes of recovered paper per year
- Sustainable forestry operations in Spain and Portugal
- ✓ Management of 8,500 ha



INDUSTRIAL  
AND INTELLECTUAL  
CAPITAL

# BUSINESS MODEL AND STRATEGIC FOCUS

EARLY FULFILMENT  
OF OBJECTIVES

	STARTING POINT	M E T			TARGET
	2014	2015	2016	2017	2018
EBITDA MARGIN	11.8%	13.8%	15.8%	<b>18.2%</b>	<b>16.0%</b>
DEBT/EBITDA	3.2x	2.6x	2.0x	<b>1.1x</b>	<b>2.0x</b>
ROCE	7.7%	10.5%	11.7%	<b>16.5%</b>	<b>15.0%</b>

● VALUE LEVERS  
✓ KEY INDICATORS

## 2018-2020: STRATEGIC ACTIONS FOCUSED ON THE CUSTOMER

### LINES OF ACTION

- Increased returns on assets
- Organic growth in businesses and markets
- Operational excellence
- Financial robustness
- Innovation
- Europac Culture

+

- Corporate purchasing and/or additional organic investments

### CUSTOMER FOCUS

#### CHANGES IN STYLE OF CONSUMPTION

- Customisable packaging
- E-commerce
- Optimisation through structural design and cost savings

#### DESIGN, INNOVATION AND COMPETITIVENESS

- Lighter packaging, better digital printing quality, smart, flexible and adaptable

#### SUSTAINABILITY

- Recyclable, biodegradable, renewable and single-material

**Better  
&  
Bigger**

#### TACTICAL APPROACHES

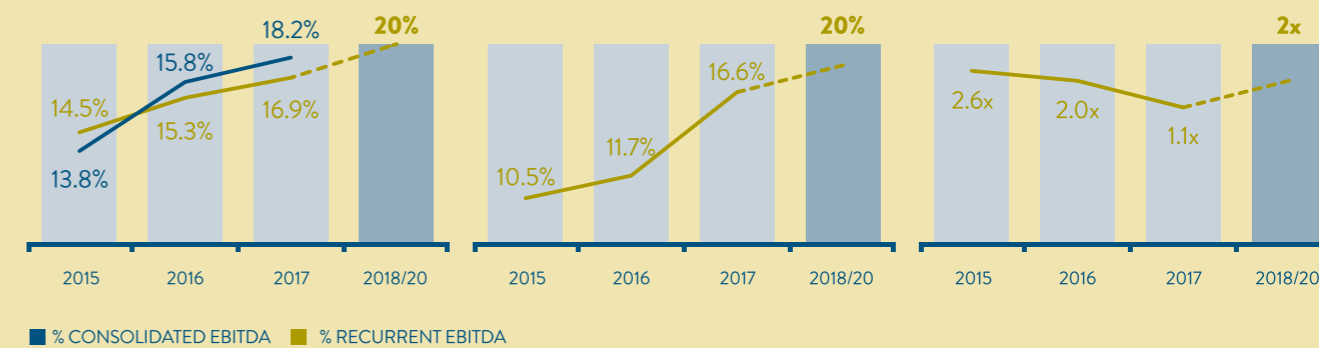
- Operational excellence
- Pioneers
- Strategic partners

### FINANCIAL TARGETS

✓ EBITDA MARGIN 20%

✓ ROCE 20%

✓ DFN / EBITDA 2x





FINANCIAL CAPITAL

# 2017 RESULTS

## CONTEXT

### MACROECONOMIC

- Economic growth of 2.5% in the Eurozone in 2017
- +3.1% GDP in Spain, +1.9% in France and +2.7% in Portugal

### KRAFT PAPER MARKET

- 9% reduction in average monthly stock
- Solid demand (+4% shipments)
- Price increase (27%-33%)

### RECYCLED PAPER MARKET

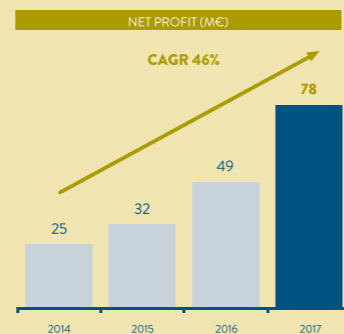
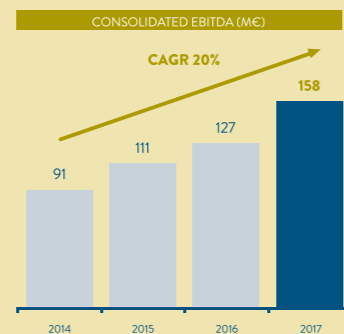
- 11% reduction in average monthly stock
- Solid demand (+6% shipments)
- Increase in recycled paper price (23-5%)

### RECOVERED PAPER MARKET

- Change in recovery model because of Chinese restrictions on imports
- Reduction of 14% in exports to China from EU

## ECONOMIC BALANCE

- Increase in Net Profit to 78 million euros (59% up on 2016)
- Increase in consolidated EBITDA to 158 million euros (25% up on 2016)
- Increase in consolidated EBITDA margin to 18%



CAGR: Compound Annual Growth Rate

## PAPER DIVISION



- Investments in increased production capacity and efficiency
- ✓ 14% increase in sales
- ✓ Drop of 3% in kraftliner paper production volume caused by scheduled shutdown
- ✓ 3% increase in recycled paper production volume
- ✓ Rise of 42% in EBITDA, and 19.3% improvement in EBITDA margin to 19.3%.

## STOCK MARKET PRESENCE

- Share price on the Madrid continuous market as part of Ibex Small Cap
- ✓ Market cap of 1.122 billion euros at 31 December 2017
- ✓ Share price of 11.32 euros at 31 December 2017

## PACKAGING DIVISION



- Optimisation of costs and operational improvements
- Increase in commercial activity and development of value-added products
- Price increase of raw materials passed on to the market
- ✓ 5% increase in sales
- ✓ Downturn in EBITDA because of repeated increases in paper prices

## SHAREHOLDER RETURNS

- ✓ Dividend distribution of 28.9 million euros, amounting to a payout of 6%
- ✓ Capital increase with bonus issue of 1 new share for every 25 already held
- ✓ Amortisation of treasury stock equivalent to 2% of the share capital

● VALUE LEVERS  
✓ KEY INDICATORS

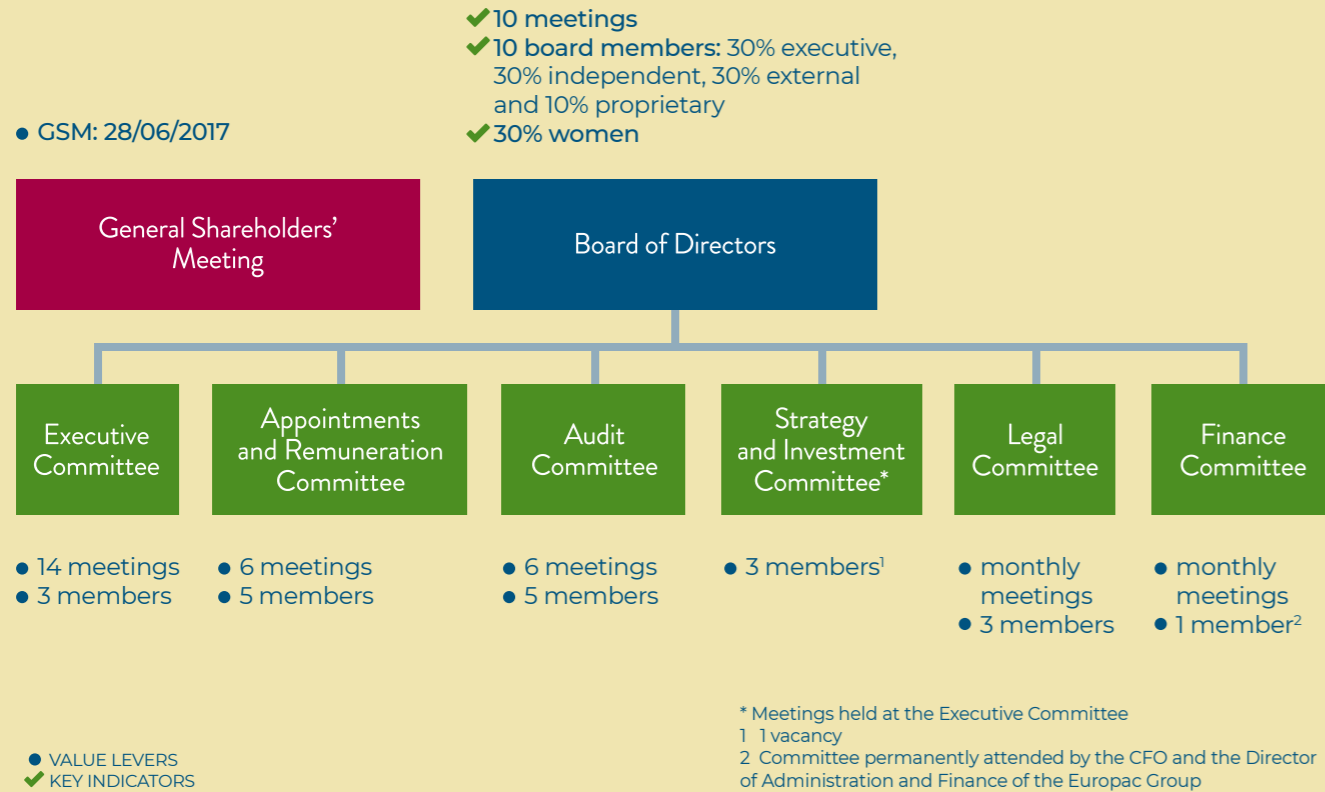




INDUSTRIAL AND INTELLECTUAL CAPITAL

# GOOD GOVERNANCE

## STRUCTURE AND FUNCTIONING OF GOVERNING BODIES



## RISK MANAGEMENT

- Risk Management Policy
- Risk Management Model
- Control System for the Prevention and Detection of Criminal Offences
- Internal Control of Financial Reporting (ICFR) System

## ETHICS AND TRANSPARENCY

- Code of Conduct
- Compliance and Business Ethics Committee
- Internal Regulation for Conduct on the Securities Market



SOCIAL  
AND RELATIONAL  
CAPITAL

## OUR COMMITMENT



HUMAN  
CAPITAL



NATURAL  
CAPITAL



### CONTRIBUTING VALUE TO CUSTOMERS

- Transparent and fluid relationship
- Value contribution through response to specific needs
- Staging of Customer Day 2017
- Periodic satisfaction surveys conducted
- ✓ Complaints management in less than 24 hours
- ✓ 22% drop in Paper Division complaints



### SUPPLIERS

- Direct and continuous contact with suppliers
- Support for global negotiation and local procurement
- Transparent and proactive attitude to the market
- ✓ More than 5,500 external suppliers
- ✓ 79.2% of purchases from local suppliers



### COMMITMENT TO EMPLOYEES

- Effective internal communication
- Commitment to attracting talent
- Performance-based remuneration policy
- Application of the skills model
- Career and succession plans as a talent retention tool
- Generation of stable, quality employment
- Training aligned with the skills model
- Integrated management of Occupational Risk Prevention
- ✓ Average workforce of 2,270 employees
- ✓ 96.4% permanent contracts and 98.2% full-time
- ✓ 56,019 hours of training (24.6 hours per employee)



### COMMITMENT TO THE ENVIRONMENT

- Advanced pulp production control systems
- Intensive monitoring of water consumption
- Re-use of water from cooling towers
- Advanced operational control systems for improved energy efficiency
- Installation of variable frequency drives
- Optimisation of liquid effluent management
- Support for re-use of solid waste
- Sustainable forestry management
- ✓ Investment of 5.4 million euros in environmental management
- ✓ 88% of forestry land managed by Europac with sustainable certification



### SHAREHOLDERS, INVESTORS AND ANALYSTS

- Permanent commitment to transparency
- Proactive presence on financial markets
- Constant commitment to shareholder returns
- ✓ Dividend distribution with a payout of 60% and capital increase by issue of bonus shares (1x25)
- ✓ 143 meetings with investors
- ✓ 11 analysts covering the stock
- ✓ Cancellation treasury shares (2% reduction in share capital)



### SOCIETY

- Collaboration with local and national initiatives
- ✓ Annual contribution of 100,000 euros to the Valladolid soup kitchen
- ✓ Donation of 40,000 euros to 'Cadena de Valor' association



### PUBLIC AUTHORITIES, SECTOR ASSOCIATIONS AND BODIES

- Pursuit of mutual benefits: involvement with sector associations
- ✓ Castilla y León 'Emprende' and Best Multinational Executive in Castile-Leon Awards

● VALUE LEVERS  
✓ KEY INDICATORS



BUSINESS MODEL  
AND STRATEGIC FOCUS

1

# COMPANY VALUES



Papeles y Cartones de Europa, S.A. (hereinafter, the Europac Group, Europac, the Group, or the Company) is a multinational in the packaging sector, operating in Spain, Portugal and France. Its integrated business model allows it to have a presence throughout the value chain of the industry, from raw materials to packaging solutions as its end product.

The values of the Europac Group likewise represent unchanging and essential principles that are not subject to current market conditions or management priorities. These values underpin the corporate culture and define how Europac behaves as an organisation, through the conduct of each of its co-workers.



# BUSINESS MODEL AND STRATEGIC FOCUS

## 2015-2018: INTERNAL TRANSFORMATION FOCUSED ON VALUE CREATION

Since it was founded in 1995, Europac has developed a strategy of integrated growth and value creation. Three years later it was listed on the capital markets, launching a period of growth during which 24 facilities were acquired in Spain, France and Portugal.

The company has a presence in every sector of the packaging industry, beginning with waste management and forestry operations as a supply source for raw materials used to manufacture both primary fibre and recycled papers. It uses different combinations of these papers to manufacture corrugated cardboard sheets, which are transformed in the converting process into the packaging solutions that the company provides to its customers.

Ever since it was first founded, Europac has developed a strategy of integrated growth and value creation

### PAPER DIVISION



4  
FACTORIES



PAPER PRODUCTION CAPACITY  
**1,090,000** TPA\*  
675,000 TPA\* RECYCLED PAPER  
425,000 TPA\* KRAFTLINER PAPER

### WASTE MANAGEMENT



6  
INSTALLATIONS



PAPER RECOVERY CAPACITY  
**365,000** TPA\*



MANAGEMENT OF FORESTRY ASSETS  
**8,500** Ha



ENERGY  
3  
INSTALLED CAPACITY  
**153** MW  
INSTALLATIONS

### PACKAGING DIVISION



14  
FACTORIES



VOLUME  
**850** Mm<sup>2</sup>/year

\* TPA: tonnes per annum

Between 2008 and 2014, at the height of the economic and financial crisis, the company doubled in size thanks to organic growth, M&A and the development of the strategic waste management business line.

Within this context, the 2015-2018 Strategic Plan was launched with the aim of consolidating the

investments made in the past, and obtaining the returns expected by the company's shareholders, so as to continue growing in the future. The plan involved the achievement of three ratios to be put in place by the close of the 2018 financial year, taking as their reference point the figures recorded at the close of 2014:

	2014		OBJETIVO 2018
MARGEN EBITDA	11.8%	➡	16.0%
DEUDA/EBITDA	3.2x	➡	2.0x
ROCE	7.7%	➡	15.0%

Within the context of this plan, the Transformation Office was set up in 2015, with responsibility for overseeing the operational and commercial internal management projects that were to contribute to the achievement of the strategic objectives. From the launch date up to December 2017, 133 projects were run. In this regard, the internal

actions implemented by Europac, whether commercial, operational or investments, contributed a 37 million euros, 75% of the improvement to recurrent EBITDA generated over the period 2015-2017. The operational context was provided by the 3B (Better Before Bigger) Programme, based on four cornerstones:



<b>LEADERSHIP IN COST MANAGEMENT</b>	Identification and implementation of projects representing significant profitability improvements
<b>ORGANIC GROWTH</b>	Increase in turnover resulting from the growth of the activity as a result of the CAPEX invested in previous years which the market improvement has increased its value
<b>LEADERSHIP IN CASH GENERATION</b>	Cash flow generation via operations and investments. Improved operating capital by managing working capital
<b>CULTURE OF PRIDE AND PERFORMANCE</b>	Pursuit of common ground to increase the pride in belonging shared by all members

These four cornerstones take the form of six strategic operational lines, which have proved decisive in fulfilling the objectives of the 2015-2018 Strategic Plan.

The internal management projects implemented between 2015 and 2017 have been decisive for the achievement of the Strategic Plan objectives



## INCREASED RETURNS ON ASSETS

With the aim of improving the margins on its business lines, some of Europac's main investments over the last three years have focused on improving the returns on its assets. Among these it is worth mentioning the installation of a winder and an improvement in specific consumption levels per tonne of output at the recycled paper factory in Rouen, France, as well as the optimisation of press performance on the kraftliner paper machine in Viana do Castelo, Portugal.

These investments not only increase the efficiency and productivity at the facilities and contribute to reducing costs, but have also allowed Europac to improve its product offering, positioning itself in higher value-added segments. In this regard, the factory in Dueñas, Palencia, which specialises in the production of white recycled papers, added to its product portfolio in 2017 the full range of coated papers, a product manufactured by no other competitor in Southern Europe.

Likewise, Rouen made progress in the development of glued papers and heavy Testliner 2 papers, while the plant in Alcolea de Cinca, Huesca, launched LINERPAC HPI, another heavy brown liner paper, offering high performance levels intended for demanding mechanical and ambient conditions. Its main uses include packaging for agriculture, frozen and refrigerated products and heavy duty functions.

In line with the growing demand for high-quality white coated papers for printing, as an integrated company Europac has made a commitment to high-quality printing technologies to develop high value-added packaging solutions. Since 2015, then, it has acquired new seven-colour flexographic printing presses at the plants in Guilhabreu and Ovar (Portugal), and Dueñas and Alcolea de Cinca (Spain), while it continues to develop the process of digital printing on corrugated board at the Dueñas factory.

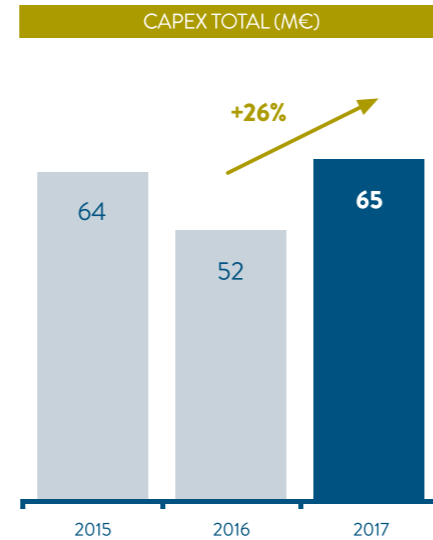
Europac has expanded its offering of paper and packaging, specialising in high value-added products



## ORGANIC GROWTH IN BUSINESSES AND MARKETS

In 2017, the company increased its CAPEX by 13 million euros compared with 2016, achieving a figure of 65 million euros invested in increased reliability, quality of the final product and production capacity.

Over the period 2015-2017, recycled paper production capacity has risen by 40,000 tonnes per year since 2015. Of this figure, 20,000 tonnes correspond to the Dueñas plant, and the other 20,000 to the Alcolea de Cinca plant. Meanwhile, the improvements incorporated during the shutdown in May 2017 at the kraftliner factory in Viana do Castelo serve to increase production capacity by 12,000 tonnes per year.



In the Packaging business, projects were also launched in 2017 with the focus on organic growth so as to contribute towards the strategic objective of growth in the Spanish packaging sector. The Dueñas factory is in this regard involved in the development of an investment project that began 2017 and continues in 2018, the aim being to increase installed capacity from the current figure of 57 million m<sup>2</sup> to 100 million m<sup>2</sup>, with an intermediate, short-term goal of 80 million m<sup>2</sup>. The project includes a new palletisation system and high-quality flexographic printing assets, which will inevitably strengthen the packaging intended for high value-added markets, such as food and wine.

Europac also purchased a large-format plotter for Dueñas. It functions as an additional converting line, with automatic intake and output, installed downstream of the digital printer and allowing the two devices to complement one another to produce materials designed for short PoS (Point of Sale) promotional print runs or special packaging with higher added value. The elimination of printing plates and stamping in the converting process serves to reduce production costs and turnaround times.

Lastly, in 2017 the facilities at the Alcolea de Cinca packaging factory were expanded to install its first converting line, which began production in April 2018. This is a high-quality rotary stamping machine for six-colour flexographic printing, with a production capacity of 24 million m<sup>2</sup> per year. The project serves to increase market share in the Spanish packaging sector and expand value chain integration, making the packaging factory's business model more sustainable and profitable.

Although the 2015-2018 Strategic Plan prioritised organic growth, it did not rule out corporate operations, which form part of the Europac mindset. In this regard, the company purchased the integrated packaging factory in Lucena, Cordoba, for 9.8 million euros, representing a post-synergy multiple of 5.5 times the EBITDA. The facility turned over 7.6 million euros, and generated an EBITDA of 1.2 million euros at the close of 2016. The 20-million euro investment plan will serve to acquire new assets and increase production, the initial objective being 40 million m<sup>2</sup>, with a medium-term objective of 100 million m<sup>2</sup>, focused essentially on the food and agriculture sectors.

The company specialised in construction and demolition waste Transcon Valladolid, S.A. based in Laguna de Duero was also acquired for 3.7 million euros, representing a post-synergy multiple of 5.3 times the EBITDA. Optimisation of routes, improved competitiveness and complementary environmental licences provide Europac Recicla with access to operational sectors where it previously had no presence, while strengthening its positioning as an integrated waste manager in the Castile-Leon region.

As for divestments, Europac reached an agreement with International Paper for the sale of its packaging factory in Tangier for a figure of 44 million euros, generating a consolidated net profit of 10 million euros. The Moroccan market was no longer strategic for the company given the difficulty in increasing its industrial presence and generating the value expected by shareholders because of the increase in the current installed capacity and the announcement of new projects, which would lead to a reduction in operating margins.

Lastly, with the aim of divesting itself of non-strategic assets, the group sold its company Europac Logística Lda. to a subsidiary of the Nogar Group, which provides sea freight services at the commercial port of Viana do Castelo. The sale was made for 2.7 million euros, representing a gain of 2.3 million euros for Europac. The agreement included a long-term contract with progressive discounts on the prices charged to the Viana do Castelo factory, which exports 150,000 tonnes of kraftliner paper by sea each year.

## OPERATIONAL EXCELLENCE

### Europac Management Way

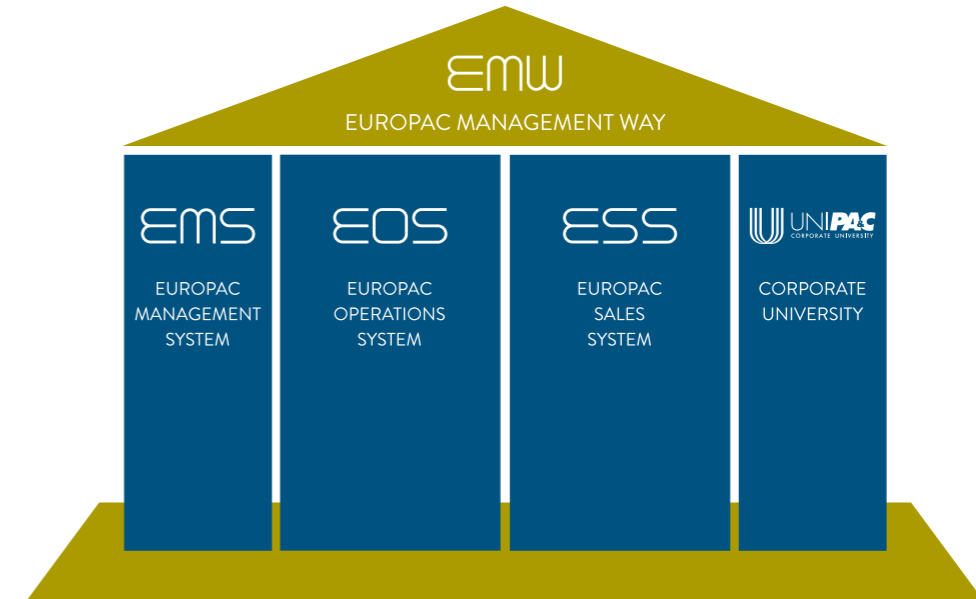
Europac Management Way (EMW) is the Europac Group's management model, developed internally and constantly being improved. Inspired by industrial management systems for corporate excellence, its aims are to harness all available resources to increase the quality of products and services, optimise process efficiency in processes, and guarantee individual safety.

EMW is based on two fundamental cornerstones: Firstly, the **Europac Sales System (ESS)**, a commercial management model focused on increasing revenues and raising profitability by developing products and services that provide value-added to customers' businesses and even to customers' customer. And secondly, **Europac Operations System (EOS)**, a model for standardisation management and continuous improvement of the company's processes, which primarily seeks to reduce costs and improve efficiency at facilities.

The main aim of EOS is to define the optimum standard at which Europac's plants should operate. The reason for operating with the EOS model is to create basic operational foundations to ensure long-term growth and increase short-term productivity. Its four pillars are health and safety, quality, production and the logistics chain, each with their own key tools.

The development of ESS and EOS are founded on another two complementary pillars:

**Europac Management System (EMS)**, a strategic tool that manages the employment of goals and strategies, and **UniPAC**, the Group's corporate university, which props up the development of the management model through training.



Under this model, Europac gears its work focus to raising the global efficiency of the Group's packaging plants, increasing the efficiency of corrugators and optimising supply chain processes so as to continue adapting the supply chain to customer requirements.

The promotion of operational excellence through the creation of the Europac Management Way has, for example, meant that all the facilities of the Europac Paper Division have ISO 9001 Quality Management Certification in place, continuing in 2017 with improvements to the alignment of each of the

plants with the standard's requirements. Meanwhile, the Viana do Castelo plant holds ISO 14001 Environmental Management Certification, and Rouen was recently awarded ISO 50001 Energy Management certification.

Meanwhile, in 2017 Europac invested 5.4 million euros in environmental initiatives to improve its environmental performance and the efficiency of its mills, in terms of energy, water and materials consumption.

## FINANCIAL RELIABILITY

The financial reliability on which the Europac project is based has always been an essential condition, and was further underpinned over the period 2015-2017. This is demonstrated by the cash flow generation capacity which served progressively to reduce the Financial Debt to 171 million euros, a 42% reduction since the 2015-2018 Strategic Plan began, achieving a Net Debt/EBITDA ratio of 1.1. Within this context, financial costs were reduced by 76% over the period, to 6 million euros, while financial leverage was cut to 29%\*. Furthermore, the ROCE registered constant growth, reaching 16.6% in 2017, compared with 7.7% before the plan was launched.

The Net Debt/EBITDA ratio  
at the close of 2017 was 1.1

\* Leverage:  $NFD/(NFD+EQUITY)$



## INNOVATION

For Europac, innovation is the tool allowing it to offer new solutions that anticipate its customers' needs, or satisfy others that have not yet been fulfilled. Innovation is not seen as an end in itself, but as a mean that must have a real application and a commercial competitive edge contributing with added value to customers' businesses, making them stand out from the competition while increasing their returns. This can only be achieved by means of thorough sector knowledge and a professional team eager to question every detail so as to achieve improvements.

The Europac Packaging Division has 13 design centres developing solutions aligned with customers' needs, working online to draw on a shared knowledge base and benefit as far as possible from the experience of each working team. These centres develop packaging solutions by applying graphical and structural design to satisfy the logistics and commercial needs to customers' products.

Europac employs innovation to bring to market solutions that anticipate its customers' needs, or satisfy others that have not yet been fulfilled



## EUROPAC CULTURE

Constant evolution and value creation have been the essence of the company since it was first founded in 1995. Constant evolution as a precondition in order to prosper in a business ecosystem in which trends, cycles and new paradigms arise at an ever-increasing pace, and with value creation as the goal, are the defining features of the Europac culture. Both these concepts are vital elements in the original route map that defined the steps taken by the company in the past, and those it will take in the future.

Within this context, evolution means never settling for the status quo, striving always to go the extra mile and adapt to changing environments, which means redefining objectives at any given time, as well as the way in which they are achieved. And value creation as a conviction that companies are dynamic rather than static organisations by nature, as is the market in which they operate. And so a company that does not grow does not stand still, but instead slides back.

### Living Culture

The culture promoted by Europac focuses on the following principles:

- Constant evolution of structures and processes to adapt to the environment and improve competitiveness
- Clear commitment to the implementation of new solutions as the gateway to new markets



This evolution has been driven by the ambition to grow and to reach further, to adapt to new contexts and needs. The company has as a result succeeded in becoming a leading player in Southern Europe, diversifying its product portfolio and increasing its number of facilities.

In response to this growth, efforts were made to consolidate and promote a shared corporate culture that would lay the foundations to align the whole organisation with discipline, effort and daily dedication, supported by individual talent.

Europac has promoted a shared corporate culture focused on value creation

And so in 2017 investments continued to shape, promote and assimilate those common denominators that define Europac to generate a pride in belonging, and to develop high-performance teams. Within this context, a new digital ecosystem was launched at the end of the year, including a refreshed website, a blog and corporate profiles on the LinkedIn, Facebook and Instagram social media platforms. This serves not only to open up new channels for dialogue with stakeholders, but also strengthens Europac's image through a shared voice capable of linking up all the group's stakeholders.



## EARLY FULFILMENT OF OBJECTIVES

The work performed by Europac in the strategic operational areas mentioned in the previous chapter, and the development of operational and commercial internal management projects since 2015, in a favourable market environment in 2017 and an integrated business model that optimises results when the market is positive, and limits their impact at times of market turmoil, meant that the 2015-2018 Strategic Plan objectives were fulfilled a year ahead of schedule.

Europac has fulfilled the objectives of the 2015-2018 Strategic Plan a year ahead of schedule

At the presentation of results for the 2014 financial year, the Europac Group presented its 2015-2018 Strategic Plan. After a long period characterised by corporate growth, the priority was placed on consolidating and increasing returns on the investments made in the past, so as to continue growing in the future. This plan, founded on the strategic operational lines described in the previous chapter, took the form of achieving improvements in three of them based on the figures recorded at the close of 2014. These three objectives were not only fulfilled a year ahead of schedule, but also substantially surpassed expectations.

	STARTING POINT	M E T			TARGET
	2014	2015	2016	2017	2018
EBITDA MARGIN	11.8%	13.8%	15.8%	<b>18.2%</b>	<b>16.0%</b>
DEBT/EBITDA	3.2x	2.6x	2.0x	<b>1.1x</b>	<b>2.0x</b>
ROCE	7.7%	10.5%	11.7%	<b>16.5%</b>	<b>15.0%</b>



## CONTINUITY OF THE INTEGRATED BUSINESS MODEL

Europac's integrated business model represents the paradigm of the circular economy, closing the lifecycle of paper as the most decisive factor in sustainability. Its presence throughout the paper and packaging cardboard value chain allows it to guarantee a significant proportion of raw materials in each transformation process in the industry, offering a swift and efficient response to market demands, while generating economies of scale and optimising the planning process.

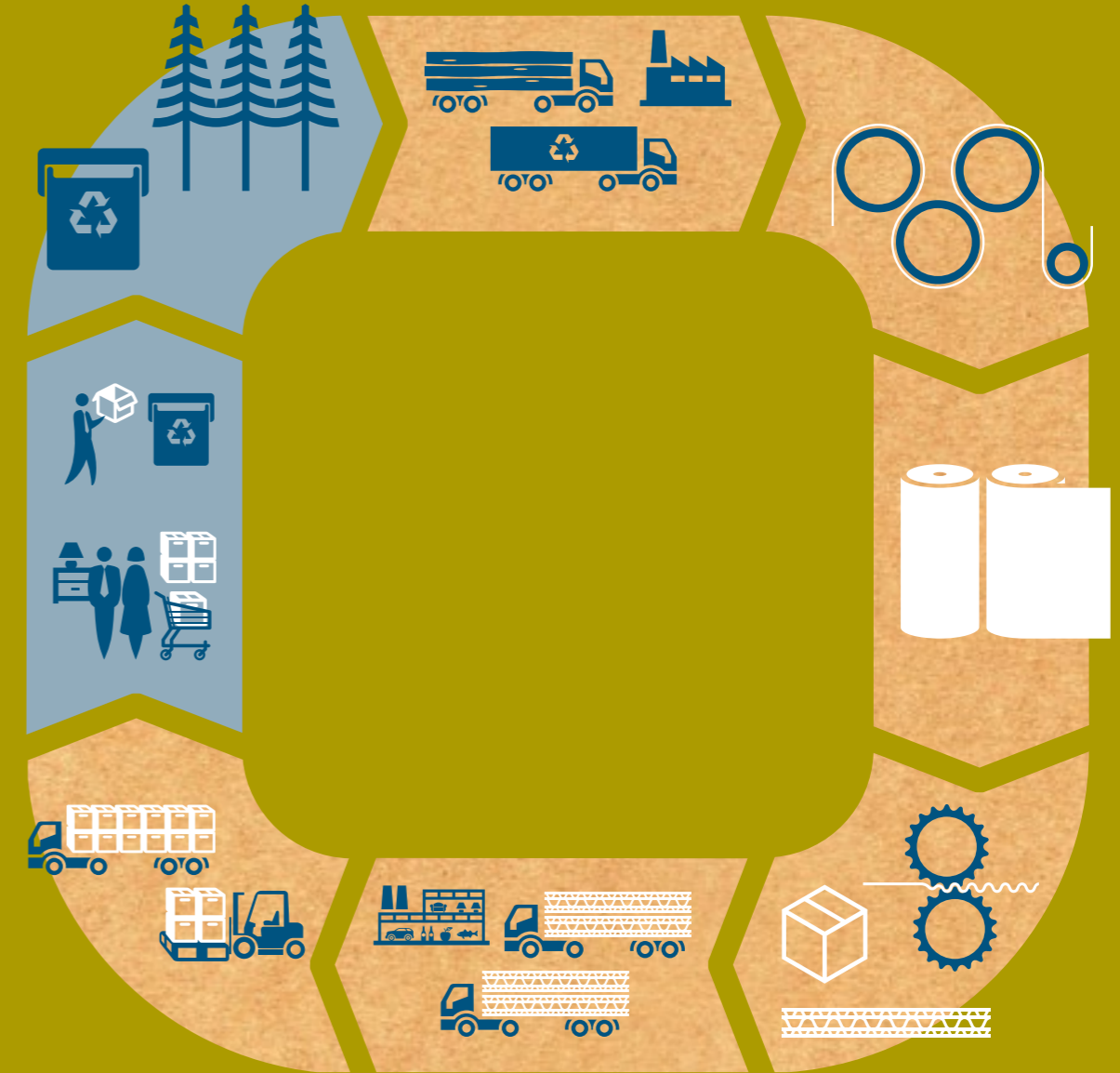
The integrated business model makes the most of periods when the market is strong, and reduces the impact of times of fluctuation, thereby guaranteeing the sustainability of results.

The Europac Group offers a wide range of products and services connected with the paper and packaging cardboard for businesses, its main operational lines. With regard to paper, the Group has a presence in such strategic sectors as forestry operations and waste management, supply sources for timber and recovered paper. Through these natural and renewable raw materials, it manufactures a wide range of kraftliner and recycled white and brown papers. Meanwhile, in order to satisfy the electricity and heat energy demands inherent in the paper production process, it has its own energy generation facilities in Spain and Portugal.

Paper reels are the raw material for the Packaging business. By combining different qualities and weights of paper, it produces corrugated board sheets which are then transformed into packaging solutions for the customer in the converting process. These boxes are ultimately recycled, and from the waste management centres are fed back into the paper production process, along with timber from forestry operations.

### Integrated business model as the catalyst for growth and future guarantees

- Increase in overall group profitability
- Less volatile results
- Service improvement through integrated supply chain control
- Generation of economies of scale in processes
- Specialisation of assets
- Circular economy as a sustainability factor

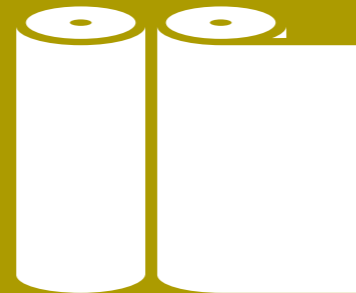


## PAPER DIVISION FACILITIES, PRODUCTS AND SERVICES

Europac has five paper production lines in place, at four different mills: Dueñas and Alcolea de Cinca (Spain), Viana do Castelo (Portugal) and Rouen (France). The Spain and Portugal mills have their own generating plants, with an installed capacity of 153 MW. With a paper production capacity of 1,090,000 tonnes a year, the company is not only one of the leading European packaging paper manufacturers, but also makes the most complete and highest value-added product range.

The Viana do Castelo mill has a production capacity of 425,000 tonnes of kraftliner paper per year, a type of paper for which European supply cannot meet demand. Meanwhile, at the other three plants it has an overall production capacity of 665,000 tonnes of recycled paper a year, including in particular white papers and particularly coated papers from the Dueñas mill to satisfy demand for high print quality packaging, as well as high- and low-weight fluting paper from the Alcolea de Cinca and Rouen mills, respectively.

Since 2017, Alcolea and Rouen have also been producing high-performance brown liner paper. The mill in Huesca manufactures paper of a weight between 180 and 220 g/m<sup>2</sup> intended for the production of packaging for high value-added sectors, such as agriculture, frozen or refrigerated goods and heavy duty uses, while the French facility has developed 130 g/m<sup>2</sup> glued and liner papers, that are in particularly high demand in Central Europe..



## PACKAGING DIVISION FACILITIES, PRODUCTS AND SERVICES

Europac has 14 plants in Spain, Portugal and France engaged in the production of corrugated board sheets and packaging, with a volume of 850 million m<sup>2</sup> a year. It also has a packaging distributor in Madeira.

The Group's commercial positioning is based on establishing long-term partnerships with its customers so as to understand their business, manufacture packaging solutions that satisfy their current needs, and work together with them on the development of new solutions to contribute added value to their businesses.

In this regard, Europac has design centres at each of its packaging plants, which employ linked-up working processes to draw on a shared knowledge base so as to supply any packaging solution that the market might demand.

Within this context, the division is committed to market trends such as high print quality, without overlooking shelf-ready packaging, consumer packaging, heavy duty packaging and designs intended for e-commerce, with the shared aim of optimising graphic and structural design, along with the technical and logistical characteristics of the packaging to offer customers exactly what they need.

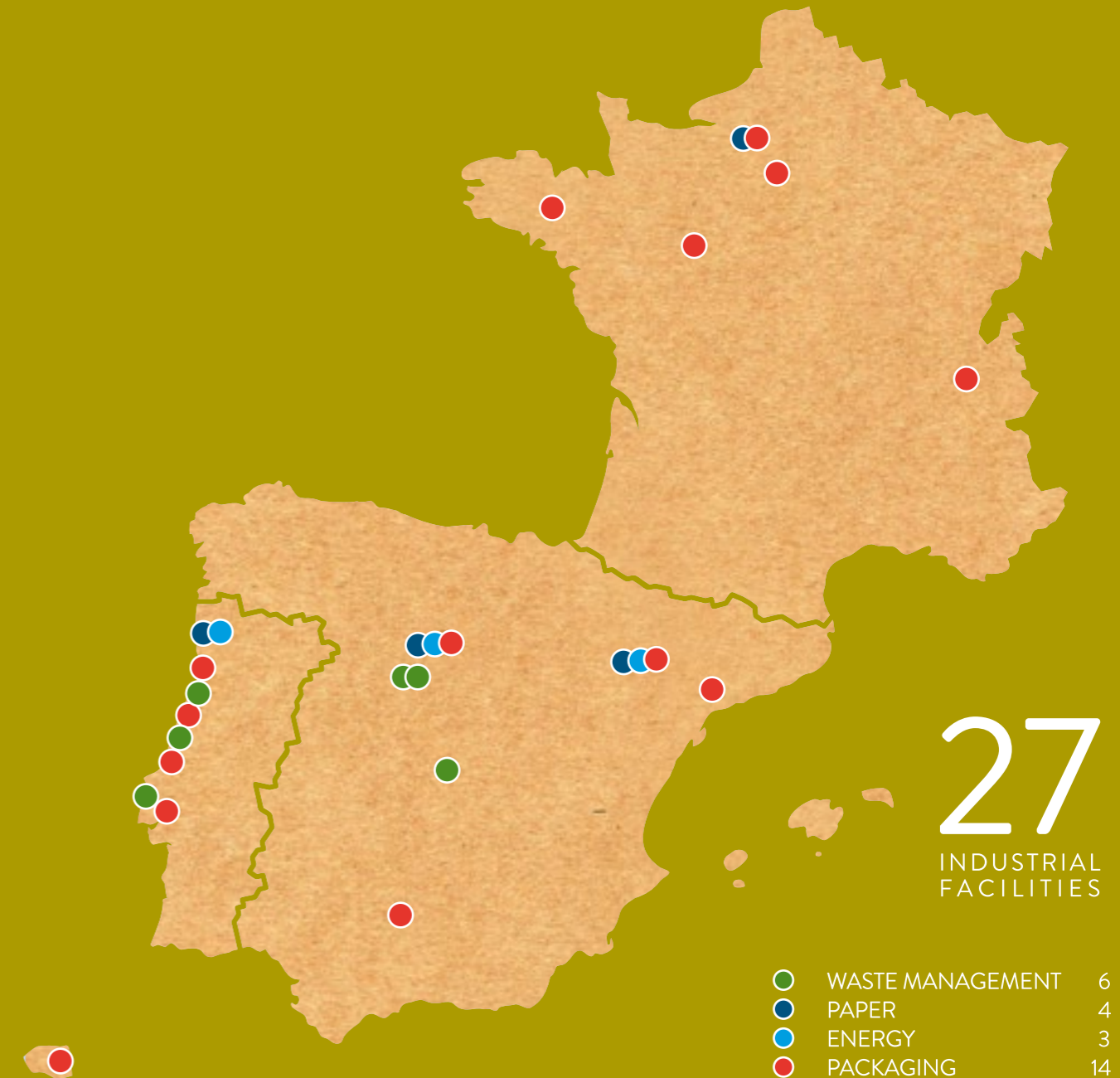


## USE OF RAW MATERIALS

Europac Recicla is the business line engaged in integrated waste management. It has three sites in Spain and another three in Portugal, which supply the Group's paper mills with more than 365,000 tonnes of recovered paper per year. These sites recover and process all forms of waste, with those that cannot be re-used internally being re-used through third parties. Meanwhile, in both Spain and Portugal a confidential information destruction service is offered for all storage media,

helping customers to guarantee compliance with legal data protection obligations.

As for the timber used at the Viana do Castelo factory in Portugal, the Group directly and indirectly manages 8,500 ha of sustainable forestry operations in Spain and Portugal, 75% of the timber used is pine, and the remaining 25% eucalyptus.



27  
INDUSTRIAL FACILITIES

# 2018-2020: STRATEGIC ACTIONS FOCUS ON THE CUSTOMER

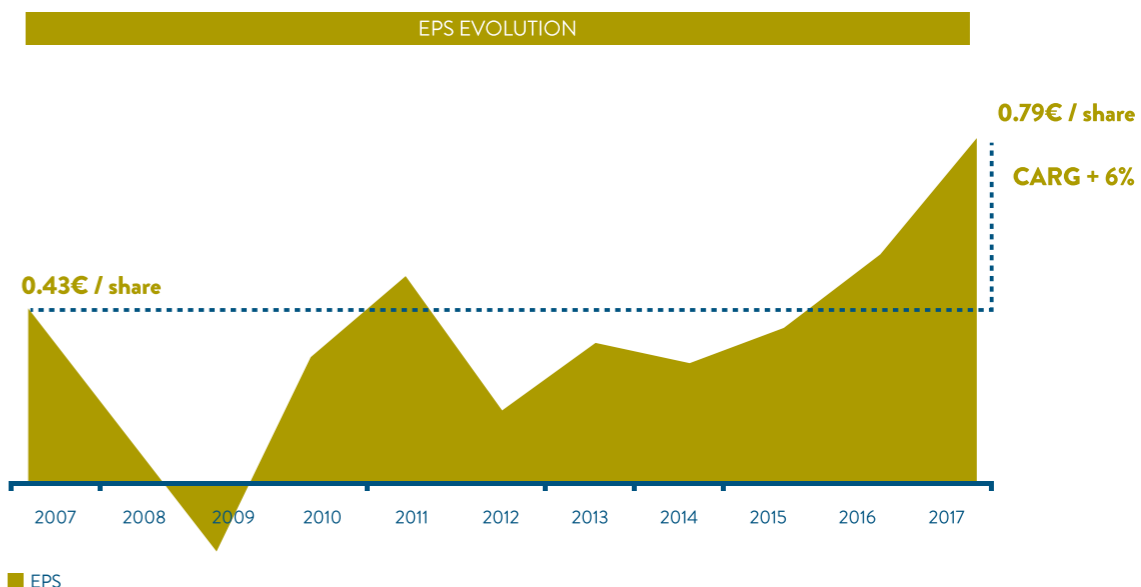
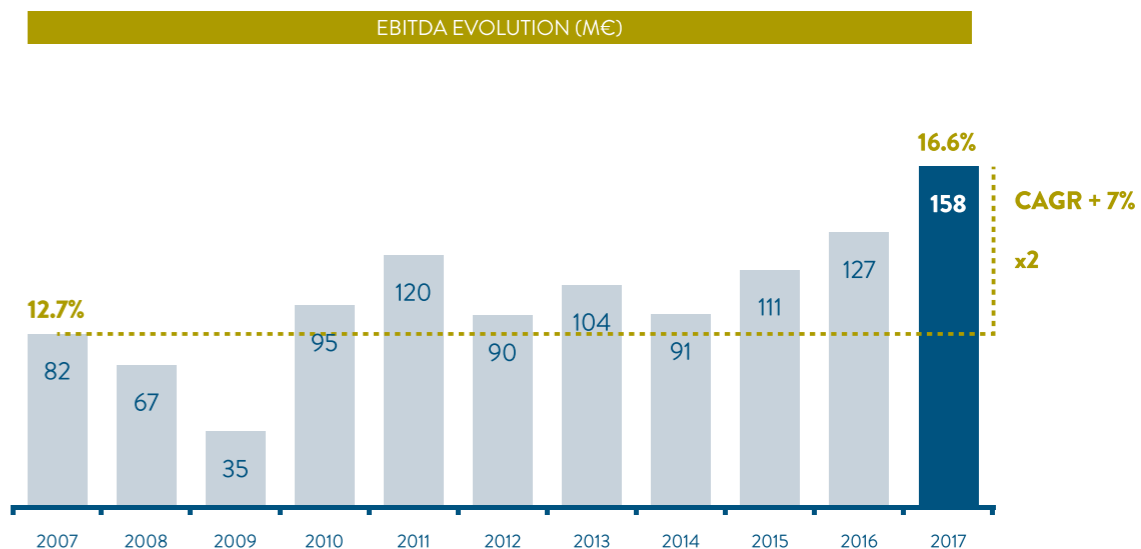
One distinctive feature of Europac has always been that each chequered flag it reaches marks the starting gun for the next goal; goals that are therefore only partial objectives. In 2007 the company achieved the best EBITDA ever before the economic crisis. It was at that point that the worst crisis of the last 60 years was unleashed, an event that Europac took as an opportunity. Between 2008 and 2013 it doubled its balance sheet, above all through acquisitions, and then just as prospects began to improve, the energy reform had a negative impact of 14 million euros on the results for 2014.

At this point Europac decided to look inwards, and launched the 2015-2018 Strategic Plan, in pursuit of management improvements, operational excellence, product innovation and a shared culture. The objective was to capture all the returns on assets, laying the foundations for continued future growth.

Objectives that were amply fulfilled a year ahead of schedule. It should be emphasised that if one ignores the market effect, the operating account for 2017 would have fulfilled the objectives set for 2018.

In conclusion, Europac has bedded down a trend towards growth over the last 10 years, practically doubling both its EBITDA and its Net Profit per Share.

At Europac, there are no chequered flags, only the achievement of partial objectives

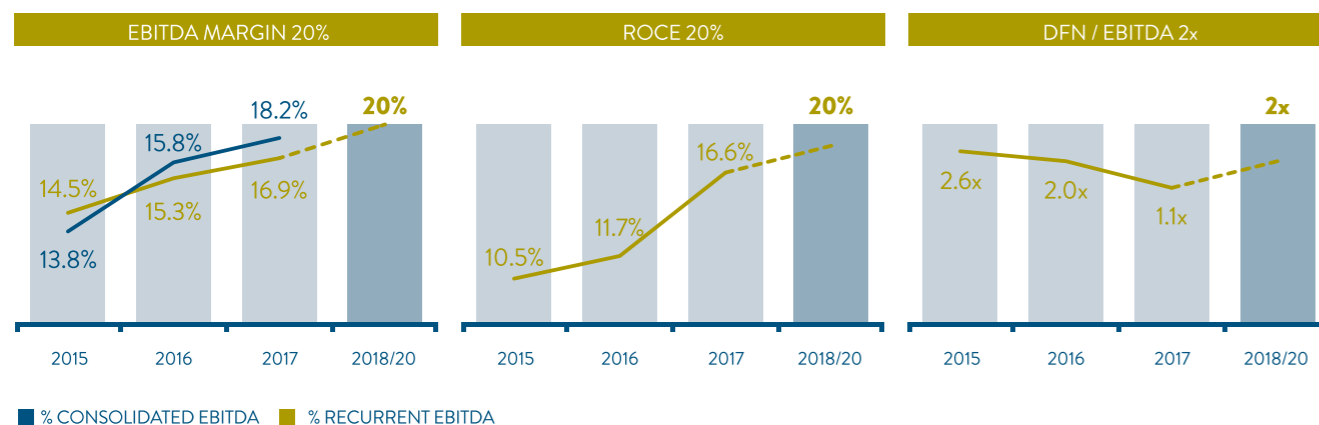


In short, now is the time to set new partial objectives in the 2018-2020 Strategic Plan, which was presented in February 2018. Within this context, the customer is placed at the heart of all strategic actions. Europac is therefore going the extra mile in viewing customers as the company's raison d'être, while the generation of value for their businesses is its primary objective, and the way it guarantees the consolidation of long-term win-win relationships between customer and supplier.

This is a continuity plan based on the same strategic operational lines that allowed the company to fulfil the objectives under its previous plan, while now ramping up the level of ambition even further. In what has been designated internally as the 20%/20%/2 Plan, the company has committed to achieving a recurrent EBITDA Margin and average ROCE over the period of 20%, with a Financial Debt/EBITDA ratio of 2.

These financial objectives were calculated on the basis of the market situation in October 2017. Accordingly, fulfilment does not depend on the market, but on the group's own management. Meanwhile, and once again, the objectives were set in accordance with organic investments valued at 210 million euros over the next three years, which will be allocated to projects for product development, increased production capacity, higher productivity, cost-cutting and the maintenance of facilities. As for the shareholder remuneration policy, a payout of 50% would be consolidated.

All the above within a context in which the company once again considers organic growth as a priority. It has a remarkably sound balance sheet and a reduced level of debt, which, alongside its cash generation capacity, makes for a favourable situation in which to once again think about corporate growth as a priority through acquisitions and organic investments.



### GOOD MEDIUM-TERM MARKET PROSPECTS

- Pricing tension in a product where there is a shortfall on the European market, namely **kraft paper**, given the limited supply within a context of an increase in domestic demand both in Europe and in the USA.
- In **recycled paper**, the solidity of domestic demand alongside the increase in exports means that the new capacities so far announced will not fulfil the expected market growth.
- Change in the **paper recovery model** because of Chinese restrictions on imports, resulting in greater availability of all materials in Europe, and hence lower prices.
- Gradual recovery of **packaging** margins as raw material price rises are passed on to the market.
- Stable availability of **timber**.
- Uncertainty regarding **energy** because of volatility in the prices of Brent crude and the dollar exchange rate.

## MARKET TRENDS

The corrugated board packaging market is on an upward path as a result of the replacement of packaging made from unsustainable materials, differentiation based on customisation and adaptability to different distribution channels, the inclusion of elements integrated within the packaging design, cost savings associated with logistics packaging and innovation as a factor in competitiveness.

The sector is developing new packaging tools. These two circumstances, alongside the upturn in demand, demographic growth and the trend to replace plastic packaging in accordance with demand from consumers themselves, all mean that the global packaging market share is growing faster than consumption itself.

Practically all products that are used or consumed daily have been transported or sold in a box. In fact, on occasion consumers do not even see the product they are purchasing, but only the packaging. Packaging, then, is much more than just a box. It forms a part of the product itself, functions as an advertising and marketing platform representing a competitive edge and a distinctive factor so as to stand out from the competition, with a potential influence on consumers' purchasing decisions.



**CHANGES IN STYLE OF CONSUMPTION**

- Customised packaging tailored to each product, in response to specific needs.
- Growth in packages for e-commerce, requiring specific strength, printing, security and re-use characteristics, among others.
- Optimisation of design and cost savings.

**DESIGN, INNOVATION AND COMPETITIVENESS**

- Continuous improvement in pursuit of lower weight, higher print quality and smart, flexible and adaptable solutions.

**SUSTAINABILITY**

- Single material packaging that is sustainable and environmentally friendly, 100% recyclable, biodegradable and reusable.



## EUROPAC VALUE PROPOSITION

Europac works to improve the performance of its customers and of its customers' own customers, by contributing value to their business, allowing them to stand out from the competition. To do so, the company invests in assets that serve to provide a response to the specific needs of each customer.

### SECTORS

#### MAIN OPERATIONAL SECTORS OF EUROPAC

- AGRICULTURE
- FOOD
- DRINK
- CHEMICALS

### MARKET TRENDS

#### **HEAVY DUTY**

Large-scale packaging for transportation and protection of bulky or heavy products. Widely used in the automotive, household appliance, domestic furniture and metalworking sectors.





### **SHELF-READY PACKAGING**

Packaging solution intended for transportation and product display at the destination.



### **DISPLAY**

Originally intended for promotion, advertising and marketing at the point of sale, they are also used as transport packaging.



## HIGH-QUALITY PRINTING

Flexographic, digital and offset high-quality printing technologies for long or short production runs, which even offer the option of customising each packaging unit in a single run.



## MECHANISATION

Process linked to the development of packaging designed to be used directly in the customer production line, optimising time and cost.



## E-COMMERCE

Packaging with specific requirements corresponding to the logistics chain: content protection and privacy, tamper-proofing and dual use for returns. Considerable growth potential as the leading exponent of micro-segmentation, offering users products and services based on their online purchasing history.



## DIVERSIFIED PORTFOLIO

Europac has a portfolio of more than 6,500 customers operating in a range of sectors, with one factor in common: enterprises with which alliances can be established as strategic partners, working jointly on the development of packaging solutions tailored to their needs.

Europac acts as a strategic partner of its customers, working jointly on the development of tailored solutions



## SOLUTIONS TO RESPOND TO MARKET TRENDS

### E-COMMERCE

E-commerce is an additional sales channel with a turnover that expanded in Spain in the second quarter of 2017 by 23.4% compared with the same period in 2016 (CNMC figures). Nonetheless, although it represents a business opportunity, e-commerce is also a challenge for packaging manufacturers and distribution companies, which are required to respond to specific issues and needs.

**E-commerce represents a logistical challenge for customers, to which Europac responds with innovative solutions**

Europac offers packaging solutions that fulfil these needs, acting as a strategic partner of producers and distributors, and as an additional element in the e-commerce value chain.



Packaging has to guarantee the safety and preservation of the original product characteristics.



Packaging for e-commerce needs to adapt both to production and logistics processes, and the characteristics of the product itself.



Printing characteristics are taking on increasingly frequent importance, because the packaging is itself a platform for communication.



In a type of business with a high number of returns, dual use packaging that can handle the logistics of both product delivery and returns is important.



100% recyclable packaging after use.

#### PACKAGING FOR RETAIL PRODUCTS

Sahoco is a Portuguese company specialising in womenswear retail.

Europac designed a craft box for them allowing users to open the box without tearing it, so that it can be re-used to return the product if necessary.



#### PACKAGING FOR DRONES

Hexo+ manufactures drones designed specifically to record videos and take photos, which can cost up to €3,500. It therefore needs to guarantee their integrity during distribution.

The company developed a packaging product with the emphasis on structural and single-material design, free of polystyrene, to protect both the drone and its components.



## PACKAGING FOR CAVA BOTTLES

Cava producer Freixenet and Europac developed a packaging solution to avoid the breakage of bottles in online sales. The box is manufactured with the bottles protected by an internal corrugated board structure with tabs that prevent direct contact between the product and the internal face of the package, creating an air bubble to absorb any impacts that could occur during the transportation and delivery process, up to a height of 140 cm. As an additional safety measure, it is fitted with a tamper-proof sealing tab, which is broken when the package is opened for the first time..

According to sources at Freixenet, "since we have been using the new packaging for online sales we have not registered a single bottle breakage incident, allowing us to improve our service and increase customer loyalty". This serves to avoid the surplus costs associated with the replacement and resending of goods.

In addition to safety, presentation, design and functionality, this represents added value for premium products. The packaging is therefore made from luxury paper, such as kraftliner with high-quality flexographic printing. Meanwhile, three, six, nine or as many as twelve bottles of differing heights and diameters can be transported, optimising logistical and packaging production costs.



## STRUCTURAL DESIGN

In the packaging of products for export, the logistical characteristics of corrugated cardboard represent a competitive advantage over packaging made from other materials. The most important of these is the flexibility of the corrugated packaging, which can be adapted to the exact shape of the product to optimise the number of units transported per pallet. In addition, the lower weight of corrugated cardboard compared to plastic or wood and the ease with which it can be recycled and recovered at destination should also be highlighted.

## PACKAGING FOR CHILD SEATS

In collaboration with the cycling accessory manufacturer Polisport, Europac has devised a packaging solution for child seats, which are exported worldwide. By adapting to the form of the product they significantly improve the logistical process, increasing the number of product units per pallet by 29%, and reducing the number of trucks used by 22%. They also use fewer square metres of cardboard per unit than the previous packaging, do not need to be glued shut, and feature a handle at the top to facilitate product handling during the production and distribution process, while also offering functionality to the end customer.



## SOLUTIONS FOR TRANSPORTATION AND SALE

On occasions, packaging solutions are needed for promotional campaigns or to sell exclusive premium products, where the key factor is a functional design that not only protects but is an attraction in itself and makes the product stand out from the competition. There is no second chance to make a good first impression.

In 2017, Europac strengthened its commitment to packaging solutions for Point of Sale Advertising

In 2017, Europac strengthened its commitment to packaging solutions intended for Point of Sale Advertising, as a means of contributing with added value to its customers, and achieving profitable growth in the packaging market. According to figures from Infoadex, in 2017 PoS advertising investment grew by 2.5%, totalling 1.64 billion euros, representing the second-largest investment in non-conventional advertising.

The manufacture of white and coated papers, which offer the best printing characteristics, and the availability of high print quality technologies, provide Europac with the performance guarantees to address this market. In 2017, Europac doubled its volume of sales in terms of square metres compared with 2016 among customers whose products are intended directly for the large-scale retail sector.

### HIGH-QUALITY PRINTING

There is a growing demand for high-quality print packaging, as a platform for communication and marketing, and a standout feature in the marketplace.

Europac is capable of producing three types of quality printing:

- **Digital:** Short and high value-added print runs. Possibility of customising each package in an individual run, with relief or selective gloss printing.
- **Flexographic printing:** high-quality printing optimised for long runs, where it is more competitive than digital printing.
- **Offset:** printing directly onto a paper reel which is added to the cardboard sheet in an additional gluing process.

### BEER SALES PROMOTION

Promotional packaging for the sales of the French brewery Brasserie de Sutter, combining in one single box 4 x 33 cl bottles of craft beer, and a glass as a free gift.

The particularly notable feature in this case is the high-quality flexographic printing as the standout feature, and the side openings of the box to give visibility to a product that is in itself a distinctive factor.

## ADVENT CALENDAR FOR THE BREWING SECTOR

In 2017, in collaboration with the craft brewer Brasserie de Sutter, Europac developed an alternative to the traditional advent calendar. The challenge lay in creating a package for 24 x 33 cl beer bottles to guarantee product protection, while also providing an attractive, Christmas-themed offering. These were the initial inputs for a packaging solution with the unmistakable form of a Christmas tree, as well as side handles for ease of handling.

The brewer promoted the new product via its social media platforms, and had soon completely sold out. The manufacturer has therefore confirmed that it plans to increase production for the forthcoming Christmas campaign.



## ICE BUCKET BOX TO TRANSPORT BEVERAGES

This is an ice bucket box for still and sparkling wines to be used in the distribution sector. A bag of ice is added to the package to keep the drink cold and so maintain the right serving temperature. This is an example of ready to use packaging which allows the bottle to be safely transported, by using the handle, with one key feature being the absence of any joins, so as to prevent the water from the ice from seeping into the box structure.

The high-quality printing turns the packaging into a communication platform and marketing tool to attract consumer attention and boost sales.



## SUSTAINABILITY

Sustainability is one of the arguments justifying the development of the corrugated board packaging market. Meanwhile, the trend is for compound packaging comprising various materials to be replaced with alternatives made solely from cardboard. Europac, whose integrated business model is in itself a sustainability factor, is fully involved in this trend by working to offer its customers solutions that fulfil these requirements.

Europac's integrated business model is in itself a sustainability factor

## MULTI-MATERIAL PACKAGING REPLACED BY SINGLE MATERIAL DESIGNS

Tefal is a French kitchen utensil and small appliance manufacturer noted for its quality and innovation. Its packaging represents a challenge given the complexity, and the need to protect the product. Within this context, Europac identified an opportunity for improvement, and developed an alternative packaging solution that eliminates polystyrene, guaranteeing that the packaging is 100% recyclable and reusable.



## MECHANISATION

The perfect packaging solution tailored to the customer's needs requires that we act as a partner, understanding their business and working together with them, providing advice in all aspects connected with packaging, from the structural or graphic design to the product logistics, along with mechanisation.

Regarding this last aspect, Europac collaborates in the design and installation systems to facilitate the assembly of the packaging on the customer's production line. This is followed by a task of continuous consultancy, allowing customers to focus on their business.

Europac optimises the mechanisation of its customers' packaging

## PACKAGING MECHANISATION SOLUTION

The multinational company Bimbo proposed the development of an alternative to the plastic trays they used as logistical packaging. Following an analysis by supplier and customer of the needs at Bimbo's factory in Madrid, Europac presented a mechanised corrugated board solution compatible with the production lines. A new, simpler and more straightforward tray than the previous models, which is 100% recyclable and biodegradable.

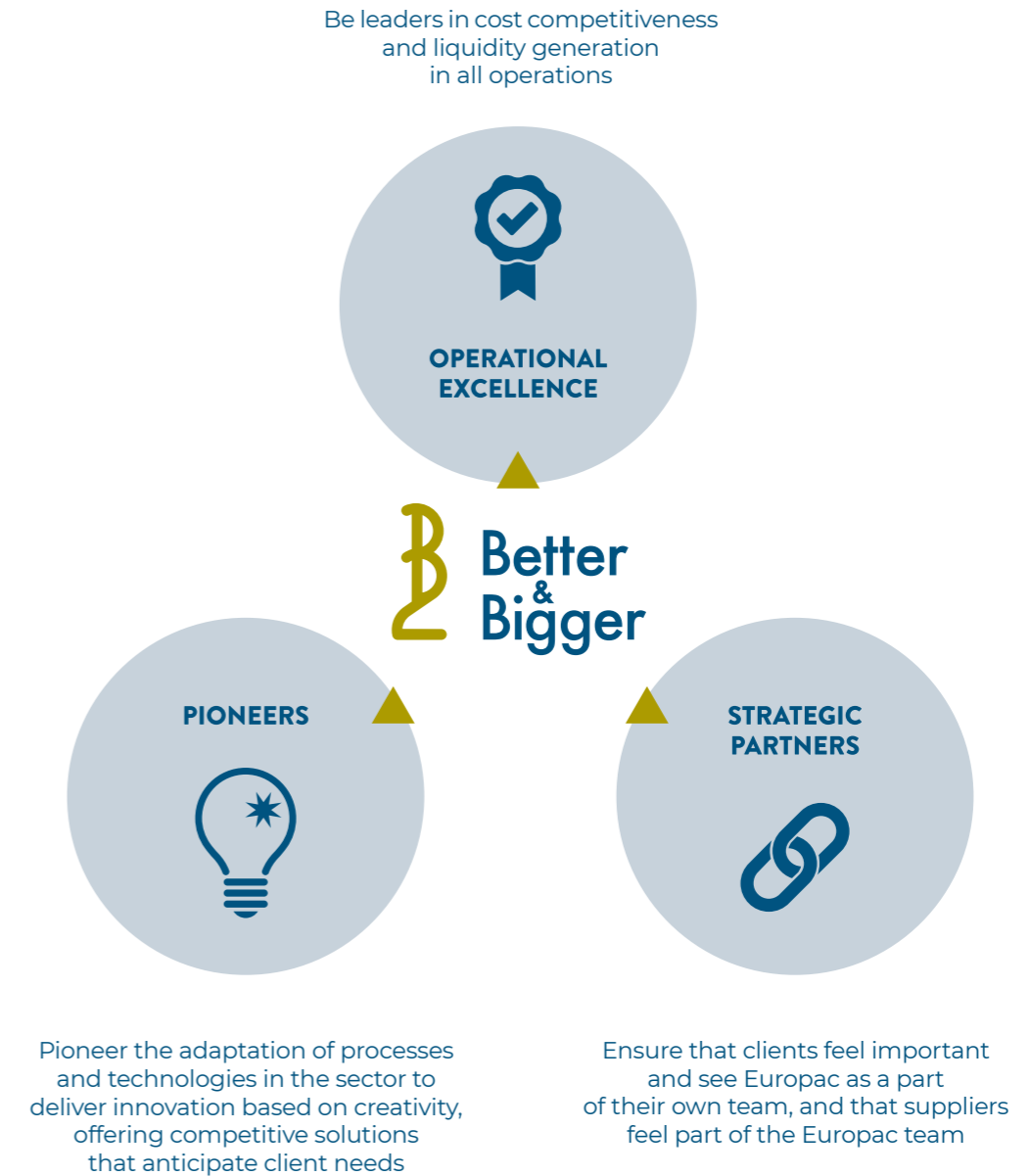




## BETTER AND BIGGER: OPERATIONAL AND FINANCIAL OBJECTIVES

The new 2018-20 Strategic Plan focuses its operations on creating value for the customer. Nonetheless, all these lines of action, trends and examples of product presentations reveal that the company has already embarked on this process of assisting its customers in selling more and better. Thanks to the tailored packaging solutions presented in this document, new customers have been won, and the loyalty of existing customers increased, while furthermore conveying a sustainable and environmentally friendly image.

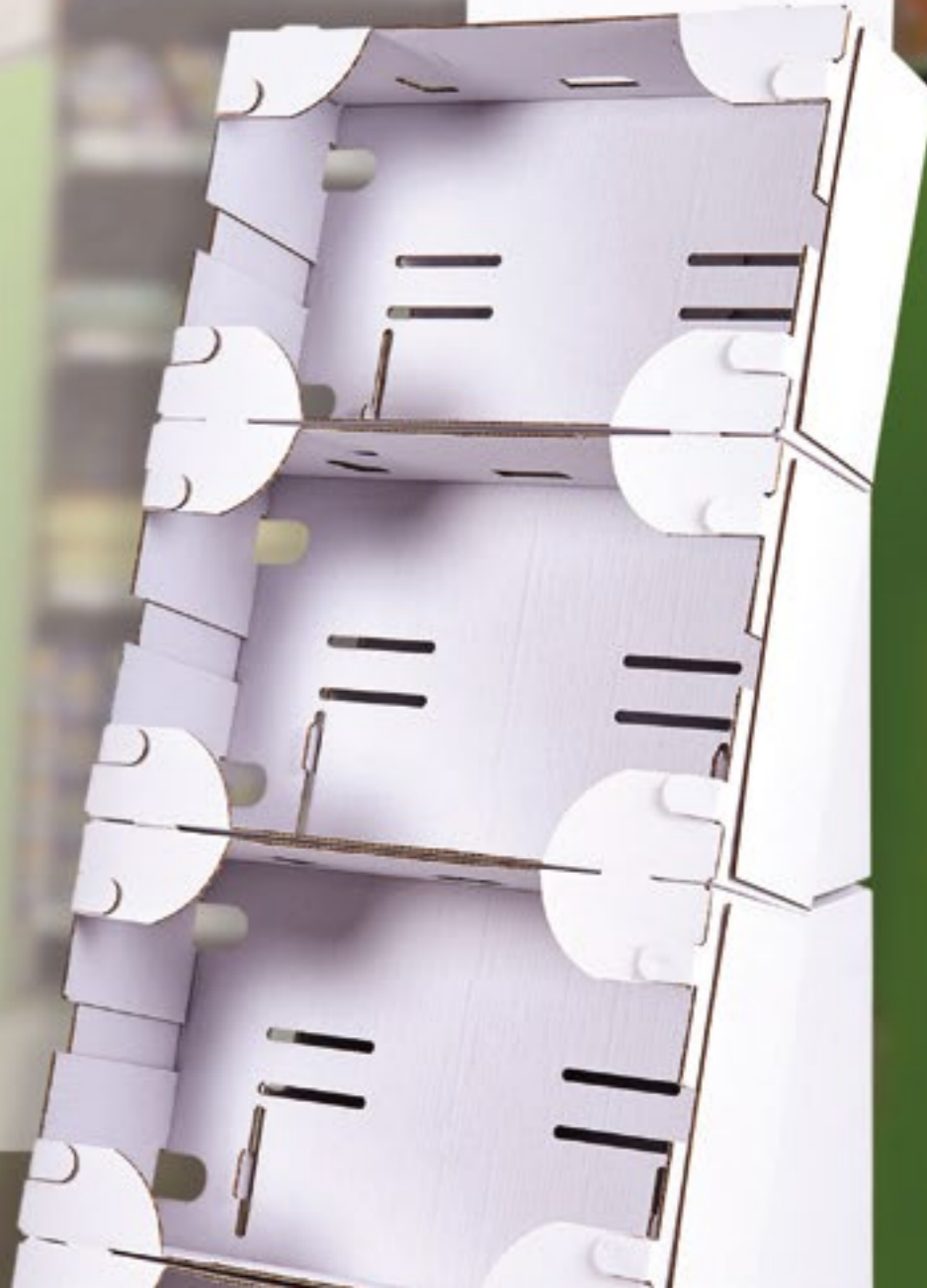
In this regard, while the previous strategic plan allowed the group to consolidate the investments made and position itself as a flagship for efficiency under the 3B Programme (Better Before Bigger), the 2018-2020 Strategic Plan comes under the aegis of the 2B Plan (Better and Bigger). The current starting point is a good one, the aim being to continue growth with our focus on the customer through the application of the three tactical approaches developed in previous financial years:





2017  
RESULTS

# 2



# ENVIRONMENT

In 2017, the worldwide economy grew by 3%, the highest level since 2011, underpinning the process of international recovery. Meanwhile, the Eurozone economy registered growth of 2.5% in a political context shaped by the general elections in France and Germany, and the bailout of Italy's financial institutions.

As for the markets in which Europac operates, Spain registered GDP growth of 3.1%, characterised by a rise in private sector consumption and exports, while in France and Portugal growth levels were 1.9% and 2.7% respectively.

## European kraft paper market in 2017

- 9% reduction in average monthly stock.
- Solid demand.
- 4% increase in shipments and reduction in US exports, in a market with a supply shortfall.
- Average price +74 euros per tonne compared with 2016.
- Price increases representing an increase of 27%-33%.

## European recycled paper market in 2017

- 11% reduction in average monthly stock.
- Solid demand.
- Increase of 6% in shipments.
- Average price +45 euros per tonne compared with 2016.
- Price increases representing an increase of 23%-25%

## European recovered paper market in 2017

- Increase in average stock levels from August onwards following Chinese import restrictions.
- 14% reduction in exports to China from CEPI countries up to December 2017.
- Average price +16 euros per tonne compared with 2016. Successive price declines because of increased availability in Europe since August 2017.

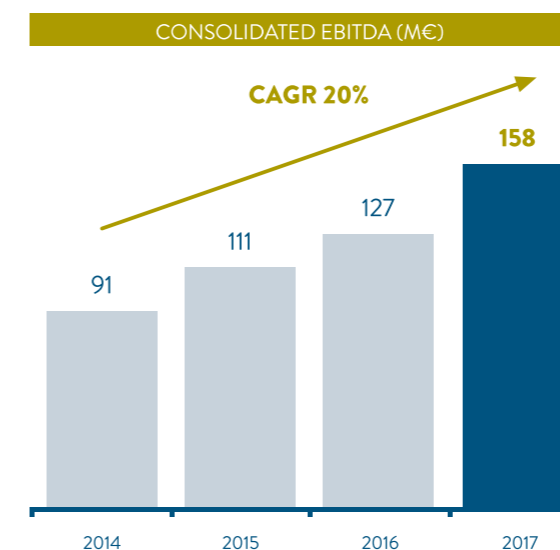
# ECONOMIC BALANCE SHEET

2017 plotted an upward track, with consolidated EBITDA of 158 million euros, 25% more than the previous year, thanks to the strength of final demand and increases in paper sale prices which, combined with cost optimisation and improved productivity, served to fulfil the 2015-2018 strategic objectives one year ahead of schedule. Recurrent EBITDA in 2017 was 19% higher than in the same period of the previous year, and the fourth quarter of 2017 was 43% higher than the comparable quarter of 2016.

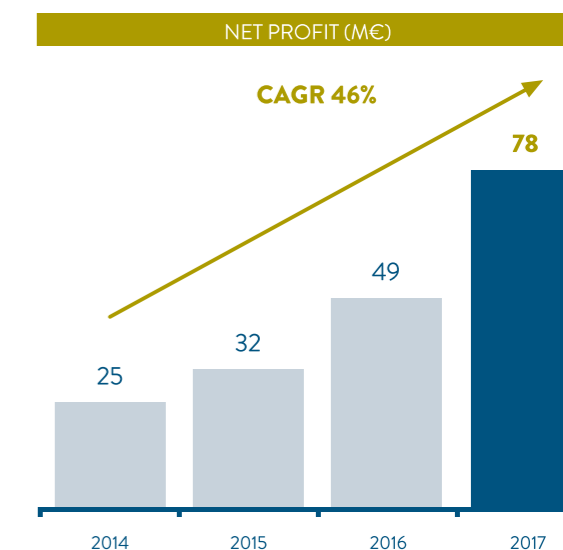
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FIGURES IN THOUSANDS OF EUROS	2015	2016	2017	VAR % 2016-2017
AGGREGATE REVENUES	1,083,714	1,068,970	1,185,860	10.9%
CONSOLIDATED REVENUES	808,660	801,150	868,216	8.4%
RECURRENT EBITDA	116,507	122,837	146,582	19.3%
CONSOLIDATED EBITDA	111,122	126,571	158,253	25.0%
<b>CONSOLIDATED EBITDA MARGIN</b>	<b>13.8%</b>	<b>15.8%</b>	<b>18.2%</b>	<b>2.4%</b>
PRE-TAX PROFIT	45,858	67,222	101,306	50.7%
NET PROFIT	32,449	48,901	77,963	59.4%
<b>EARNINGS PER SHARE*</b>	<b>0.35</b>	<b>0.50</b>	<b>0.79</b>	<b>56.4%</b>

\* The growth in EPS is lower than the growth in net profit due to the bonus issue in November 2017



CAGR: Compound Annual Growth Rate



The Net financial debt continued to fall, improving the Net Debt/EBITDA ratio to 1.1 and reducing financial leverage (NFD/(NFD+OF)) to 29% from 41% in 2016.

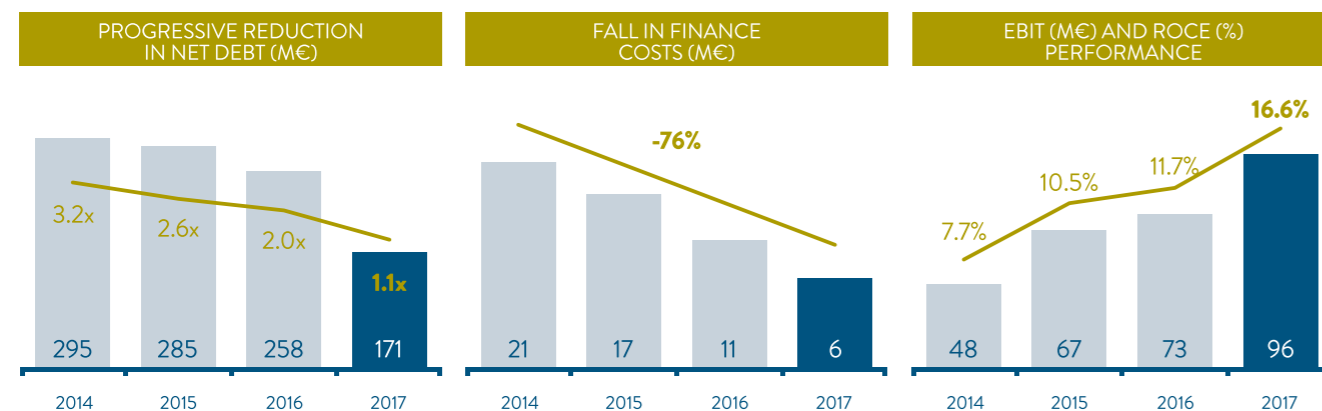
In corporate terms, the Tangier packaging factory was sold in 2017, as was the Viana do Castelo port

logistics operator, while the guarantees linked to the acquisition of the mills in Rouen, France, in 2008 were executed. Lastly, the integrated packaging factory located in Lucena, Cordoba was acquired, along with a waste management centre in Laguna de Duero, Valladolid.

Meanwhile, organic investments amounting to 65 million euros were made in 2017. The Paper Division increased its production capacity in Viana do Castelo, with a reduction in specific consumption and an increase in volume in Rouen, while a number of environmental improvement projects were implemented. Meanwhile, investments were made in the Packaging Division to improve productivity

at the Val de Seine, Ovar and Albarraque plants, to increase production at Dueñas, to develop the new plant in Lucena and to launch the converting process in Alcolea.

Europac distributes the economic value generated among its shareholders as follows:



FIGURES IN THOUSANDS OF EUROS	2015	2016	2017
<b>ECONOMIC VALUE GENERATED</b>	<b>805,660</b>	<b>801,150</b>	<b>868,216</b>
REVENUES	805,660	801,150	868,216
<b>ECONOMIC VALUE DISTRIBUTED</b>	<b>789,436</b>	<b>781,161</b>	<b>829,235</b>
OPERATING COSTS	624,507	602,013	636,510
EMPLOYEE REMUNERATION	85,693	89,913	92,738
FINANCIAL EXPENSES	16,728	10,552	5,527
INVESTOR REMUNERATION	16,225	28,912	38,982
PAYMENTS TO PUBLIC AUTHORITIES	46,283	49,771	55,478
<b>ECONOMIC VALUE RETAINED</b>	<b>16,225</b>	<b>19,989</b>	<b>38,982</b>

## PAPER

Paper sales increased by 14% thanks to the repeated rises in sale prices and the positioning in such higher value-added segments as kraftliner papers and high-performance coated white and brown papers. Investments in increased production capacity and the efficiency of the paper machines served fully to exploit the impact of sale price rises, offsetting the reduction in volume because of scheduled shutdowns.

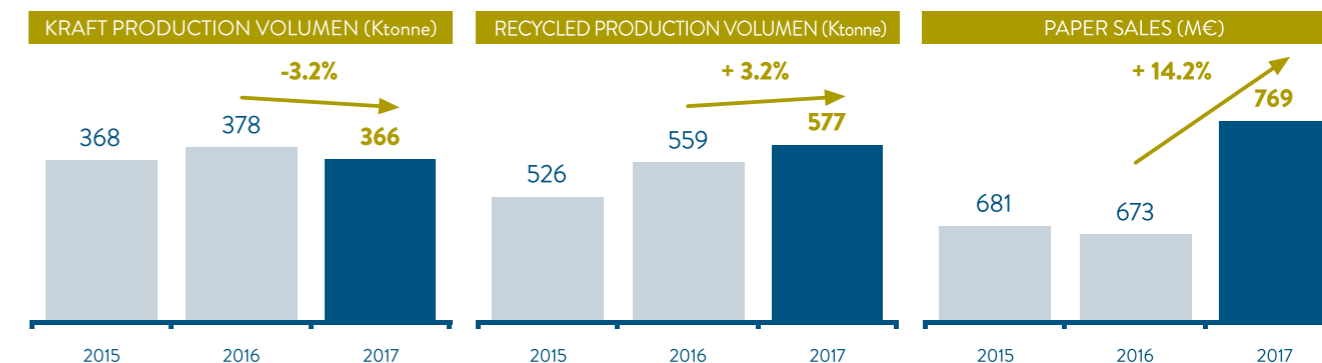
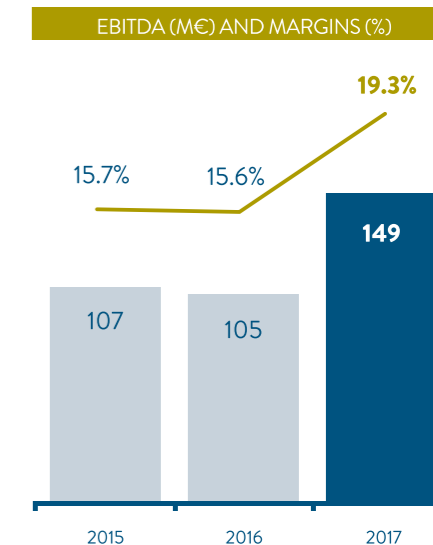
Paper sales increased by 14% in 2017

In the kraftliner paper segment, the shutdown in the month of May to increase production capacity by 12,000 tonnes a year led to a reduction of 3% in production volume compared with 2016.

FIGURES IN THOUSANDS OF EUROS	2015	2016	2017	VAR % 2016-2017
AGGREGATE REVENUES	680,996	673,342	769,201	14.2%
RECURRENT EBITDA	106,766	104,741	148,531	41.8%
EBITDA MARGIN	15.7%	15.6%	19.3%	+ 3.7pp

Recycled paper production volume increased by 18 Ktonnes, 3% up on the previous year, thanks to the investments made at the three plants, and despite the scheduled shutdown at the Rouen paper machine, which caused a 6 Ktonnes reduction in output.

The EBITDA of the Paper Division rose by 41.8% in 2017, while the margin was up by as much as 19.3%, thanks to the rise in sale prices and the investments made to increase reduction capacity, improve efficiency and optimise costs.



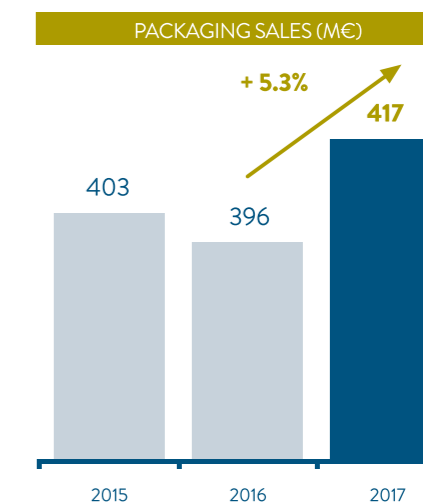
## PACKAGING

In 2017, the Packaging Division increased its sales by 5.3%, thanks to the increase in volume in all markets, particularly in Spain and the progressive transfer to the market of the price rises of raw materials.

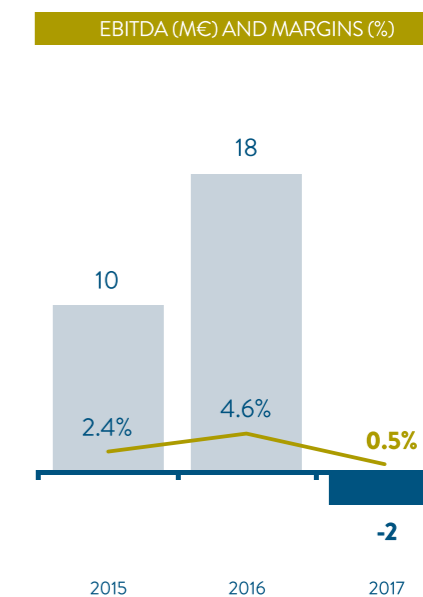
Nonetheless, the EBITDA of the business dropped substantially compared with 2016 because of the repeated rises in paper prices in an operational line which takes longer to pass production cost increases on to the market.

Against this backdrop, Europac is working to optimise costs and to improve operations, increase commercial activity, pass paper price rises on to the market, and develop higher value-added projects based on high-quality printing, structural design for special applications and competitive advantages offered by packaging in logistics processes.

FIGURES IN THOUSANDS OF EUROS	2015	2016	2017	VAR % 2016-2017
AGGREGATE REVENUES	402,718	395,628	416,659	5.3%
RECURRENT EBITDA	9,741	18,096	-1,950	-
EBITDA MARGIN	2.4%	4.6%	-0.5%	-



Revenues from Packaging Division sales increased by 5.3% in 2017



# STOCK MARKET PRESENCE

Europac has been listed on the continuous market in Madrid since 1998, with its shares traded on both the Madrid and Barcelona Stock Exchanges. Europac closed 2017 with its market capitalisation up by 120%, to stand at 1.12 billion euros, with a share price of 11.32 euros, 124% higher in uniform terms.

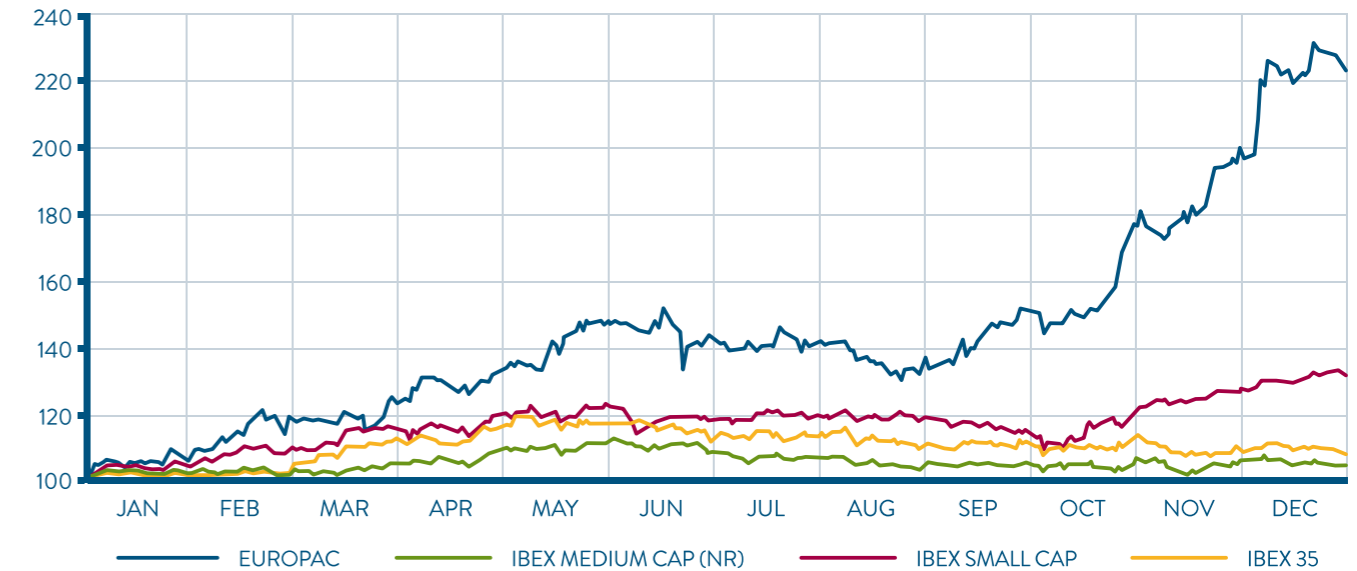
In 2017, Europac's share price reflected the value generated over recent years in which it has reported quarterly improvements in results, as a result of the execution of internal operational and

**Europac share price rise by 124% in a positive year for the stock market**

commercial management projects, which have had a multiplier effect in conjunction with the sound market conditions.

	2015	2016	2017
SHARE PRICE AT CLOSE (EUROS)	5.20	5.25	11.32
MARKET CAP AT CLOSE (THOUSANDS OF EUROS)	486,842	511,184	1,122,876
AVERAGE DAILY VOLUME (SHARES)	87,946	53,547	138,163
AVERAGE DAILY VOLUME (EUROS)	429,396	274,555	1,061,417
P/VC	1.37	1.39	2.72
PER	15.03	10.45	14.40

SHARE PRICE PERFORMANCE IN 2017





# SHAREHOLDER RETURNS

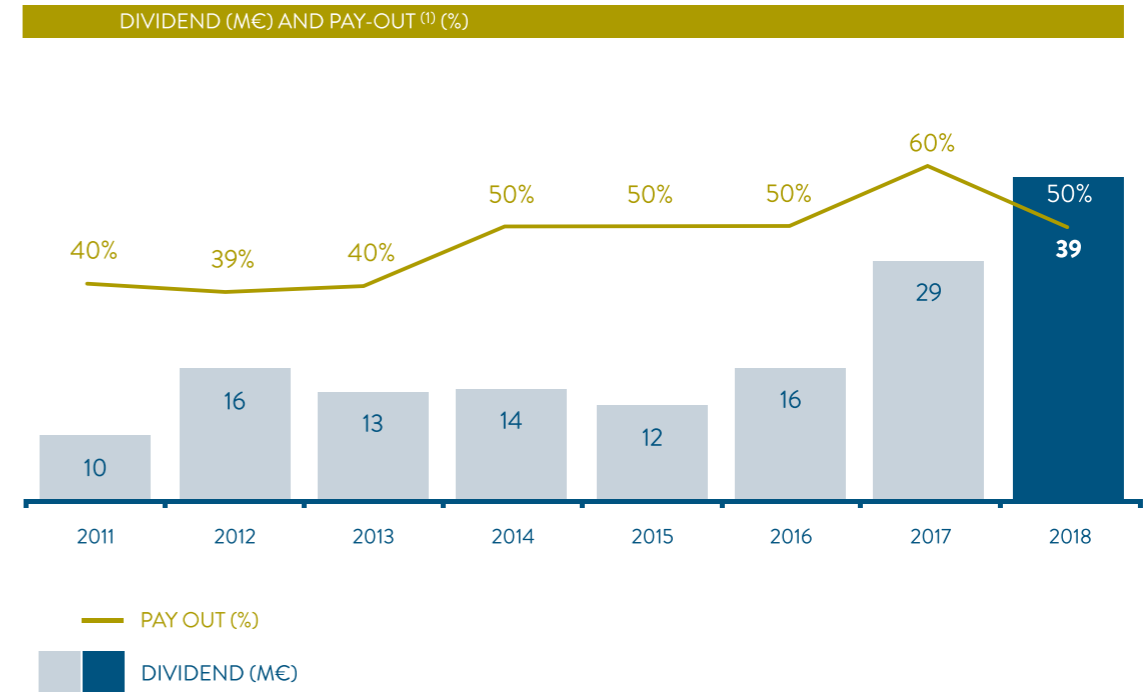
The General Shareholders' Meeting (GSM) of the Europac Group approved the distribution of a supplementary dividend of 0.223 euros per share on 28 June 2017 which, together with the interim dividend of 0.095 euros per share paid out in February 2017, made for an overall distribution of 28.9 million euros from the 2016 profits. As a result, the traditional payout of 50% was increased in 2017, on an extraordinary basis, to 60%.

Overall, the Europac Group distributed 0.318 euros per share to its shareholders, representing a dividend return of 4.3% with regard to the share price at the close of the day prior to the General Shareholders' Meeting.

The General Shareholders' Meeting likewise approved a bonus issue drawn on freely available reserves,

Europac maintains its ongoing commitment to create shareholder value

with the assignment free of charge of 1 new share for every 25 existing shares, which was implemented in November. The shareholders of the Group likewise approved as a supplementary remuneration measure the amortisation of 1,947,368 shares of treasury stock, 2% of the share capital, which was implemented in October.



(1) PAY-OUT based on the net profits of the previous year.

For further information related to the economic performance of Europac, consult the Consolidated Management Report and Annual Accounts on the corporate website ([www.europacgroup.com](http://www.europacgroup.com)) or the website of the Spanish National Securities Market Commission, the CNMV ([www.cnmv.es](http://www.cnmv.es)).

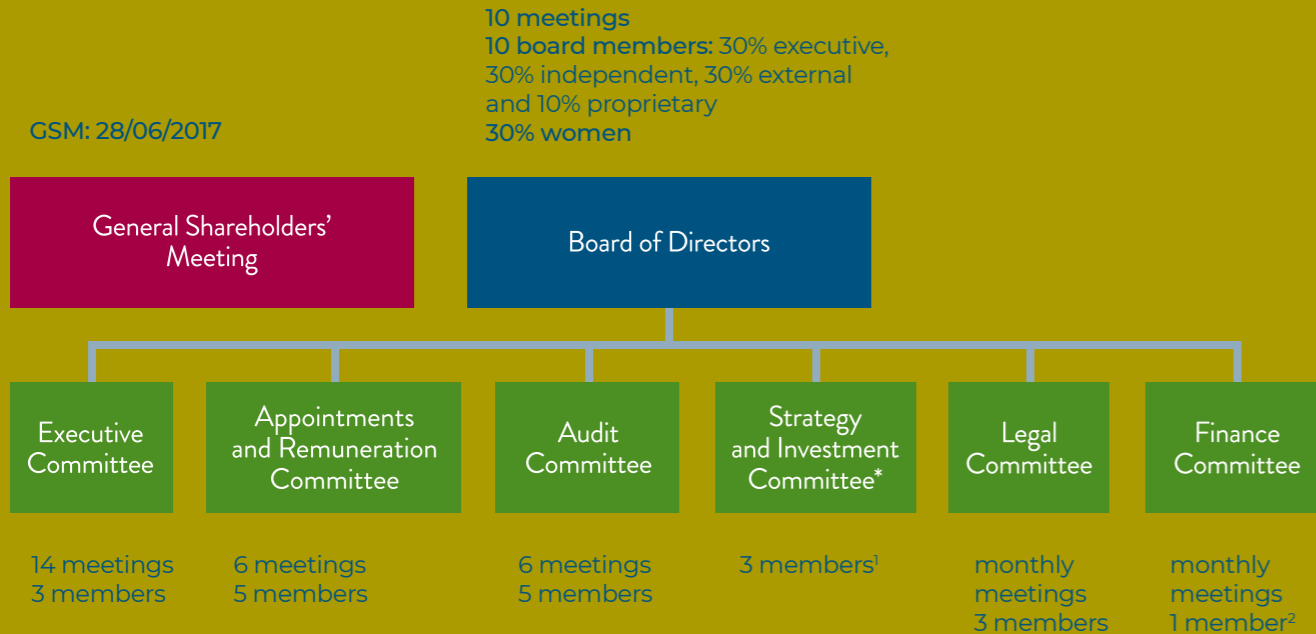
OUR COMMITMENT

GOOD  
GOVERNANCE

3



# GOVERNANCE MODEL



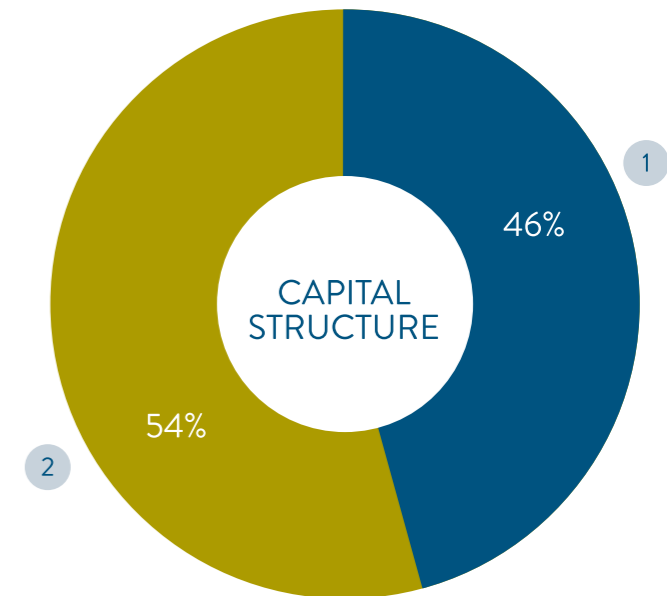
\* Meetings held at the Executive Committee  
1 - 1 vacancy  
2 - Committee permanently attended by the CFO and the Director of Administration and Finance of the Europac Group

## GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting (GSM) is the body responsible for deciding on those matters attributed to it by law and the Articles of Association, along with the approval of the annual accounts and corporate management, and determination of the number of members on the Board of Directors, as well as other matters.

The GSM is called by the Board of Directors to meet within the first half of the year, attended by shareholders with 50 or more shares, while the Board may also call an Extraordinary General Meeting.

The meeting functions in accordance with the General Meeting Regulation (approved in 2004, and modified by resolution of the General Shareholders' Meeting of June 24, 2015 to adapt it to the new Capital Companies Act), and the Code of Conduct



1 - FREE FLOAT  
2 - SIGNIFICANT SHAREHOLDERS

Source: CNMV

### Powers of the GSM

- Approval of annual accounts, application of result and approval of corporate management
- Appointment and dismissal of directors, liquidation administrators, and, where applicable, accounts auditors
- Approval of the remuneration policy of directors
- Modifications to the Articles of Association
- Increase and reduction in share capital

In 2017, the GSM was held on 28 June, with 86% of the share capital represented. The main issues discussed were:

- Examination and approval of the individual and Consolidated Annual Accounts and the Management Report for the 2016 financial year, and application of the result.
- Report on the remuneration of directors, in accordance with the Capital Companies Act, and consultative vote.
- Establishment of the remuneration of the Board of Directors.
- Re-election of the external accounts auditors.
- Increase in the share capital by a maximum amount of up to 7,789,470 euros by means of the issuance of up to 3,894,735 shares, with a free assignment of 1 new share for every 25 old shares.
- Reduction of share capital by 3,894,736 euros, by means of the amortisation of 1,947,368 treasury stock shares held, representing 2% of the share capital.
- Approval of the renewal of the corporate website in accordance with the provisions of the Capital Companies Act.
- Re-election of the Executive Director, the External Director and the Independent Coordination Director.



## BOARD OF DIRECTORS

The Board of Directors is the highest-level body of governance and representation. It holds the fullest powers to administer the Group, and is empowered to pass or execute agreements, legal acts and dealings for the development of its operations, except those set aside by law or by the Articles of Association for the competency of the GSM. It is established as a supervisory and control body, defining, overseeing and monitoring general guidelines, policies and strategies.

### POWERS OF THE BOARD OF DIRECTORS THAT CANNOT BE DELEGATED

#### Regarding the definition of general strategies:

- Approval of the annual financial plan, establishing economic targets and basic operational approaches.
- Definition and supervision of corporate policies.

#### Regarding management guidelines:

- Approve management targets and treasury stock policy.
- Approve the incorporation and winding-up of companies, acquisitions, disposals and contributions of substantial assets to other companies, etc.
- Identify risks and establish appropriate internal monitoring, determining the risk management and control policy, supervising internal control and reporting systems.

#### Regarding transparency, regulatory compliance and anti-fraud and anti-corruption:

- Oversee the independence and suitability of the external auditor and supervise internal audit services.
- Approve the creation or acquisition of stakes in special-purpose vehicles and other operations that could compromise Europac's transparency.
- Approve non-financial information intended for shareholders and the market.

#### Regarding the Company's policy for information provided to Securities Markets:

- Approve the financial information periodically published, and supervise preparation.
- Promote and supervise share-sensitive information disclosures.

#### Regarding its own organisation and functioning:

- Approve and modify its own Regulations, and those of its constituent committees.
- Appoint and dismiss managing and executive directors and senior managers dependent on any member of the Board.
- Define the remuneration of directors, as established in the Articles of Association and the remuneration policy.
- Approve the Annual Corporate Governance Report presentation before the General Shareholders' Meeting.

**RESIGNATIONS FROM THE BOARD OF DIRECTORS IN 2017**

On 12 July 2017, the Board of Directors of Europac received a letter of resignation from the proprietary director Cartera Industrial Rea S.A., represented in person by Antonio González-Adalid, as a result of the sale of its stake in the Company. The resignation was accepted on 27 July 2017.

The Board of Directors met on 10 occasions in 2017, on 8 of which it was attended by all the Directors and the Chairman

The Directors hold their position for a maximum period of four years, and may be re-elected for periods of equal duration. At the close of 2017, the Board of Directors was made up as follows:



**CAPTION**

Organisation-Name of Director  
Position on the Board

**TYPE OF DIRECTOR**

- Executive
- Proprietary
- Independent
- External

**OTHER POSITIONS**

- 👤 Chairman of Executive or Delegated Committee
- 📊 Chairman of Strategy and Investment Committee
- 🏛️ Chairman of Finance Committee
- 🔍 Chairman of Audit Committee
- 👤 Chairman of Appointments and Remuneration Committee
- ⚖️ Chairman of Legal Committee

Women account for 30% of the Board, and two of them chair delegated committees. The Secretary of the Board is Ms María Concepción Ortuño Sierra, who does not have director status. Meanwhile, since 2015 Celine Abecassis has been Independent Coordination Director of Europac, supervising the functions of the Chairman, and coordinating the non-executive directors.

The composition and functioning of the Board of Directors of Europac are governed by the Internal Regulation (approved on 6 May 2004, and modified by resolution of the General Shareholders' Meeting of June 29, 2016, in line with the new Capital Companies Act).

Europac aims for diversity on its governance bodies so as to guarantee that decisions are reached on the basis of strategic objectives, and a transparent director selection process is the most effective tool in order to achieve this.

The Board of Directors, through the Appointments and Remuneration Committee, makes a proposal to the GSM as to the number and profiles of those directors that are best aligned with the recommendations of good governance. The selection process is required to consider individuals who are suitable and of established solvency, competency, experience, training and availability in order to hold the position, guaranteeing equal opportunities in the absence of any bias that would act as a barrier to women. In this regard, Europac approved an Internal Equality Plan to strengthen equality in all aspects.



## DELEGATED COMMITTEES OF THE BOARD OF DIRECTORS

### APPOINTMENTS AND REMUNERATION COMMITTEE

It meets as often as necessary, its functions including the following:

- Propose the appointment of independent directors.
- Establish a target for representation of the under-represented gender.
- Examine, evaluate and organise the succession of the Chairman and Secretary of the Board.
- Propose the remuneration policy of Directors and CEOs.

IN 2017



In addition, the Board of Directors has two specific committees that provide permanent and specialized advice on specific matters, with technical support functions for the Board of Directors in legal or financial matters that recurrently affect the Group's activity and strategy. The Legal Committee is composed

### AUDIT COMMITTEE

It does not have executive functions. It meets as often as necessary, its competencies including the following:

- Inform the GSM as to the outcome of the audit.
- Supervise the efficacy of internal control and risk control systems.
- Supervise the process of generation and presentation of financial information.
- Direct the process of selection of external auditors, and coordinate the necessary relationship with them.

IN 2017



of an independent director, who is chairman of the Committee, and two executive directors. In this case, this Committee is permanently assisted by the company's general manager and the company's legal manager, who is also secretary of the committee. In addition, an executive director is chairman of the Finance Committee,

### EXECUTIVE COMMITTEE

Exercises powers delegated by the Board of Directors regarding regular management, administration and representation of Europac. Enjoys decision-making autonomy without Board ratification, unless the Chairman decides otherwise.

Chaired by the Chairman of the Board, and comprising between three and five directors appointed by the Board of Directors itself.

IN 2017



accompanied by the CFO and the Administration and Finance manager of Europac.

Europac also has a Management Committee comprising the CEO, the directors of the business lines and the corporate directors, with responsibility for evaluating fulfilment of the Group's objectives

### STRATEGY AND INVESTMENT COMMITTEE

It issues proposals and reports as to strategic decisions, and their management and monitoring, oversees the application of action plans for financial and corporate operations, and issues proposals and reports as to investments and divestments that could affect Europac's strategy. Its meetings have formed a part of the meetings of the Executive Committee.

IN 2017



\* Meetings have formed a part of the meetings of the Executive Committee

and defining action plans. Lastly, the Technical Secretariat is a consultation and consultancy body for the Executive Committee and the Board, its key functions including the design of planning systems, the definition of operational policies and the generation and monitoring of strategic plans.



# RISK MANAGEMENT

The basic principle of risk management is to fulfil the strategy so as to protect the reputation, financial soundness and sustainability of the Group, and the rights of shareholders. Europac has in place a Risk Management System that covers all activities and processes associated with its operations, taking into account different types of risk, and functioning on a comprehensive and continuous basis for all business units, geographical regions and support areas.

The Risk Management Policy assigns responsibilities to employees, directors and executives as to the identification, assessment, evaluation, response, control and reporting of risks associated with the strategy and with any activity, function or process within its scope.

Europac promotes a culture of risk management focused on improving the efficiency and quality of operations

In response to the increased regulation on listed companies, and more specifically Act 31/2014, of 3 December 2014, modifying the Capital Enterprises Act for the improvement of corporate governance; CNMV Circular 5/2013, of 12 June 2013, establishing the templates for the annual corporate governance reports of listed public limited companies, savings banks and other institutions issuing securities listed for trading on official securities markets; and the new Code of Good Governance, Europac has undertaken the actions required to adapt to the new requirements.

- Updating of the Integrated Risk Management System.
- Implementation of a comprehensive and integrated focus for the Risk Map.
- Approval of the Risk Management Policy by the Board of Directors.
- Establishment of the Internal Control over Financial Reporting (ICFR) System.
- Implementation of a specific control system for the prevention and detection of criminal offences.

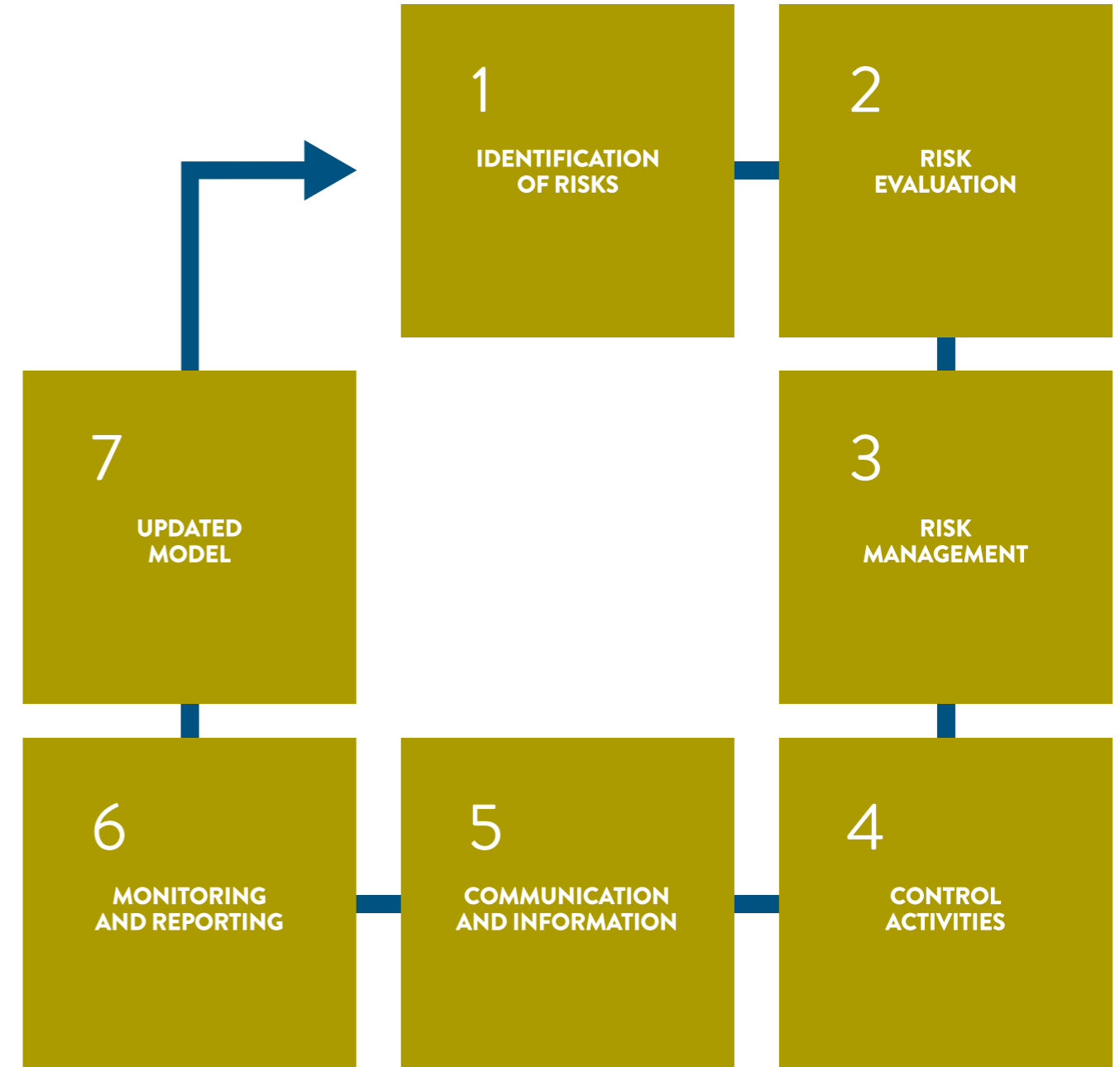


## METHODOLOGY

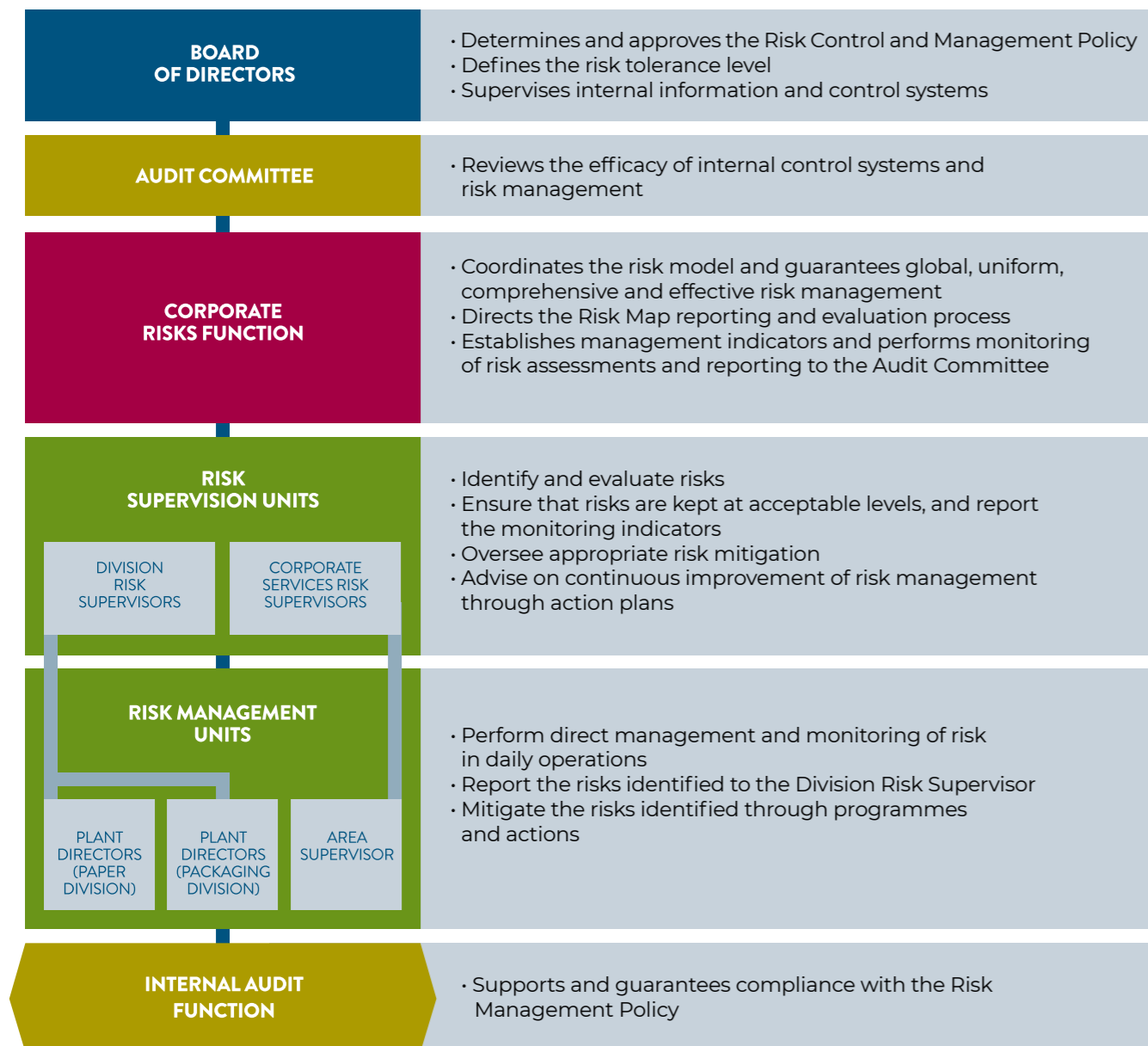
The Enterprise Risk Management (ERM) model implemented by the Audit Committee focuses on how to identify, assess, evaluate, control, address and report risks.

- 1\_ Identification of internal and external risks** that could affect the achievement of objectives, classified by category in accordance with international benchmark standards: strategic, operational, financial, legal and contextual.
- 2\_ Evaluation of risks** to determine their potential effect on the achievement of objectives, in accordance with their impact and probability. This results in the prioritisation of the most significant or 'top' risks, to be addressed over the timeframe of the following year.
- 3\_ Risk management** to design in each case an appropriate response from among the options of 'accept', 'mitigate', 'share' or 'avoid'.

- 4\_ Control activities** to maintain the identified risks risks at levels of tolerance, identifying and applying mitigation measures to reduce the impact or probability, establishing a Risk Map that compares the evaluation of risks before the mitigation measures or control activities (inherent risk) and after the measures (residual risk) to evaluate their efficacy.
- 5\_ Communication and information** on potential risks and the mitigation actions expected from the responsible employees.
- 6\_ Periodic monitoring and reporting** by means of audits, tests and evaluations for the assessment of the implementation and efficiency of control procedures.



## ORGANISATIONAL STRUCTURE AND RESPONSIBILITIES



## PRINCIPAL RISKS

	RISKS IDENTIFIED	SOURCES OF RISK	MITIGATION STRATEGY
FINANCIAL RISKS	FINANCIAL COVENANTS	<ul style="list-style-type: none"> <li>• Fulfilment of commitments with financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic plans and short- and long-term financial projections</li> <li>• Monitoring of compliance with financial covenants</li> </ul>
	EXCHANGE RATE	<ul style="list-style-type: none"> <li>• Minority purchase of raw materials in dollars (USA)</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of exchange-rate insurance</li> <li>• Monitoring of foreign currency purchases</li> </ul>
	CREDIT RISK	<ul style="list-style-type: none"> <li>• Existence of accounts receivable through regular operations</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesale transactions with customers with an appropriate credit history and solvency</li> <li>• Commercial credit management through the department responsible for customer acceptance and credit policies</li> <li>• Credit and surety policies</li> </ul>
	CONTINUITY RISK	<ul style="list-style-type: none"> <li>• Cash flows and financing facilities vs. current liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Cash flows and financing facilities to meet current liabilities</li> </ul>
	LIQUIDITY RISK	<ul style="list-style-type: none"> <li>• Lack of liquidity</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum liquidity ratio objectives</li> <li>• Credit and financing facilities for operating capital</li> <li>• Promissory note issuance programme</li> </ul>
	INTEREST RATE RISK IN CASH FLOWS AND FAIR VALUE	<ul style="list-style-type: none"> <li>• Operating cash flow vs. financial flows</li> </ul>	<ul style="list-style-type: none"> <li>• Contracting of the financial derivatives to convert variable rates to fixed rates</li> <li>• Reasonable balance between fixed and variable interest rates</li> </ul>
	FINANCIAL INSTRUMENTS AND BANK DEPOSITS	<ul style="list-style-type: none"> <li>• Balances with banks and financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Insignificant risk given net cash management positions</li> </ul>
	CAPITAL MANAGEMENT	<ul style="list-style-type: none"> <li>• Financial solvency</li> </ul>	<ul style="list-style-type: none"> <li>• Net equity vs. debt</li> <li>• Management of the dividend policy and investment budget</li> </ul>

	RISKS IDENTIFIED	SOURCES OF RISK	MITIGATION STRATEGY
	PROCUREMENT OF RAW MATERIALS	<ul style="list-style-type: none"> <li>• Availability</li> <li>• Price volatility</li> </ul>	<ul style="list-style-type: none"> <li>• Arrangement of long-term contracts</li> <li>• Vertical business integration</li> <li>• Management of co-generation and combined cycle power plants</li> <li>• Arrangement of financial instruments</li> </ul>
	COMMERCIAL RISKS	<ul style="list-style-type: none"> <li>• Customer concentration</li> <li>• Variation in sale prices</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of customer portfolio</li> <li>• Analysis of costs and returns of offers</li> </ul>
	INFORMATION SYSTEMS RISKS	<ul style="list-style-type: none"> <li>• Physical concentration of systems</li> <li>• Risk of intrusion or communications outage</li> </ul>	<ul style="list-style-type: none"> <li>• Contingency Plan periodically updated</li> <li>• Management system rationalisation plan</li> </ul>
	HUMAN RESOURCE RISKS	<ul style="list-style-type: none"> <li>• Negligent actions by executives and employees</li> <li>• Occupational risks associated with performance of operations</li> </ul>	<ul style="list-style-type: none"> <li>• Specific recruitment and training procedures</li> <li>• Catalogue of functions and competencies</li> <li>• Appointments and Remuneration Committee</li> <li>• Compliance and Business Ethics Committee</li> <li>• Disciplinary system</li> <li>• Code of Conduct</li> <li>• Regulatory compliance regarding Occupational Risk Prevention</li> <li>• Improved working conditions</li> </ul>
	PRODUCTION RISKS	<ul style="list-style-type: none"> <li>• Risks associated with production processes</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality</li> <li>• Regulatory Compliance</li> <li>• ISO 9001:2008 certification</li> </ul>
	REGULATORY COMPLIANCE RISKS	<ul style="list-style-type: none"> <li>• Breach of internal and external regulations and working procedures</li> </ul>	<ul style="list-style-type: none"> <li>• 1<sup>st</sup> line of defence: operational management of the company</li> <li>• 2<sup>nd</sup> line of defence: risk management, internal control design functions, regulations and other compliance functions</li> <li>• 3<sup>rd</sup> line of defence: Internal Audit management function</li> </ul>

During 2017, some of the risks inherent in the markets in which Europac operates materialized, but were managed in accordance with the established provisions, and had no significant impact on operations or results.

In order to explain the control systems, administrative and financial staff at all facilities, along with the Internal Audit Department, were given courses in 2017 with a particular focus on the ICFR system, risks, and accounting regulations.

#### Other control systems

Europac has a Internal Control System for the Prevention and Detection of Criminal Offences, which seeks to stress the company's outright opposition to the commission of criminal offences and provide measures to combat their commission. It also has an Internal Control over Financial Reporting (ICFR - SCIIF), which seeks to guarantee the reliability of financial information.

Europac delivers training to explain the Risk Management System



# ETHICS AND TRANSPARENCY

The Europac Code of Conduct, approved by the Board of Directors in 2014 and modified in 2016, specifies the principles of business ethics and transparency applicable to all company activities. The document has been distributed to employees, members of the governing bodies, suppliers, subcontractors, customers and third parties that have a legal relationship with the company, providing a whistleblowing channel that guarantees the confidential handling of grievances.

The Compliance and Business Ethics Committee is the supervisory body for compliance with the Code of Conduct, and is responsible for investigating, debating and penalizing possible breaches in accordance with the Disciplinary Regime of the Group.

Meanwhile the Internal Regulation of Conduct in the Securities Market defines the conduct that must be observed in operations undertaken on the securities market, so as to contribute to transparency and the protection of the interests of investors.

## Key operational principles

- Regulatory compliance.
- Health and Safety at Work.
- Respect for the environment.
- Commitment to sustainability in economic, environmental and social aspects.
- 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 Code of Conduct specifies the principles of business ethics and transparency applicable to all company activities





OUR COMMITMENT  
SOCIAL  
COMMITMENT

4



# CONTRIBUTING VALUE TO CUSTOMERS



KEY ASPECTS

## COMMUNICATION CHANNELS

Technical Customer Response Service	Technical consultancy service pre- and post-sales to declare needs, resolve incidents connected with products and services, and optimise resources.
Design centres	13 Packaging Division design centres, developing packaging solutions tailored to customers' needs.
Periodic meetings	Monitoring of the commercial relationship by means of periodic meetings with certain customers.
Corporate website	Launch of a new website, allowing Europac to adapt to the new digital ecosystem. This includes exclusive access for customers.
Social media	Presence on different social media platforms (LinkedIn, Facebook and Instagram) as a means of direct communication.
Trade fairs	Presence at the leading trade fairs in the sector as a means of direct contact.

Europac's activities focus on offering a response to its customers, anticipating their needs and delivering products and services of the utmost quality. Europac therefore understands that the best way to satisfy its customers' needs is to work together with them to develop solutions that contribute

added value to their business, promoting a transparent and continuous relationship through these channels of communication. In this regard, efforts intensified in 2017 to promote communication via the website and social media, as well as its presence at trade fairs.



## CONTRIBUTION OF ADDED VALUE

All Europac teams share the vision that the only way to work as suppliers of packaging products and services is through continuous contact with its customers, understanding their business and contributing value. This covers everything from selection of the raw materials to a design tailored to the specific needs of customers, along with the manufacturing of a fully complete range of papers, the combination of different paper qualities to produce cardboard sheeting, different printing options (offset, digital and flexographic) and the definition of the logistical characteristics of the packaging.

Particular mention should be made in this regard of the role of the 13 design centres that operate through a connected network, applying experiences in one particular country or sector to the whole Europac customer portfolio.

As for specific initiatives, one noteworthy event was the Customer Day held in June 2017.

### CUSTOMER DAY 2017

On 17 October, the second edition of Customer Day was held in Madrid. This gathering is a recurrent feature for Europac and its customers, addressing trends and innovation in the packaging sector, and the value-solutions offered by the Group to its customers, and to their customers.

The issues addressed at the last edition were:

- The impact of demographic trends and packaging consumption, and how habits and practices are affecting lifestyle changes, and hence packaging, with a particular focus on non-perishable foodstuffs.
- The growth of Europac in Spain and associated investments.
- Current and future trends, and how corrugated board responds to customer needs.
- Presentation of the main packaging solution offerings for the fruit and vegetable sector.



## SATISFACTION SURVEYS

Within the context of the ESS (Europac Sales System) commercial management model, quality and customer service are a priority applied through strict and demanding evaluation criteria. Both the Paper and Packaging Divisions conduct periodic satisfaction surveys among their customers, to evaluate the Group's performance as regards commercial service, the product itself and logistics. Analysis of the results serves to identify strengths and opportunities, and to design an action plan with initiatives that will allow customer satisfaction to be improved.

Europac strives to improve customer satisfaction

Europac handles any complaints it receives in under 24 hours

## HANDLING OF COMPLAINTS

When a complaint is received, Europac launches a management process to review the causes, pool information with the teams involved, and seek out possible corrective actions. The EOS (Europac Operations System) management model serves to guarantee that all complaints received are handled in under 24 hours, analysing the causes of the problem and informing customers of a solution within a maximum period of 48 hours. Within the context of the ESS, quality and customer service are given priority through the application of strict and demanding evaluation and monitoring criteria.

- At the Paper Division, the number of complaints per thousand tonnes sold fell by 22% on 2016. Of all the complaints received, the highest proportion (37.3%) was connected with logistical issues, of which the total was 31% lower.
- At the Packaging Division, the ratio of non-conformities to the total number of orders remained in line with 2016.



# COMMITMENT TO EMPLOYEES



## COMMUNICATION CHANNELS

<b>Onboarding Manual and initial training</b>	An essential tool in the induction plan for new hirings, with the aim of promoting a sense of belonging, integration and an understanding of the Group.
<b>Multi-device employee intranet</b>	An application that serves to facilitate two-way communication and the exchange of information by means of collaborative communities.
<b>Skills evaluation</b>	An evaluation procedure that rewards good performance, motivates internal promotion, and is the basis for the generation of succession and career plans.
<b>UNIPAC and WebPAC</b>	The Group's Corporate University, which provides a shared framework for corporate culture and values, and for professional development through the lifelong training of employees.
<b>Meetings with workers' representatives</b>	Periodic meetings with the Works Committees and equivalent representative and health and safety bodies, to discuss matters connected with the progress of the company, strategic projects, and to lay the foundations of future negotiations of interest to both parties.
<b>Newsletter on the 3B (Better Before Bigger) Programme</b>	Monthly internal newsletter covering the latest developments on transformation projects and the importance of the roles performed in their execution by different individuals at the Group.
<b>Monthly Information Meeting</b>	A meeting with the Steering Committee at each of the plants as the cornerstone of internal communication, with the aim of conveying strategic and departmental information and increasing cohesiveness and an overall vision.
<b>Internal communications</b>	Emails, posters, leaflets, periodic gatherings, etc., to guarantee fluent communication about matters of interest to employees at the different plants.
<b>Quarterly results meeting</b>	Presentation of the quarterly results to all employees by the CEO.
<b>Annual strategic seminar</b>	A gathering to review the year's results and present the strategy and key aspects for the following year.
<b>LinkedIn</b>	Effective communication on LinkedIn, focusing on employees, partners and customers.

## MANAGEMENT PRIORITIES

Europac views its employees as a fundamental engine driving the development of the Group and the achievement of its objectives. In 2017, Europac continued the development of its partner management strategy, the main aims of which are to convey the corporate culture, promote a sense of belonging and attract talent, with a particular focus on the effective handling of internal promotion.

The main target of Europac's partner management strategy are to convey the corporate culture, promote a sense of belonging and attract talent

This strategy is developed on the basis of the following cornerstones:



### ATTRACTING TALENT

The Executive Research policy allows the Group to attract the very best profiles for executive positions. Meanwhile, the Academy Programme, which fosters the recruitment of young graduates to the company, has been extended to other areas, with the aim of filling managerial positions at the company in the future. In 2017, the Europac Group had 10 young people from the Academy, compared with 6 the previous year.

In 2017, the company made significant communication efforts via LinkedIn to publicise the Group and its job offers. This information is managed together with head-hunters and evaluated at the candidate recruitment phase.

Meanwhile, the Our people section of the corporate website deals with the experience and development of Group co-workers at first hand.



### SKILLS MODEL

The Trisquel Project establishes the levels of competency required for each position. This allows evaluations to be conducted for certain professional groups, along with the establishment of specific development plans.

In 2017, a total of 223 evaluations were conducted (10% of the workforce). The population covered will be completed in 2018, amounting to a total of 450 evaluations

For all other co-workers, Europac is progressively implementing a performance evaluation system for each job based on task fulfilment.



### REMUNERATION POLICY

The Europac remuneration policy focuses on encouraging the continuity of teams and features defined salary levels, variable remuneration analysis, the introduction of new remuneration models, skills-based evaluation and the promotion of geographical mobility.

Salary and social benefit analyses are periodically conducted to assist in decision-making as to the compensation policy in accordance with changes in the labour market.

In 2017, a bonus system was introduced, with the focus on strategic objectives and the reality of each business.



**CAREER AND  
SUCCESSION PLANS**

Europac has defined its People Review model, used to approve career plans and successions, and to define action plans to achieve this.

The first Group talent map is currently being developed and will be approved in 2018, representing an additional element alongside skills evaluations to define the career and succession plans.



**TRAINING**

For Europac, employee training is a key process to adjust capabilities and refresh the qualities needed for appropriate operational performance. It has three management levels in this regard (corporate, division and plant) and four stages for the detection of training needs, the generation of the Annual Training Plan, the development of training initiatives and monitoring and subsequent evaluation.



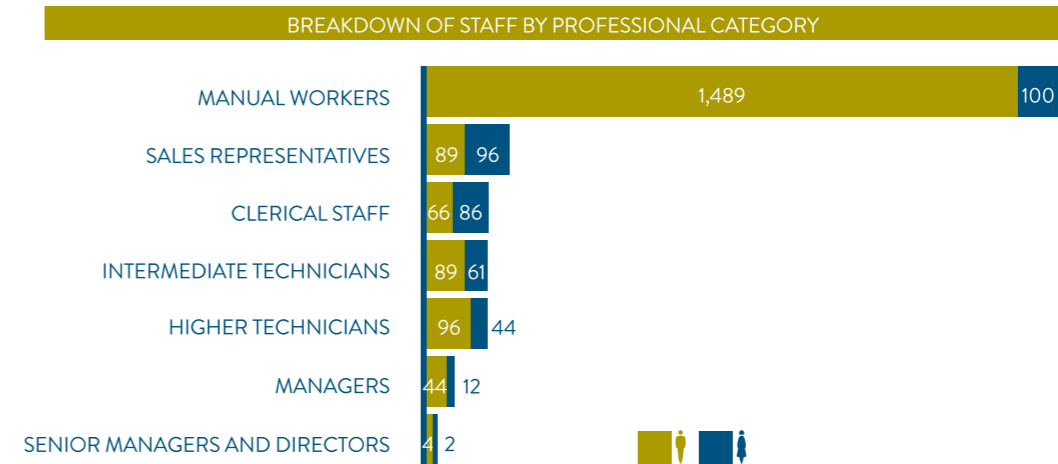
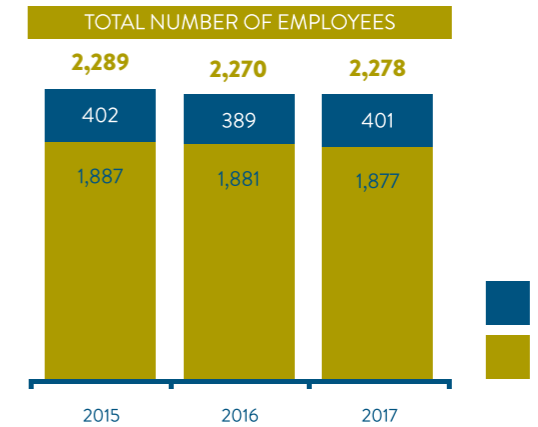
## HUMAN TEAM

In 2017, Europac had an average workforce of 2,278\* employees, compared with 2,270 the previous year. Meanwhile, the Group has made a clear commitment to generate stable and quality employment, with 96.4% of employees on permanent contracts, and 98.2% working full-time.

The professional category with the highest number of employees corresponds to shopfloor operatives (69.8%). 82.4% of employees being men and the remainder women, with a slight increase in the number of women compared with 2016, in line with the average for the sector (17.1% women in 2017 according to figures from the National Statistics Institute - INE). Women are present in all professional categories at the company, and hold 22.6% of management positions.

In terms of the age distribution of the workforce, 57.9% of the workforce is aged between 30 and 50. The Academy Project and generational handover plans among shopfloor operatives allow Europac to implement initiatives to incentivise youth employment.

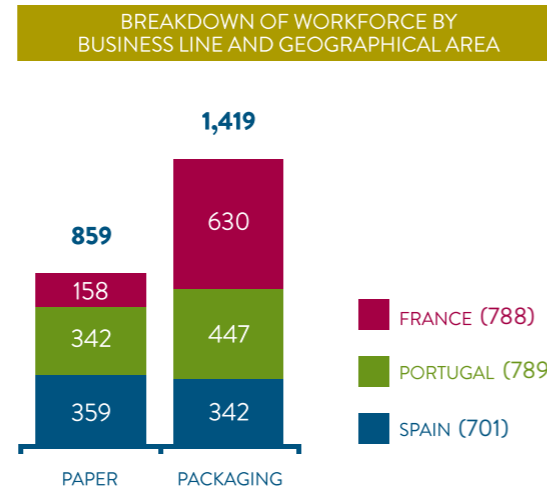
The number of employees remained stable in 2017, generating stability and quality employment (96.4% employees are on a permanent contract, and 98.2% work full-time)



\* The data presented in this section correspond to the average workforce.

	MEN	WOMEN	TOTAL
EMPLOYEES <30 YEARS	188	36	<b>224</b>
EMPLOYEES 30-50 YEARS	1,054	265	<b>1,319</b>
EMPLOYEES >50 YEARS	635	100	<b>735</b>

The geographical distribution of the workforce is fairly similar in each country, with 34.6% of the total in Portugal, 34.6% in France, and 30.8% in Spain. In 2017, the workforce increased by 14.6% in Spain and 2.3% in France, while it fell by 2.5% in Portugal.



## INTERNAL COMMUNICATIONS

Europac used internal communication as a lever for the implementation of strategic projects. It is therefore committed to a direct and fluid relationship with employees at all levels, and fosters innovation in its means of communication, setting up new channels and involving all employees.

Europac facilitates internal communication on a horizontal, upstream and downstream basis, through the Like Project. Its aim is for all employees to become involved in the organisational culture, its values and objectives, motivating long-term commitment and a sense of belonging. All content connected with this aspect is distributed via the various communication channels made available to employees, with a particular emphasis on online communication through the Internet, in accordance with the digital transformation promoted by Europac. Meanwhile, UNIPAC itself serves as an internal communication platform capable of conveying appropriate messages to specific groups, and obtaining direct feedback from partners.

## LABOUR RELATIONS

All Europac employees are covered by the different Collective Bargaining Agreements in accordance with the plants in question and the activity performed:

### Spain

- Office and admin worker agreements.
- Waste and secondary raw materials recovery and recycling agreement.
- Paper and card pulp agreement.
- National collective agreement.

### France

- Single collective agreement for paper, card and cellulose production.
- Collective agreement for engineering and management personnel.

### Portugal

- Company-level agreements.
- Collective employment agreement with ANIPC (the National Association of the Paper and Card Industry in Portugal)

At each factory and in all three countries the workers have the legally established representative bodies in place. Numerous agreements were reached in 2017 as regards salary, organisational matters and working hours.

Europac strives to maintain a fluid relationship with trade unions and representative bodies, while also staging regular meetings to encourage a positive corporate climate.

## POLICIES REGARDING EMPLOYMENT PRACTICES AND HUMAN RIGHTS

In all countries where it has a presence, Europac respects the legislation in force regarding human rights and employment practices. Employee rights are also governed by the following policies and codes:

- **Code of Conduct:** regulates the functioning of a whistleblowing channel to report potential breaches.

- **Business Ethics Committee:** oversees compliance with the Code of Conduct.

- **Harassment Protocol:** establishes the actions to be taken in the event of harassment issues among employees.

- **Equality Plan:** establishes internal regulations to foster diversity and equality among the workforce.



## STAFF SELECTION AND RETENTION, AND EQUALITY

In order to identify the characteristics of each post, the staff selection criteria are jointly defined by Human Resources and those departments with staffing needs. The criteria defining the skills model guarantee alignment between the candidate profile and business objectives during the selection process.

Joint efforts were made in 2017 with head-hunters and employee selection companies so as to better understand the organisation and reduce response times. There was likewise an increase in selection processes handled via social media, essentially LinkedIn, and a new methodology was implemented to be able to measure the duration of the phases of the selection process, so as to adopt specific measures and focus actions to increase their effectiveness. In 2017, a total of 309 employees were hired (24.9% more than in 2016), while there were 301 departures (16.6% more than in 2016).

Europac is committed to workforce diversity and equality

In 2017, Europac consolidated the Success Factors software, a human capital and talent management tool capable of organising evaluations and defining succession and career plans in line with the business strategy.

In its commitment to workforce diversity and equality, Europac has in place an Equality Plan which establishes the regulations on this matter. Meanwhile, the skills evaluation system includes a specific subsection addressing diversity, according to which each manager must meet with each member of their team at least once a year to address diversity issues and note whether any discriminatory conduct has been detected. A report was drawn up on the basis of all the above so as to establish action plans, with the aim of promoting workforce diversity and equality.

		WOMEN	MEN	TOTAL
NEW HIRINGS	EMPLOYEES < 30 YEARS	12	44	<b>56</b>
	EMPLOYEES 30-50 YEARS	37	126	<b>163</b>
	EMPLOYEES > 50 YEARS	14	76	<b>90</b>
	<b>TOTAL</b>	<b>309</b>		
DEPARTURES	EMPLOYEES < 30 YEARS	10	61	<b>71</b>
	EMPLOYEES 30-50 YEARS	38	162	<b>200</b>
	EMPLOYEES > 50 YEARS	3	27	<b>30</b>
	<b>TOTAL</b>	<b>301</b>		

## TRAINING

Europac understands training as a process serving to adjust the capabilities of individuals to the performance of a function, by developing and refreshing knowledge, skills, attitudes and aptitudes for appropriate talent development. Training is undertaken at three levels and in four stages:

In 2017, a total of 56,019 hours of training were delivered, representing an average of 24.6 hours of training per employee, an increase of 25% on the hours of training in 2016

### CORPORATE

Development of strategic and management skills. Conveyance of the Group's values and culture.

### DIVISION

Specific technical training connected with the division's strategic projects and the steering of the business.

### FLOOR

Specific technical training regarding the functioning and activity of the facilities in accordance with each country.

### DETECTION AND ANALYSIS OF TRAINING NEEDS

Specific training needs are identified on the basis of the results of performance evaluations, the training pathways for each job and the training provided by company area supervisors.

### PREPARATION OF ANNUAL TRAINING PLAN

On the basis of these training needs a Training Plan is drawn up each year, including the training actions to be undertaken, their objectives, the groups they should focus on, and the estimated costs.

### DEVELOPMENT OF TRAINING INITIATIVES

Training actions may be undertaken individually or on a group basis, within the context of the UNIPAC Corporate University. The key features of UNIPAC are the UNIPAC Corporate University, used to undertake training initiatives connected with conveying corporate values and strategy, time management and performance, projects, disputes, communication, etc.; and the UNIPAC Academy, which delivers technical training connected with projects and basic training in languages, office IT, etc. The WebPAC platform has been in place since 2015, delivering online training. The development, promotion and completion of the UNIPAC training offer continued in 2017, in particular through the launch of the OMS (Operations Management Seminar) course, in the form of 5 modules, aiming to cover areas for improvement resulting from the performance evaluations of a particular group.

### MONITORING AND EVALUATION

All training initiatives are systematically evaluated in accordance with such variables as satisfaction, achievement of goals, knowledge acquisition, on-the-job application and impact on operations, so as to identify opportunities for improvement in future training plans. This serves to identify the need to develop an International Management Seminar in 2018, for individuals identified on the talent map as showing high potential.

## SOCIAL BENEFITS AND INCENTIVES

The fulfilment of results-linked corporate objectives and performance indicator-linked personal objectives determines the variable remuneration of certain employees. Some aspects of the bonus system were modified in 2017 to align them with the strategic objectives and the reality of each business.

Europac offers its employees a range of social benefits and an attractive remuneration policy

Meanwhile, in 2017 Europac implemented such benefits as life insurance and medical insurance for certain employees. It also continued to offer a transport service at some plants, and the FLEXIPAC (flexible remuneration system) system in Spain, among other social benefits.



## WORKPLACE RISK PREVENTION

A zero accident rate is what Europac aims to achieve, and so legal compliance, operational excellence, continuous improvement and a risk prevention culture are priority aspects. In this regard, Europac has Risk Prevention Programmes and a General Health and Safety Policy in place, providing employees with all resources required to perform their tasks in safe conditions.

To avoid or minimise main risks, Europac has programmes in place to guarantee the approval of machines, emergency and internal protection plans, as well as periodic training in the field of Occupational Risk Prevention.

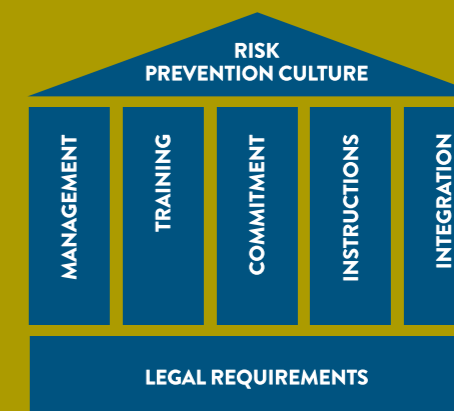
### ACTIVITY IN 2017

In 2017, Europac developed the first part of the project to improve forklift trucks and pedestrian co-existence conditions, and developed a project for the fire protection approval of machines and installations.



### EUROPAC HEALTH AND SAFETY BUILDING (EHSB)

At Europac, every individual is responsible for their safety. This is the founding principle behind the Europac Health and Safety Building (EHSB), a safety procedure standardisation tool that guarantees legal compliance and the integration of safety throughout the Group. The EHSB is built on the basis of legal requirements through the Safety Management Manual, and in turn supported by the five cornerstones that underpin and consolidate the corporate risk prevention culture at Europac:



- Integrated health and safety **management** in all processes serves to detect weaknesses, establish improvement plans, and perform monitoring.
- **Training** provides employees with the skills that allow them to properly perform their functions in accordance with safety standards.
- Europac is **committed** to advancing towards continuous improvement by investigating causes of accidents and pursuing the systematisation of procedures and audits so as to guarantee corrective actions and the follow-up of any deviations that might be noted.
- There are **instructions** in place to provide workers with practical and straightforward information about risks, and the rules and operational guidelines to avoid them.
- The **integration** of health and safety as a concept throughout every process achieves the highest standards in the value chain in line with the whole company.

The accident frequency rate<sup>1</sup> in 2017 was 15.8, two points below that obtained in 2016, and 10 points below the figures provided by ASPAPEL (the Spanish Association of Pulp, Paper and Cardboard Manufacturers) for the category of paper and cardboard manufacturers using recycled paper, and 5 points below the industrial sector in general. Meanwhile, the rate of days lost<sup>2</sup> was brought down to 0.64, 20.8% lower than in 2016, and the occupational illness rate<sup>3</sup> stood at 0.19, with 3 cases in total. No fatal accidents occurred.

To achieve the gradual improvement of accident rates, Europac analyses those accidents leading to time off work, and since 2017 has also included accidents without time off, and other incidents.

Meanwhile, Health and Safety Committee meetings are periodically held, at which trade union and Europac representatives address issues connected with accident rates and safety, proposing improvement projects and initiatives to rectify any shortcomings uncovered. The percentage of employees represented on Health and Safety Committees remained stable in 2017 compared with previous years, at 85%.

Europac has a clear commitment to the training of its employees as regards health and safety. Accordingly, in 2017, the number of hours of Occupational Risk Prevention training was increased, with a total of 284 hours being delivered, representing 8.05 hours per employee. Europac likewise continues to undertake initiatives intended to promote health among its employees, such as the healthy lifestyle, diet and postural and shift working habit programmes begun in 2017, alongside the regular workplace flu vaccination campaigns. Priority has also been given to the adaptation of the current transportation and fire protection processes at Europac in line with two new regulations:

- Royal Decree 1076/2017, of 29 December 2017, establishing supplementary standards for the Road Transport Supervision Act Regulation in the field of road transport.
- Royal Decree 513/2017, of 22 May 2017, approving the Fire Prevention Installation Regulation.

#### KEY ACTIONS IN THE FIELD OF OCCUPATIONAL HEALTH & SAFETY

- Standardisation of the Occupational Risk Prevention system by means of the Europac Health and Safety Building.
- Analysis of risks and prioritisation of improvements for forklift/pedestrian co-existence.
- Implementation of a road marking standard.
- Execution of internal audits to comply with safety requirements.
- Significant increase in hours of Occupational Risk Prevention training.
- Periodic meetings to address safety issues at the committees for the various business lines.

#### HEALTH AND SAFETY TRAINING TOPICS

In 2017, Occupational Risk Prevention training focused on the following issues:

- Improved risk prevention culture and behavioural factors.
- Healthy lifestyles.

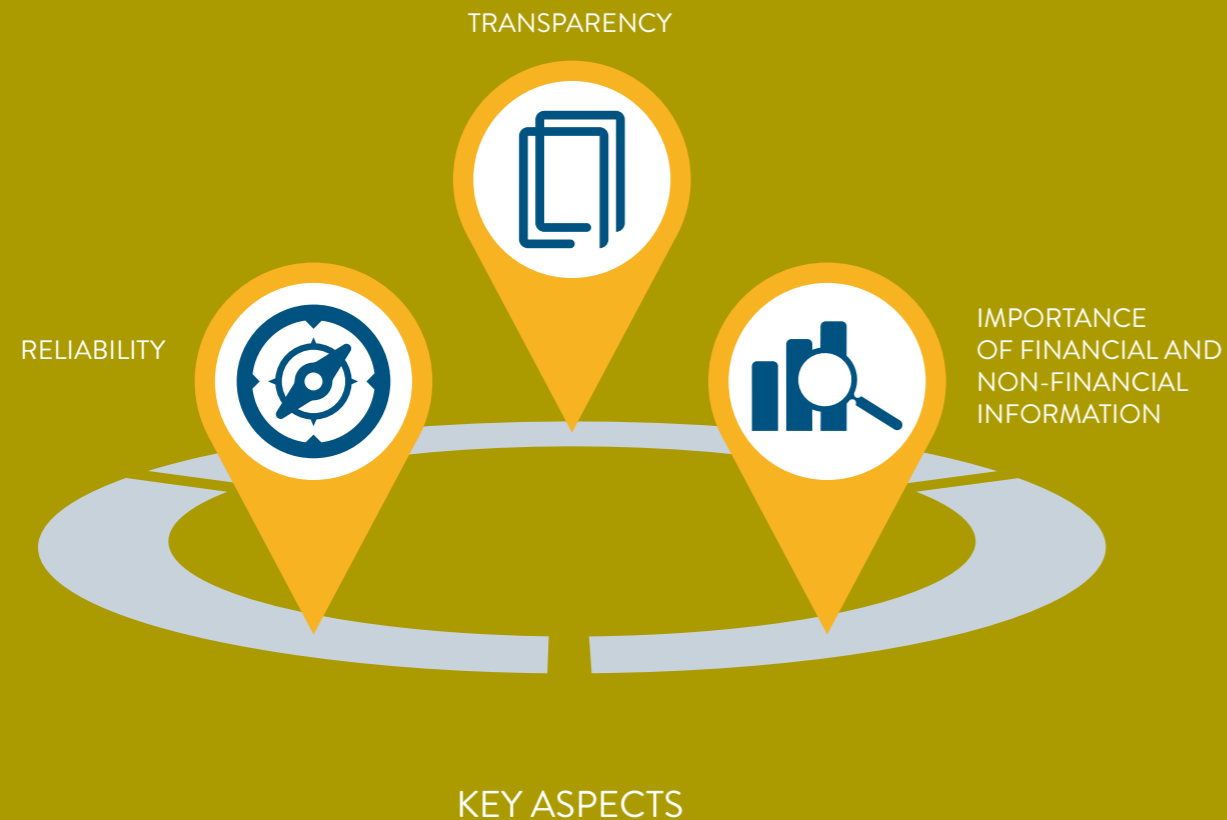
Europac reduced its accident frequency rate in 2017 by two percentage points, and maintained its accident incidence rate below the sector average

<sup>1</sup> The frequency index is calculated as the number of accidents with time off work/hours worked x 1,000,000

<sup>2</sup> The days lost rate is based on the total number of days lost/number of hours worked x 1,000

<sup>3</sup> The professional illness rate is based on the total number of professional illnesses/number of hours worked x 200,000

# SHAREHOLDERS, INVESTORS AND ANALYSTS



## COMMUNICATION CHANNELS

<b>Shareholder Response Office</b>	Service managed by the Investor Relations Department to facilitate responses to consultations connected with Group results, the evolution of the share price, price-sensitive events or any other issues of interest. In 2017, the Minority Shareholder Information Office and the Institutional Investor Relations Office were incorporated as additional channels of communication.
<b>General Shareholders' Meeting</b>	Annual General Shareholders' Meeting held to allow shareholders to debate and approve the corresponding matters.
<b>Face-to-face meetings, conference calls, roadshows and attendance at forums.</b>	Regular contact with shareholders, investors and analysts by means of periodic presentations and meetings using different channels of communication. Presence on various European forums to maximise the reach of information and respond to applicable questions.
<b>"Investor Pack" section on the corporate website</b>	This includes up-to-date information about the EBITDA, ROCE, debt and certain sustainability indicators.
<b>Visits to facilities</b>	Visits to plants to explain the main assets and production processes, and to bring management into closer contact with investors and analysts.

The relationship with its shareholders, investors and analysts is based on transparency, and defines the appropriate formation of expectations as to the value of Europac, with particular significance given to information about business management and adaptations of the strategy to an inherently dynamic environment.

Europac was in this regard recognised as the company that most improved its analyst recommendation in an accolade handed out at the 3<sup>rd</sup> Edition of the "Inversión a Fondo" Awards in 2017 organised by El Economista, to reward the leading Spanish and international securities.

## THE RELATIONSHIP WITH SHAREHOLDERS

Dialogue with shareholders is constant. The Shareholder Response Office provides the fastest response possible to any questions raised, whether by telephone or by email. Meanwhile, the Investor Pack on the corporate website provides information about the Group's results, its real-time share price, sustainability indicators and other aspects. Thanks to this effort to provide information and the commitment to transparency, attendance at the most recent General Shareholders' Meeting of above 80% was attained.

As a listed company, Europac complies with the demands of the CNMV (the Spanish National Securities Market Commission) as to the periodic reporting of financial information, publishing quarterly and half-yearly reports, price-sensitive information and other news of interest.

Meanwhile, the shareholder remuneration policy takes the form of a 50% payout, which last year, on an exceptional basis, was increased to 60%, along with a capital increase through the bonus issue of 3,894,735 shares, with 1 new share being awarded for every 25 in existence. As a means of supplementary remuneration, 1,947,368 treasury stock shares were amortised in 2017, equivalent to 2% of Europac's share capital.

Transparency in corporate information is one of Europac's core values



## THE RELATIONSHIP WITH INVESTMENT FUNDS, PRIVATE INDIVIDUALS AND ANALYSTS

Europac works on the development of active communication policies and strategies so as to build closer ties with investors and establish stable and long-term relationships with analysts, aware that this is a key factor in management to guarantee transparency. Relevant information about the company is therefore continuously conveyed so as to generate appropriate perceptions and expectations among the financial community. A commitment demonstrated each year in the presentation of the Group's annual results at a face-to-face meeting staged for the financial community, along with quarterly conference calls. Participants are given an opportunity to ask questions and raise queries about the information presented.

With this aim in mind, Europac is engaged in intense activity with investors, and in 2017, 143 individual meetings were held with national and international investors. Roadshows were furthermore staged in the main European cities (Madrid, Copenhagen, Paris, London, Barcelona and Geneva), Group representatives held meetings with investors at forums and seminars organised by established financial institutions, and group tours of the company's industrial facilities were arranged for investors.

Europac also places great importance on the opinions of analytical firms and individual analysts, and the website therefore publishes information as to their recommendations and the current target prices for the stock. In 2017, fluid and active communication took place with the 11 analysts covering the stock, along with 3 international analysts specialising in the sector. Meanwhile, a national financial institution began to cover Europac in the first quarter of 2018. 10 analysts also attended the Customer Day in 2017. In the most recent analyst report published in 2018, the target price ranged between 13.2 and 17.0 euros per share.

Europac maintains a proactive presence in the markets





# SUPPLIERS



## COMMUNICATION CHANNELS

Direct and continuous contact	Meetings and phone calls intended to underpin a sound relationship, based on trust and alignment with our needs. Communication by email.
Contact in bidding/tender processes	Request and receipt by both parties of documentation connected with the service requirement demands, and dialogue in the negotiation process.
Approval processes	Exchange of information with suppliers intended for supplier and product approval.
Social media	Presence on different social media platforms (LinkedIn, Facebook and Instagram) as a means of direct communication, alongside the corporate website.

In 2017, improvements to communication with suppliers continued by increasing the number of meetings and phone calls, setting up email addresses for supplier contact (procurementeuropac@europacgroup.com for submitting bids and documentation and procurementoffice@europacgroup.com to exchange incidents and resolve queries), as well as a social media presence.

Suppliers can also contact Europac by means of a form on the corporate website.

For Europac, its suppliers are hugely important agents in allowing it to offer its customers products and services of the highest quality at the most competitive price. Collaboration between both parties is essential in this regard in pursuit of mutual benefits and a sound relationship capable of achieving the utmost operational and economic efficiency. Meanwhile, with the aim of better understanding its suppliers and increasing quality, Europac analyses the certification they hold and consults their references in the sector. Similarly, all suppliers are informed about mandatory safety, environmental and social security regulations, which are written into all contracts.

## PURCHASING FUNCTION

The Purchasing Function focuses its efforts on providing, arranging and facilitating all aspects required for the development of operations by every business area, in an effective and efficient manner.

Europac encourages global negotiation and a local procurement policy

To this end, the purchasing function is decentralized and its team is involved and present at all the Group's plants and facilities. The main objectives of the Purchasing Function are as follows:

- Development of the purchasing function at a local level aligned with purchasing procedures.
- Development of high-impact projects in operations, in pursuit of greater efficiency.
- Development of a structured investment purchasing model for Packaging.
- Improvements to operational reporting.

Source of purchases	The purchases corresponding to paper production account for 53% of the total, while Packaging makes up 38%, the remaining 9% corresponding to waste management and corporate areas.
Main purchases	The most significant purchasing volumes correspond to raw materials, accounting for 53% of the total, in particular timber, recovered paper, recycled paper and kraft paper. 27% of the total is allocated to logistics, general services and subsidiary materials purchases, while the remaining 20% is to purchase the gas and electricity required for production processes.
Supplier base	The Europac supplier base comprises more than 5,500 external suppliers, with figures remaining similar to those seen in previous financial years.

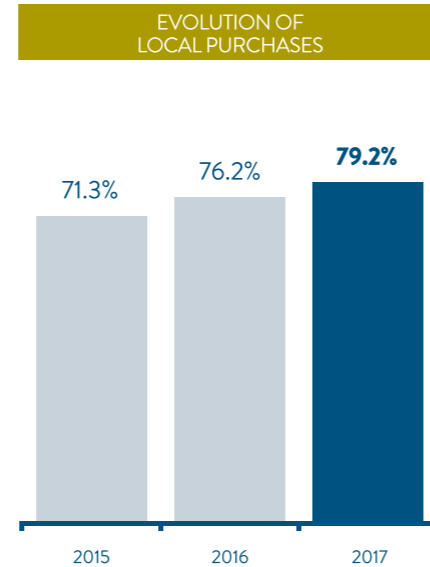


In 2017, Europac collaborated with over 5,000 suppliers, working specifically on the following aspects:

- Measurement and objective evaluation of commercial relationships, taking into account legal criteria and other aspects.
- Development of partnerships in those purchasing categories with a greater strategic impact.

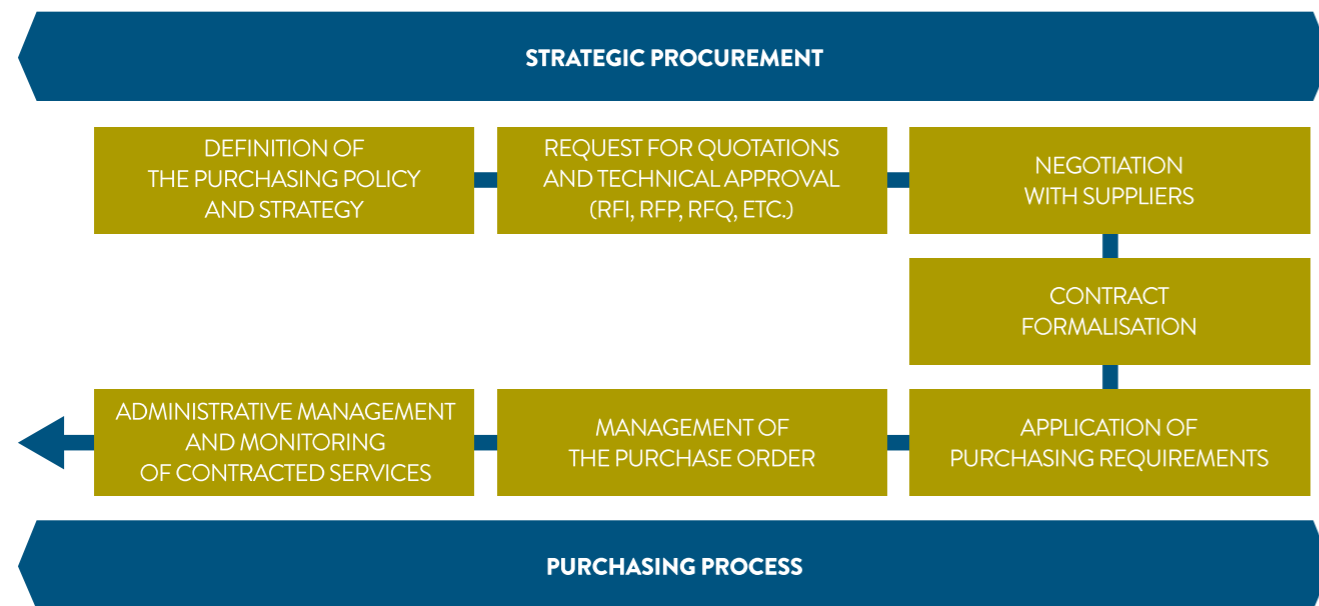
During the 2017 financial year, work continued to develop and consolidate the Purchasing Function by developing more than 35 projects with a high economic impact on operations, the consolidation of the results obtained being essential above all in transport contract management.

Europac aims to create value in those regions where it operates, by fostering socio-economic development through purchases from local suppliers. In 2017, 79.2% of purchases corresponded to local suppliers, continuing the upward trend in local procurement registered over recent years. In terms of business lines, local purchases were particularly significant in waste management (94.9%), and as regards countries, then France and Spain stand out, with such procurement accounting for 89.1% and 80.7% of all purchases, respectively.

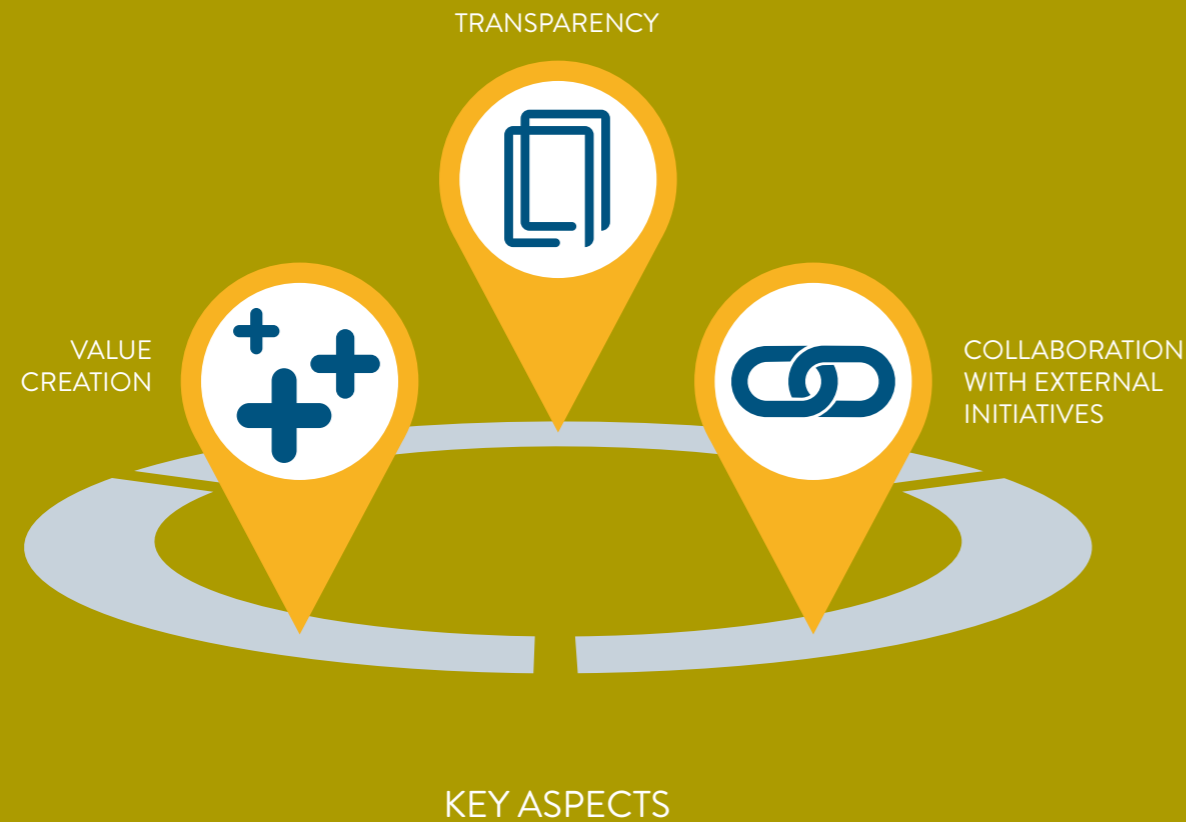


## PURCHASING PROCESS

Europac applies a purchasing process focused on efficiency and the utmost satisfaction of the needs of the different operational lines, in pursuit of supplier competitiveness in the marketplace at all times. The purchasing process comprises the following phases:



# SOCIETY



# COMMUNICATION CHANNELS

Visits to facilities	Scheduled visits to Europac facilities to explain its operations and improve relations with neighbouring communities.
Press room and other communication initiatives	Specific section of the corporate website to present relevant news about Europac, and other specific communications with regard to its performance.

Europac is committed to society through the creation of stable, quality employment, personal and professional development policies for its employees, the training of its co-workers, protection of the environment, and respect for transparency and for legal, ethical and moral principles in its operations.

Europac collaborates with foundations and institutions in the areas in which it operates

## COLLABORATION INITIATIVES

Meanwhile, each company facility collaborates with local initiatives and in the sponsorship of cultural and sporting activities in its surrounding area. Visits are regularly received from high school, vocational training and university students, to tell them about its operations and the socio-economic impact generated.

### ACTIVITY IN VALLADOLID

The sponsorship agreement signed with Valladolid City Council to co-fund the city's soup kitchen marked its third year in 2017. Europac is the only private company to collaborate with the City Council through a contribution of 100,000 euros per year over the period 2015-2019. Over the course of the year, more than 58,000 lunches and dinners were served at the soup kitchen.

Meanwhile, the premises were refurbished in 2017 in collaboration with the **Discover Urban Development. Build Our City** workshops organised by the local enterprise Urbyplan together with Valladolid City Council. The initiative involves 250 high school students from a number of the city's schools, who attend conferences to receive training so as to allow them to make proposals for a sustainable city.

Europac was also one of the sponsors of the exhibition **Son of Laocoön, Alonso Berruguete and Pagan Antiquity** which opened in July 2017 at the Valladolid National Sculpture Museum. It features some 70 exhibits, including sculptures, paintings, engravings and drawings, analysing the sources of the artist, who was born locally in Castile-Leon, and was a key figure in Spanish Renaissance sculpture.



Ayuntamiento de  
**Valladolid**

### CADENA DE VALOR

In 2017, Europac made a 40,000-euro donation to **Cadena de Valor**, an organisation set up in 2015 to group together four non-profit associations (APADIS, APAMA, APNA and the Institute of Psycho-paediatrics) working in the field of learning disabilities. The funding contribution was allocated to the maintenance of infrastructure and conditioning of the day centres where services are provided for more than 1,500 attendees.

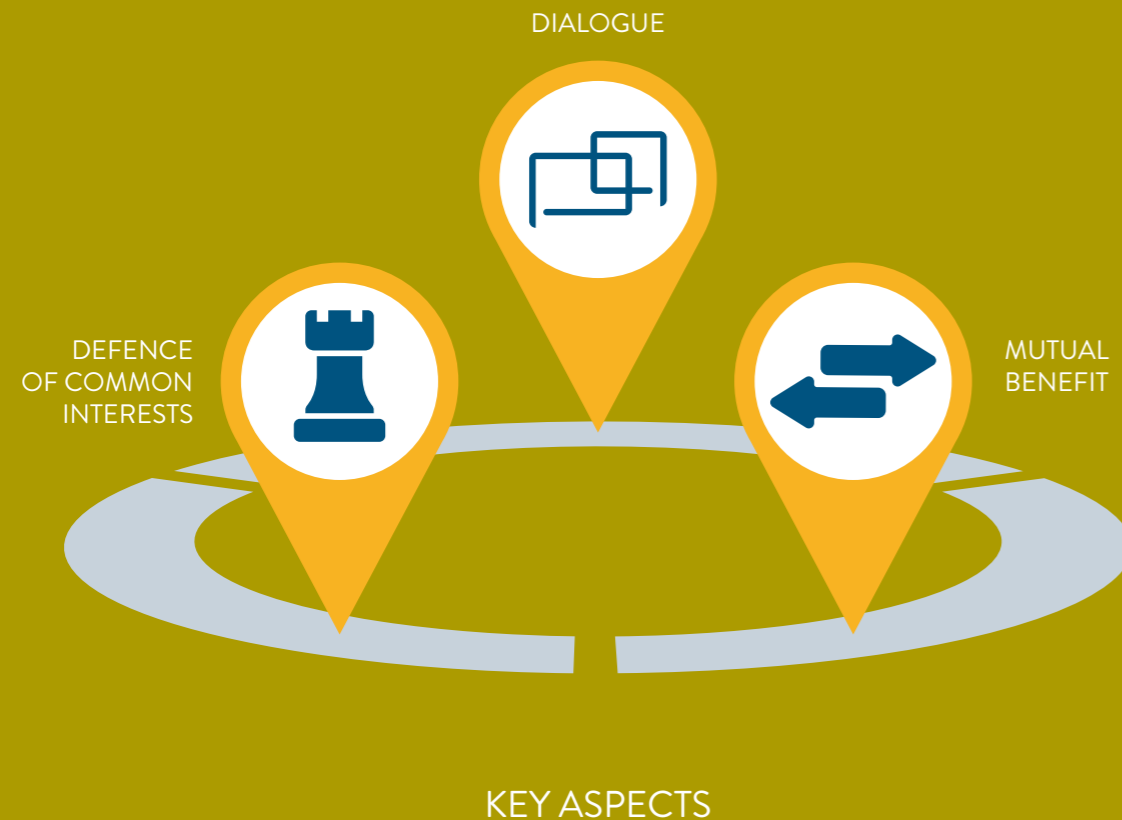


**CADENA DE VALOR**

### SPANISH LANGUAGE WEEK IN MOROCCO

Europac once again collaborated in 2017 with the Spanish Language Week in Morocco, by funding the staging of **"Eternal Spain"**. The show involved a performance representing Spanish music, Andalusian folk traditions and flamenco.

# PUBLIC AUTHORITIES, REGULATORY BODIES, FINANCIAL ENTITIES AND SECTOR ASSOCIATIONS



## COMMUNICATION CHANNELS

<b>In-person meetings and videoconferences</b>	Continuous communication with public authorities connected with the activity and position of Europac installations, along with other bodies (Stock Exchange, National Securities Market Commission and financial institutions). Participation and attendance at events organised by sector organisations to increase the company's public profile and learn about the latest developments in the sector.
<b>Sector associations</b>	<ul style="list-style-type: none"> <li>• Confederation of European Paper Industries (CEPI)</li> <li>• CCB (Cepi Container Board)</li> <li>• Federación Europea de Fabricantes de Cartón Ondulado (FEFCO)</li> <li>• Associação da Indústria Papeleira (CELPA)</li> <li>• Centro PINUS sector association of forestry operations</li> <li>• Associação para a Competitividade das Indústrias da Fileira Florestal (AIFF)</li> <li>• Forest Stewardship Council (FSC)</li> <li>• Program for the Endorsement of Forest Certification (PEFC)</li> <li>• Spanish Association of Pulp, Paper and Cardboard Manufacturers (ASPAPEL)</li> </ul>

Europac pursues mutual benefits in its relationship with stakeholders, sharing issues and concerns and upholding common interests. Alongside its involvement in the aforementioned sector associations, Europac is also a member

of the Spanish Association of Pulp, Paper and Cardboard Manufacturers, chaired by Enrique Isidro Rincón, and the Association of Family Companies of Castile-Leon, chaired up until 2017 by José Miguel Isidro.

Europac belongs to sector associations within the communities where it operates, in pursuit of mutual benefits



## PRIZES AND AWARDS

### BEST MULTINATIONAL EXECUTIVE OF CASTILE-LEON

María Berzosa, the Director of the Dueñas Papel recycled paper mill, received the Best Multinational Executive of Castile-Leon Award, handed out by the magazine Castilla y León Económica. The award acknowledges her efforts in the Coated Papers Project, allowing the plant to offer the market the full range of white coated papers.

### CASTILLA Y LEÓN EMPRENDE AWARDS

José Miguel Isidro received the Businessman of the Year Award at the eighth edition of the Castilla y León Emprende Awards organised by the newspaper El Norte de Castilla. The tribute emphasised his ability "to continuously reinvent the group, turning a regional business into a multinational company".







OUR COMMITMENT

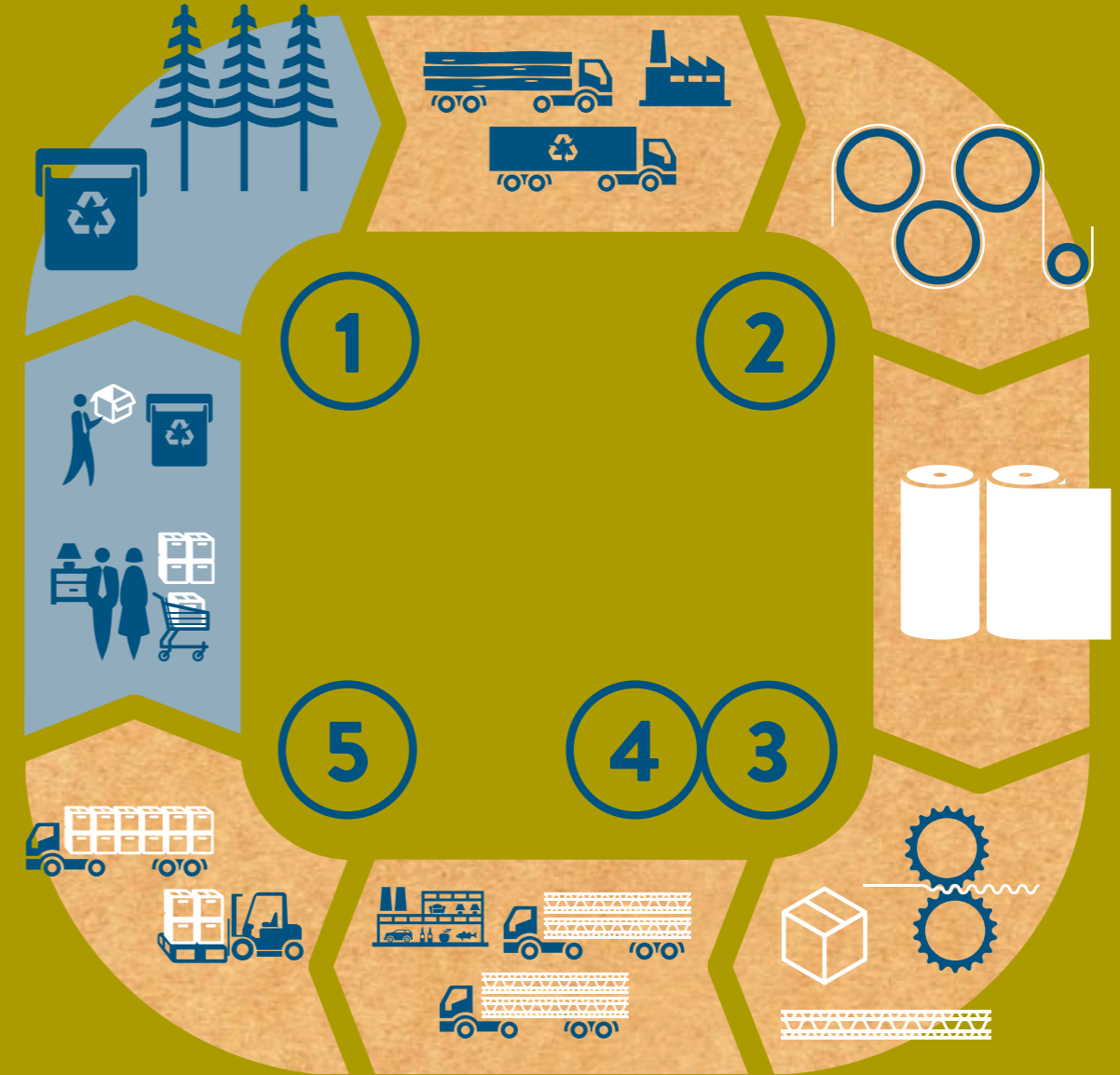
COMMITMENT  
TO THE ENVIRONMENT

5



Respect for the environment in the pursuit of its industrial operations is a priority for the Europac Group, and is covered by and reflected in its corporate values. The philosophy of the Europac business model always aims for greater efficiency and the best possible use of resources within the configuration of a cycle in which the outputs from certain processes become the inputs for another.

- ① PROCUREMENT OF RAW MATERIALS THROUGH FORESTRY MANAGEMENT AND PAPER AND CARD RECOVERY.
- ② PRODUCTION OF PAPER SPOOLS FOR PACKAGING.
- ③ MANUFACTURING OF CORRUGATED BOARD SHEETS.
- ④ TRANSFORMATION OF SHEETS INTO PACKAGING.
- ⑤ SHIPMENT AND DISTRIBUTION TO CLIENTS.



The Group, aware of the repercussions its operations could have on the environment, develops an environmental management policy based on sector best practices and promotes operational plans addressing both the optimisation and usage of available natural resources and appropriate waste management. Europac uses the best economically viable techniques available to reduce to a minimum the consumption of water, energy, and other natural resources, minimising the environmental impact of its operations through appropriate management of liquid, solid and gas waste emissions. It furthermore guarantees compliance with the legislation in force at all installations, and promotes a culture of environmental sustainability, by implementing awareness-raising and training programs for all employees and a number of external partners, with UNIPAC featuring a mandatory module addressing the environment.

The Group's most significant environmental impacts result from paper production, which involves considerable consumption of materials, water and energy, and more significant waste generation than other activities.

### INITIATIVES IN 2017

Substantial improvements were made in 2017 at the WWTPs of the Alcolea and Rouen plants to prepare them for increasingly demanding BREF standards. Meanwhile, 4 million euros was spent on the development of the WWTP at the Dueñas plant and 1.4 million is expected to be invested in the Alcolea de Cinca factory.



### ENVIRONMENTAL MANAGEMENT AT THE PAPER DIVISION

The paper facilities in Spain and Portugal hold ISO 14001 Environmental Management certification, which will shortly also be issued to the French plant in Rouen. The Portuguese plant in Viana do Castelo, as well as Rouen, hold ISO 50001 Energy Management Systems certification, which in the case of the French factory was issued in 2017.

The Environmental Management Manual is the document on which the Group's Sustainability Policy is based. Said document identifies and evaluates the environmental aspects of operations, and defines the actions, objectives and goals of the Environmental Improvement Programmes. The Environmental Indicators Map likewise brings together the key figures for water and energy consumption, discharges, emissions and waste generation, which are monitored monthly. Meanwhile, there are emergency plans, procedures and specific records to assist in sound operational control.



### ENVIRONMENTAL MANAGEMENT AT THE PACKAGING DIVISION

The activity undertaken at the Packaging facilities complies strictly with environmental regulations in all countries in which it operates, making efforts to improve the efficiency of its installations, and minimise environmental impact.

The main materials that are most used are recycled paper and ink for the printing of packaging cardboard. A substantial proportion of the sheets from the recycled paper reels used in the manufacturing of cardboard sheets are derived from the Paper Division.

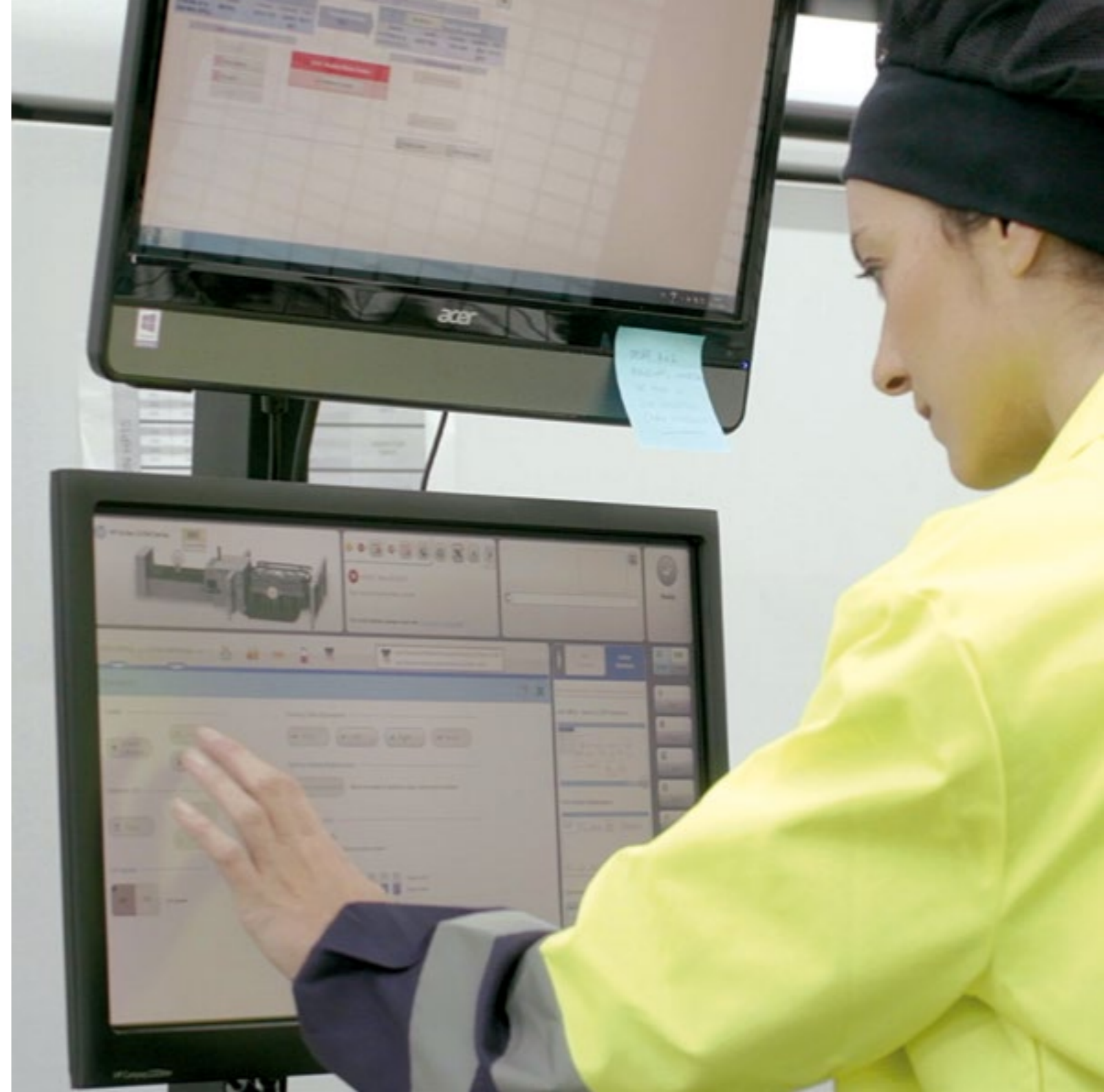
Waste to be managed is collected and processed by authorised waste managers, including Europac Recicla, the integrated waste management subsidiary of the Europac Group.

In September 2014, the conclusions of the BREF for the pulp and paper industry were published, setting out the Best Available Techniques (BAT) and Associated Emissions Values (AEV), which must be fulfilled by companies in the sector from September 2018 onwards. Europac is working to adapt to the new restrictions sufficiently in advance, by aligning the Integrated Environmental Authorisations of its plants with these requirements.

Over the last two financial years, Europac has dedicated substantial investment efforts to the pursuit of excellence in the environmental management of the Paper Division. Over the last three years, investments have exceeded 15 million euros, with more than 30 million euros being invested since 2011. In 2017, the total investment amounted to 5.4 million euros, divided into liquid and gas emissions control, management of waste generated, the promotion of initiatives connected with energy efficiency and the optimisation of steam and electricity consumption, among other actions.

The following subsections include the most significant information about a number of the initiatives undertaken in connection with the main environmental aspects of the Paper Division, and show the evolution of the main indicators with regard to the evolution of production over the last three years, compared with the figure for 2005.

Europac makes substantial environmental investments: 5.4 million euros in 2017, and more than 15 million euros over the last three years



# CONSUMPTION OF MATERIALS, WATER AND ENERGY

## CONSUMPTION OF MATERIALS

Paper production for packaging involves substantial consumption of certain raw and auxiliary materials, in particular:



Timber from species such as pine and eucalyptus, derived from sustainably managed industrial plantations.



Recovered paper, derived in part from the Group's waste management facilities. Over recent years, high levels of recycling have been achieved in accordance with the European Union's environmental demands, serving to reduce the volume of discharges and CO<sub>2</sub> emissions.

Europac has undertaken a number of initiatives to optimise the resources used in its production processes, in particular improvements in the process for the screening of impurities removed from recycled paper pulp, increasing efficiency by serving to reduce the loss of fibres to a minimum.

### Key updates in the optimisation of consumption of materials

- Implementation of advanced control systems for the kraft pulp production process at installations.
- Incorporation of more selective equipment and improvement of process control so as to optimise the production of recycled pulp, with the aim of minimising the loss of the highest-quality cellulose fibres.



## WATER CONSUMPTION

In the process of paper manufacturing, water is used as the vehicle to transport the cellulose fibres in washing operations, in the recovered paper defibrillation phase, in sheet transformation operations on the paper machine, and also for the cooling of equipment and flows of fluid.

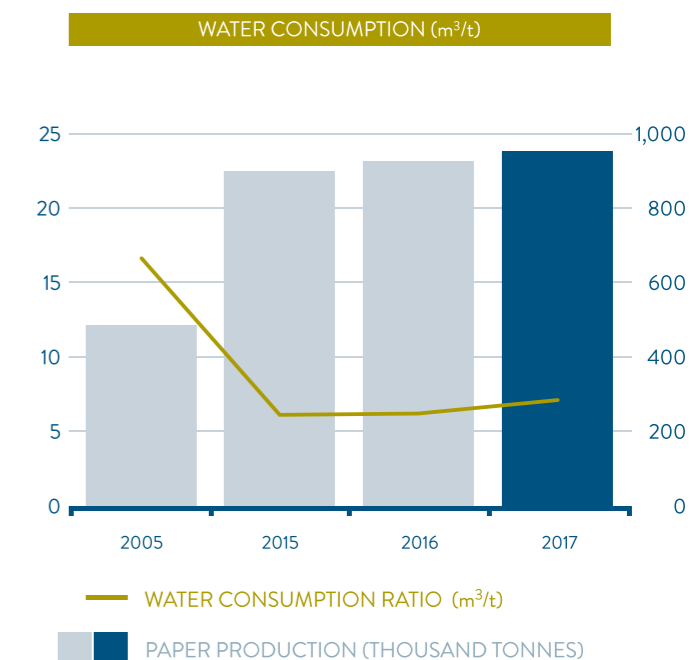
Europac is aware of the problems resulting from water consumption and availability, and that paper-making operations require large quantities of this resource. It has therefore established a number of procedures to comply with the regulations in force (including the Integrated Environmental Authorisations of the different installations), and applying best practices to optimise water consumption. Europac establishes comprehensive control systems for its processes, and plans production to prevent and mitigate the risks connected with water consumption, leaks and losses, so as thereby to achieve efficient usage.

The evolution of water consumption has been characterised as stable over recent years.

The water used in the different processes is recycled internally for subsequent re-use, which requires recovery of the cellulose fibres it contains. Treatment is subsequently applied at the WWTP to allow the water to be discharged into the natural environment in accordance with legally imposed conditions.

**Europac is committed to optimising its water consumption and achieving effective usage**

Where there is an increase in production capacity or any other significant change at an installation, Europac performs thorough analyses to determine the resulting impact on water consumption, to be validated by the environmental authorities and taken into account in the project's Environmental Impact Assessment (EIA).



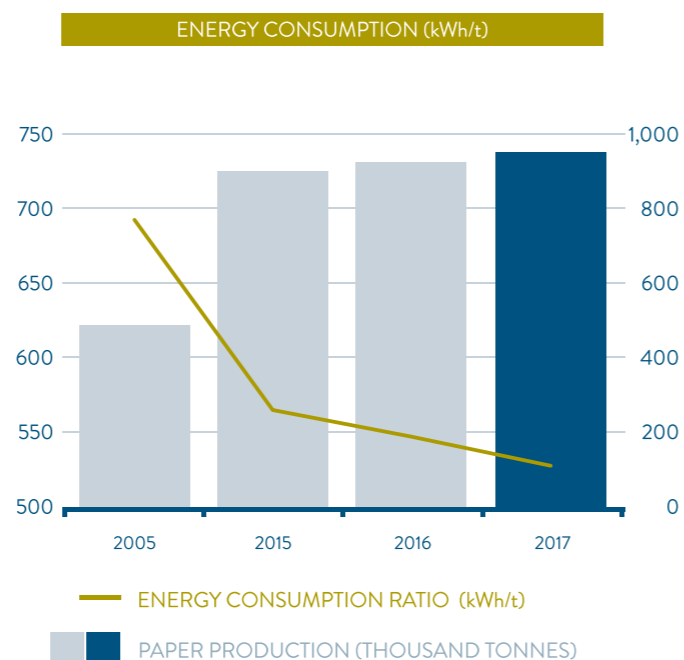
### Key actions in the optimisation of consumption of water

- The control of risks connected with water consumption, intensive monitoring and the definition of reduction objectives.
- Usage of counter-current process water and recycling for other operations in accordance with quality.
- Re-use of water from cooling towers.
- Participation in groups of experts and sector associations (ASPAPPEL, COPACEL and CELPA, among others), engaged in the optimisation of water consumption at facilities.

## ENERGY CONSUMPTION

Europac focuses in particular on the consumption of energy resulting from its operations, in pursuit of increased energy efficiency through measures to control and reduce consumption at its facilities and in its processes. In this regard, the lowest consumption records ever were recorded at the plants in 2017, improving on the figures for 2016, which themselves marked the previous efficiency record. In 2017, the downward trend seen in recent years continued.

As for sources of energy, the Viana do Castelo plant uses biomass (black liquor and bark) derived from the production of virgin pulp to generate most of the heat (steam) required to manufacture the paper, with two natural gas combined-cycle plants offering the highest levels of efficiency to fulfil additional heat needs, while also generating electrical energy. The Dueñas factory also generates the necessary heat using a combined-cycle energy cogeneration. The Alcolea de Cinca, in turn, uses a simple cycle to generate electricity and steam.



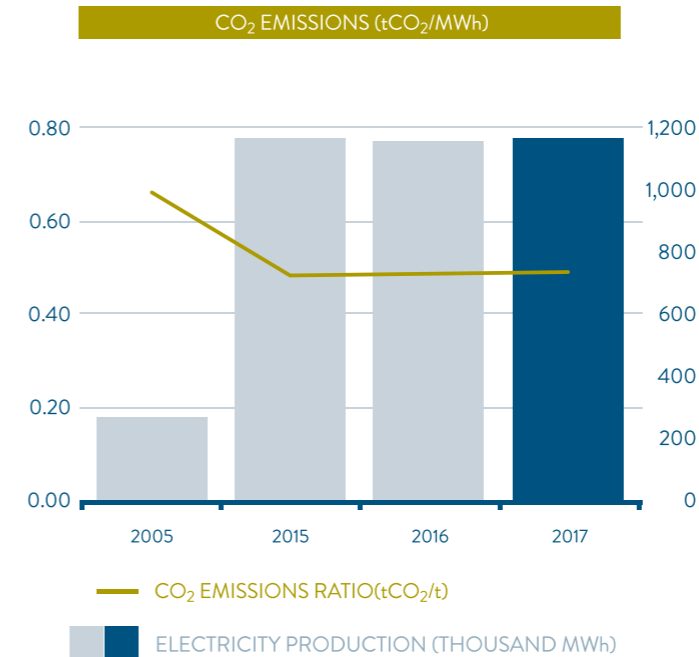
### Key actions in the field of energy efficiency

- Implementation of more advanced and automated operational control systems at facilities.
- Development of new instruments to measure steam and electrical energy consumption in greater detail and with control by DCS (Distributed Control Systems), allowing better monitoring.
- Creation of a multi-year plan for the installation of frequency variators and to replace the agitators and motors with more efficient designs.
- Replacement of the liquid ring vacuum pumps at the Viana do Castelo plant with turbo-blowers.
- Redesign and redirection of the outdoor lighting at Viana do Castelo to reduce light intensity.
- Replacement of traditional lighting systems with LED technology at all mills.
- Installation of motion detectors in areas with little through-traffic.

# GAS EMISSIONS

Europac's main gas emissions correspond to those generated in the production of the kraft pulp used to make kraftliner paper (recovery boiler, lime kiln and biomass boiler) and in the production of energy (natural gas burner at co-generation and combined-cycle power plants), with diffuse emissions resulting from the cellulose treatment process. Continuous measurement is performed at the installations to track emissions of SO<sub>2</sub>, H<sub>2</sub>S, NO<sub>x</sub> and CO<sub>2</sub>, with monitoring by Accredited Control Bodies.

The European Greenhouse Gas (GHG) Emissions Rights Trading System requires an annual declaration of CO<sub>2</sub> emissions from Europac facilities, which is subject to external verification by Certification Bodies. The pulp and paper installations also have a certain quantity of CO<sub>2</sub> emissions rights assigned free of charge. The difference between CO<sub>2</sub> emissions verified and the free assignment must be acquired in public auctions.



## Key actions for reducing gas emissions

- Installation of gas scrubbers at the Viana do Castelo factory tanks.
- Installation of a new gas pipeline to supply natural gas to the Alcolea co-generation lines, reducing indirect emissions from gas transportation by road.
- Improvements to the gas treatment equipment of the recovery boiler in Viana do Castelo.



# SUSTAINABLE MANAGEMENT

## MANAGEMENT OF LIQUID EFFLUENTS

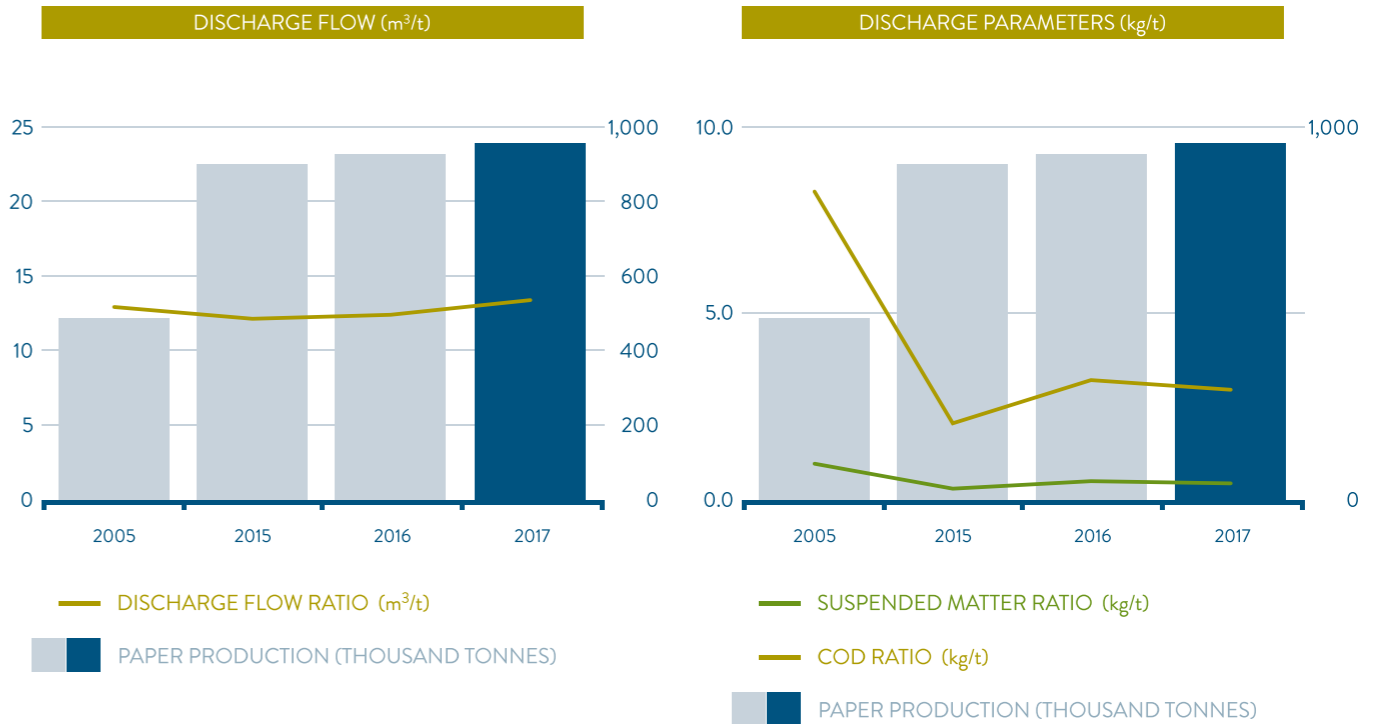
Following use in the production process, water is recycled and re-used at Europac in operations for which its quality is appropriate. When water cannot be re-used, it is processed and returned to the natural environment. The discharges from installations reveal levels of Material in Suspension (MIS) and Chemical Oxygen Demand (COD) that remain highly stable over time, and below the established limits. Meanwhile, Europac's effluent reveals negligible amounts of heavy metals, is non-toxic, and is discharged into the natural environment into watercourses with a considerable flow rate, causing no significant impact.

Europac adapts its discharges in accordance with legal requirements and maintains a commitment to improve conditions continuously

In order to ensure that the discharge parameters comply with those defined in the Integrated Environmental Authorisations (IEA) of each industrial unit, effluent is treated at the Waste Water Treatment Plant (WWTP) to achieve values below the reference thresholds. Some of the preventive measures adopted by EUROPAC to reduce the pollutant load to be treated at the treatment plants include:

- Chemical products are deposited in sealed tanks to prevent contamination of the effluent and allow for recovery.
- Re-use of currents and closure of circuits.
- Prevention of overflows and spillages.

The ratio of Material In Suspension and the COD ratio fell on 2016, demonstrating Europac's commitment to improve its discharge conditions.



### Key actions for liquid effluent management

- Project startup to increase the capacity of the liquid effluent treatment plant at Dueñas paper mill.
- Increased capacity at the Alcolea de Cinca and Rouen treatment plants.
- Installation of a fibre recovery device at Alcolea.
- Replacement of underground effluent pipelines with atmospheric pipelines at the Rouen paper mill as a preventive measure to ensure the protection of soil and groundwater from potential leakage.

## MANAGEMENT OF SOLID WASTE

In 2017, Europac maintained its commitment as regards the usage of waste generated at its facilities, promoting re-use for material, energy and agricultural purposes with highly positive results. The waste generated is classified in accordance with the type of paper produced:



Waste derived from kraftliner paper production: produced in the treatment process applied to the timber before it is boiled in the digester to produce the kraft pulp. This waste is essentially bark and fine timber particles. Meanwhile the black liquor, a by-product derived from boiling the timber in the digester, is re-used to generate energy in the recovery boiler, producing steam for the plant, with the chemical products used in the boiling process once again being recovered.



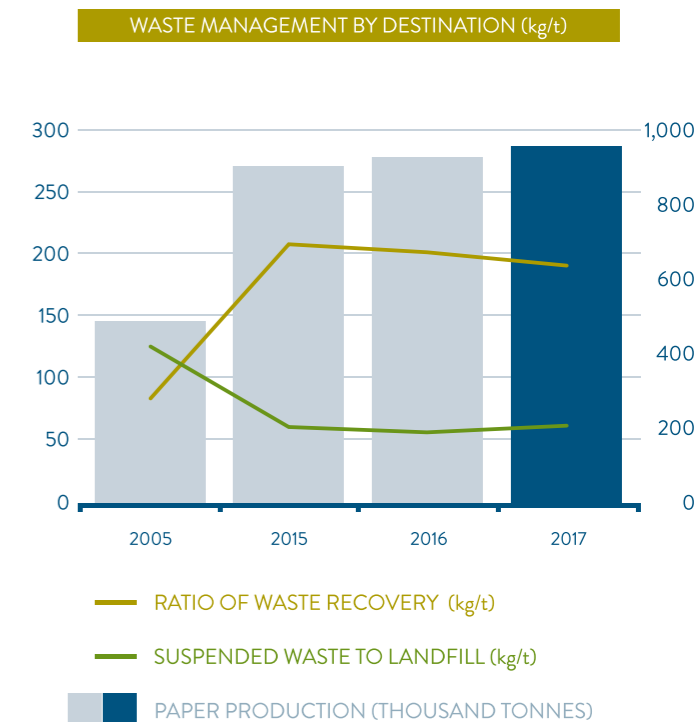
Waste generated in recovered paper production: derived from recovered paper (plastics, sand, etc.) and the treatment of effluent (biological sludge, organic matter derived from the treatment of waste water and others).

One of Europac's priorities is the re-use of waste

The Viana do Castelo plant has a biomass boiler that uses bark and fine matter from the timber to generate fuel, making use of as much waste as possible from recycled pulp production and the sludge generated at the WWTP.

Meanwhile, at the recycled paper facilities all waste resulting from the production process is delivered to authorised managers in order for the material to subsequently be recovered (for example, at ceramics and cement plants), re-used for energy generation (to produce steam in the boilers), or for agricultural re-use. This serves to reduce the tendency to deposit waste at controlled landfill sites, except in those cases where there is no other alternative. There is lastly a small proportion of hazardous waste, representing 0.3% of the total waste generated, which is processed by authorised managers, for recovery, regeneration or elimination.

In total, in 2017, 75% of all waste produced was re-used.



### Key actions for waste management

- Collaboration with public authorities to modify the waste classification of certain materials to facilitate their management as by-products, with a circular economy focus.
- Development of agricultural re-use of treatment plant sludge.

## SUSTAINABLE MANAGEMENT OF FORESTRY ASSETS

88% of the surface area managed by Europac is certified under standards that recognise fulfilment of a series of requirements and criteria tied to sustainable forestry management. Nearly 70% of the surface area managed in Spain holds PEFC certification, and in Portugal 95% of the surface area managed is certified in accordance with FSC or PEFC requirements.

Europac has in place a Chain of Custody Policy demonstrating its firm commitment to sustainable forestry management in its supply chain, and the legal requirements applicable to the timber trade. It also works in accordance with the CEPI (Confederation of European Paper Industries) Code of Conduct for the Paper Industry, with regard to legal timber felling.

### Commitments of the Europac Chain of Custody Policy

- Promote the sustainable forestry management of woodlands.
- Apply best efforts to avoiding the purchase of timber derived from conflicted sources.
- Comply with the chain of custody requirements of the FSC and PEFC.
- Maintain appropriate relations with suppliers and contractors.





ABOUT  
THIS REPORT

6



## SCOPE

Europac published its first Sustainability Report in 2013, and has been publishing its Integrated Annual Report since 2014, with the aim of offering a more comprehensive vision of the Group, by setting out the most significant financial and non-financial information.

This Report includes, in general, the information corresponding to the financial year running from 1 January until 31 December 2017. To assist in understanding the business and evaluating the strategic position of Europac at present, reference is likewise made to figures and events from previous years, so as to offer a broader analytical perspective. The scope of the Report covers the activities of Papeles y Cartones de Europa, S.A. and its subsidiary companies in the different countries where it operates.

The information included in the Report may be supplemented and extended with other corporate documents available on the website [www.europacgroup.com](http://www.europacgroup.com)

- ANNUAL ACCOUNTS 2017
- 2017 Annual Corporate Governance Report

## INTERNATIONAL STANDARDS

As has been the case since 2014, this Report has been drawn up by taking as the reference point the guidelines established in the IIRC (International Integrated Reporting Council) for the preparation of integrated reports. It has likewise been drawn up on the basis of Version 4 of the Sustainability Reporting Guidelines produced by the Global Reporting Initiative (Basic Principles and Content, and Implementation Manual), in accordance with the essential conformity option.

In the GRI performance content table included at the end of the report, the pages providing information connected with each indicator are specified. Where any indicator is omitted, the reasons are given. As the Report has been drawn up in accordance with the essential conformity option, at least one indicator is reported each relevant aspect of the Group.



## MATERIALITY ANALYSIS

In the generation of this Report, Europac employed the results of the materiality analysis performed in 2014, with the aim of representing those issues of greatest relevance for the company and its stakeholders. Europac then identified a list of issues by analysing different sources of information, some of them specific to the papermaking sector. These issues were then evaluated in accordance with their relevance for the company itself (impact for business objectives, capacity to generate risks and opportunities, and impact on brand and reputation), and for its stakeholders, by means of an analysis of the press, the leading international sustainability standards and customer satisfaction studies.

Europac views its stakeholders as all those that are directly or indirectly affected by the performance of its business operations, and who therefore also have the capacity to directly or indirectly affect its development.

This evaluation serves to identify those that are of the greatest relevance for Europac. The following table sets out the relationship between these issues and the aspects considered by version G4 of the GRI Sustainability Reporting Guide:

RELEVANT ASPECTS FOR EUROPAC	G4 ASPECTS
Financial sustainability	<ul style="list-style-type: none"> <li>• Economic performance</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>• Basic general content</li> </ul>
Relationship with stakeholders	<ul style="list-style-type: none"> <li>• Local communities</li> <li>• Mechanisms for social impact grievances</li> <li>• Privacy of customers</li> </ul>
Development of human capital	<ul style="list-style-type: none"> <li>• Employment</li> <li>• Health and safety at work</li> <li>• Training and education</li> <li>• Diversity and equal opportunities</li> <li>• Mechanisms for employment practice grievances</li> </ul>
Expenses and investments	<ul style="list-style-type: none"> <li>• Economic performance</li> </ul>
Sustainable supply chain	<ul style="list-style-type: none"> <li>• Acquisition practices</li> <li>• Evaluation of suppliers in the field of human rights</li> <li>• Mechanisms for human rights grievances</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Emissions</li> </ul>
Environmental management systems	<ul style="list-style-type: none"> <li>• Materials</li> <li>• Emissions</li> <li>• Effluent and waste</li> <li>• Regulatory compliance (in the field of the environment)</li> <li>• General (environmental performance)</li> <li>• Mechanisms for human rights grievances</li> </ul>
R&D+i	<ul style="list-style-type: none"> <li>• Specific Europac indicators</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• Regulatory compliance</li> </ul>

## COMPLIANCE WITH NEW REGULATIONS AS REGARDS NON-FINANCIAL INFORMATION

This Report has been drawn up in accordance with the requirements established by Royal Decree-Law 18/2017, of 24 November 2017, modifying the Code of Commerce, the recast text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July 2010, and the Accounts Auditing Act 22/2015, of 20 July 2015, as regards non-financial information and diversity. This Report supplements the information included in the 2017 Consolidated Management Report, which served to comply with said regulations.

## CONTACT DETAILS

For any query regarding the content of this Report, readers may write to the email address:

[sustainability@europacgroup.com](mailto:sustainability@europacgroup.com)



GRI  
CONTENT TABLE

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BASIC CONTENT

INDICATOR		REFERENCE
G4-1	Declaration by the key figure responsible for the organisation's decisions	2-3
G4-3	Name of the organisation	Europac Group (Papeles y Cartones de Europa, S.A. and subsidiary companies)
G4-4	Key brands, products and services	46-48
G4-5	Location of the organisation's headquarters	Carretera de Burgos a Portugal, km 96 (Dueñas, Palencia)
G4-6	Countries where the organisation operates	18, 49
G4-7	Nature of the ownership structure and legal form	18, 97
G4-8	Markets served	18, 46-48, 49
G4-9	Size of the organisation	14-15, 21, 82-85, 90, 134-136
G4-10	Key characteristics of the workforce	134-136
G4-11	Percentage of employees covered by collective agreements	138

INDICATOR		REFERENCE
G4-12	Description of the organisation's supply chain	157-162
G4-13	Significant changes during the reporting period	30, 92, 154
G4-14	Coverage of the principle of precaution	20-24, 174-178
G4-15	Charters, principles or other external initiatives of an economic, environmental and social nature which the organisation subscribes to or has adopted	118, 169
G4-16	National or international promotion associations and organisations to which the organisation belongs	169
G4-17	List of entities included on the consolidated financial statements of the organisation	196
G4-18	Process of generating the Report	196-200
G4-19	List of material aspects identified during the process of defining the content of the Report	199
G4-20	Coverage of each material aspect within the organisation	The material aspects reported refer to the activities undertaken by the Europac Group and the possible direct impacts derived from them

INDICATOR		REFERENCE
G4-21	Limit of each material aspect outside the organisation	See G4-20
G4-22	Consequences of the restating of information from previous reports, and the causes for this	Not applicable
G4-23	Significant changes in the scope and coverage of each aspect with regard to previous reports	Not applicable
G4-24	List of stakeholder groups associated with the organisation	122, 128, 150, 156, 164, 168
G4-25	Criteria for selection of the stakeholder groups with which the organisation works	198
G4-26	Participation of stakeholders	122-170
G4-27	Key issues and problems arising as a result of the involvement of stakeholder groups and the evaluation performed by the organisation	122-170
G4-28	Period covered by the Report	196
G4-29	Date of the previous report	2016
G4-30	Report presentation cycle	Annual

INDICATOR		REFERENCE
G4-31	Point of contact to resolve any queries which may arise regarding the content of the Report	200
G4-32	"In accordance" option the organization has chosen	196
G4-33	External verification of the Report	This Report has not been verified by a third party
G4-34	Governance structure of the organisation	96
G4-56	Values, principles, standards and regulations of the organisation	19, 118

#### ECONOMIC PERFORMANCE INDICATORS

ASPECT	INDICATOR		REFERENCE
Economic performance	G4-EC1	Direct economic value generated and distributed	85
	G4-EC4	Economic support granted by government agencies	In 2017, Europac received capital subsidies in the amount of 5,924 thousand euros. For further information, see Note 18 to the Consolidated Annual Accounts
Acquisition practices	G4-EC9	Percentage of expenditure in locations with significant operations corresponding to local suppliers	160

ENVIRONMENTAL PERFORMANCE INDICATORS

ASPECT	INDICATOR		REFERENCE
Materials	G4-EN1	Total volume or weight of materials employed to produce and package the main products and services of the organisation during the period covered by the Report	Europac does not publish the volume of materials employed (recycled and non-recycled), as it deems this information to be confidential
	G4-EN2	Percentage of materials employed which are repurposed materials	
Energy	G4-EN3	Internal energy consumption, indicating the total consumption of fuel from non-renewable and renewable sources and total energy consumption	184
	G4-EN5	Energy intensity and the types of energy included in the intensity listing	184
Water	G4-EN8	Total volume of water captured by source of capture	182-183
	G4-EN9	Number of sources of water significantly affected by water capture	No significantly affected catchment sources were identified in 2017
Emissions	G4-EN18	Intensity of greenhouse gas emissions	186-187

ASPECT	INDICATOR		REFERENCE
Effluent and waste	G4-EN22	Total volume of water discharge, planned and unplanned	188-189
	G4-EN23	Total weight of waste (hazardous and non-hazardous) by type and method of treatment and elimination	190-191
	G4-EN25	Weight of waste transported, imported, exported or treated and deemed dangerous by virtue of Annexes I, II, III and VIII of the Basel Convention, and percentage of waste transported internationally	In 2017, no international transportation of hazardous waste covered by the Basel Convention was performed
Regulatory compliance	G4-EN29	Monetary value of significant fines and number of non-monetary penalties resulting from a breach of environmental regulations and legislation	In 2017, Europac received no significant fines or penalties resulting from a breach of environmental regulations or legislation
General	G4-EN31	Breakdown of environmental investments and expenditure	178
Mechanisms for environmental grievances	G4-EN34	Total number of environmental grievances presented, addressed and resolved by means of formal grievance mechanisms	No environmental grievances were registered in 2017

## INDICATORS OF EMPLOYMENT PRACTICES AND EMPLOYMENT ETHICS

ASPECT	INDICATOR		REFERENCE
Employment	G4-LA1	Number and rate of hirings and average employee turnover, broken down by age, gender and region	140-141 (the employee turnover rate was 0.35%)
	G4-LA2	Social provisions for full-time employees not offered to temporary or part-time employees, broken down by significant operational locations	The social benefits indicated in the "Commitment to employees" chapter are offered to full-time and part-time employees
Health and safety at work	G4-LA6	Indicate the types of injury, the index of accidents involving injury, the professional illness rate, the days lost rate, the absence rate and the fatal victims connected with work for all workers (in other words, employees and contractors), broken down by region and gender	146-149
Training and education	G4-LA9	Average annual hours of training per employee, broken down by gender and employment category	142-143
	G4-LA10	Type and scope of skills management and continuous training programmes fostering the employability of workers and helping them to manage the end of their professional careers	142-143

ASPECT	INDICATOR		REFERENCE
Diversity and equal opportunities	G4-LA12	Composition of governing bodies and breakdown of the workforce by professional category and gender, age, membership of minorities and other diversity indicators	103, 134-136
Mechanisms for employment practice grievances	G4-LA16	Number of employment practice grievances presented, addressed and resolved by means of formal grievance mechanisms	No grievances regarding employment practices were registered via the Company's formal mechanism in 2017

## HUMAN RIGHTS INDICATORS

ASPECT	INDICATOR		REFERENCE
Evaluation of suppliers in the field of human rights	G4-HR10	Percentage of new suppliers examined in accordance with human rights-related criteria	In 2017, no human rights-related evaluations were performed, although there are plans to include clauses in this regard in the tender specifications in future financial years
Mechanisms for human rights grievances	G4-HR12	Number of human rights-related grievance presented, addressed and resolved by means of formal grievance mechanisms	No grievances regarding human rights were registered in 2017

## INDICATORS OF PERFORMANCE WITHIN SOCIETY

ASPECT	INDICATOR		REFERENCE
Local communities	G4-SO2	Operational sites with significant potential or actual negative effects on local communities, their impacts and location	No significant negative impacts on local communities were identified in 2017
Regulatory compliance	G4-SO8	Monetary value of significant fines and number of non-monetary penalties resulting from a breach of legislation or regulations	No significant fines or non-monetary penalties arose in 2017 as a result of a breach of legislation or regulations
Mechanisms for social impact grievances	G4-SO11	Total number of grievances regarding social impacts presented, addressed and resolved by means of formal grievance mechanisms	No grievances regarding social impacts were registered in the 2017 financial year

## PRODUCT RESPONSIBILITY INDICATORS

ASPECT	INDICATOR		REFERENCE
Privacy of customers	G4-PR8	Number of claims based on the violation of privacy and customer data disclosure	In 2017, no claims regarding the violation of privacy and customer data disclosure were registered
Regulatory compliance	G4-SO8	Monetary value of significant fines and number of non-monetary penalties resulting from a breach of legislation or regulations	In 2017, Europac received no significant fines or penalties derived from a breach of regulations or legislation regarding supply and use of products and services



