IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Directors' Report at 31 December 2017

IBERPAPEL GESTION, S.A.

Consolidated Annual Accounts and Consolidated Directors' Report for 2017

On 27 February 2018, pursuant to Articles 253 of the Spanish Companies Act and 37 of the Code of Commerce, the Board of Directors of Iberpapel Gestión, S.A. issues the Consolidated Annual Accounts and Consolidated Directors' Report for the year ended 31 December 2017.

The Board of Directors

Signature

Mr. Iñigo Echevarría Canales

Mr. Néstor Basterra Larroude

Mr. Iñaki Usandizaga Aranzadi

Mr. Martín González del Valle Chávarri

Ms. María Luisa Guibert Ucín

Mr. Gabriel Sansinenea Urbistondo

Mr. Iñaki Martínez Peñalba

Mr. Jesús Alberdi Areizaga

Madrid, 27 February 2018

CONTENT OF THE CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017 AND 2016

CONSOLIDATED BALANCE SHEET
(Thousand euro)

		Year ended at 31 December	
	Note	2017	2016
NON-CURRENT ASSETS		**144,804**	**158,889**
Property, plant and equipment	6	124,696	135,341
Biological assets	7	13,640	15,419
Intangible Assets	8	1,510	2,327
Deferred tax assets	19	1,547	1,381
Financial receivables	9	3,411	4,421
CURRENT ASSETS		**208,498**	**117,170**
Inventories	11	15,859	21,194
Trade and other receivables	10	41,213	64,235
Cash and cash equivalents	12	151,426	31,741
TOTAL ASSETS		**353,302**	**276,059**

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017 AND 2016

CONSOLIDATED BALANCE SHEET
(Thousand euro)

		Year ended at 31 December	
	Note	2017	2016
TOTAL EQUITY		**236,771**	**227,449**
Share capital	13	6,558	6,558
Share premium account	13	13,633	13,633
Treasury shares	13	(2,418)	(1,060)
Cumulative translation difference	15	(17,365)	(12,202)
Retained earnings and other	14	236,363	220,520
NON-CURRENT LIABILITIES		**78,195**	**10,094**
Borrowings and government grants	9, 18	73,901	5,787
Deferred tax liabilities	19	1,622	2,743
Provisions	20	2,672	1,564
CURRENT LIABILITIES		**38,336**	**38,516**
Trade and other payables	9, 17	28,552	28,592
Current tax liabilities	17	4,531	5,147
Borrowings and government grants	9, 18	2,816	2,840
Provisions for other liabilities and charges	20	2,437	1,937
Total liabilities		**116,531**	**48,610**
TOTAL LIABILITIES AND EQUITY		**353,302**	**276,059**

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017 AND 2016

CONSOLIDATED INCOME STATEMENT
(Thousand euro)

		Year ended at 31 December	
	Note	**2017**	**2016**
CONTINUING ACTIVITIES			
Revenue	21	217,053	201,893
Other income	21	3,696	2,514
Change in inventories of finished goods and work in progress	22	(2,519)	2,774
Raw materials and consumables utilised	22	(84,907)	(84,469)
Employee benefit expense	23	(20,102)	(19,254)
Depreciation and amortisation	22	(10,874)	(10,623)
Other net (expense)/income	22	(76,314)	(67,859)
Operating profit		**26,033**	**24,976**
Net financial income/(expense)	24	(578)	14
Profit/(loss) on disposal of non-current assets	6	476	
Profit before tax		**25,931**	**24,990**
Income tax	25	(3,025)	(4,885)
Profit from continuing activities after tax		**22,906**	**20,105**
PROFIT FOR THE YEAR		**22,906**	**20,105**
Profit attributable to:			
Parent company's owners		22,906	20,105
Earnings per share from continuing activities attributable to the holders of equity instruments during the year			
Basic €/share	26	2.168	1.890
Diluted €/share	26	2.168	1.890

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017 AND 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Thousand euro)

		Year ended at 31 December	
	Note	2017	2016
Profit for the year		**22,906**	**20,105**
Other comprehensive income:			
Foreign currency translation differences	15	(5,163)	773
Other comprehensive income, net of tax		**(5,163)**	**773**
Total comprehensive income for the year		**17,743**	**20,878**
Attributable to:			
Parent company's owners		17,743	20,878
Non-controlling interests			
Total comprehensive income for the year		**17,743**	**20,878**
Total comprehensive income attributable to the parent company's owners:		17,743	20,878
Continuing activities		17,743	20,878

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Thousand euro)

		Attributable to the Company's shareholders					
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Cumulative translation difference**	**Retained earnings**	**Total equity**
Balance at 1 January 2016		**6,748**	**13,633**	**(7,071)**	**(12,975)**	**213,564**	**213,899**
Profit/(loss) for 2016						**20,105**	**20,105**
Other comprehensive income:							
Currency translation differences	15				773		**773**
Total comprehensive income					**773**	**20,105**	**20,878**
Transactions with owners:		**(190)**		**6,451**		**(6,261)**	
Capital reductions		(319)		6,451		(6,132)	
Capital increases		129				(129)	
Dealings in treasury shares (net)	**13**			**(440)**		**8**	**(432)**
Dividend payment						**(6,933)**	**(6,933)**
Out of profits						(6,933)	**(6,933)**
Change in internal dividends						**37**	**37**
Balance at 31 December 2016		**6,558**	**13,633**	**(1,060)**	**(12,202)**	**220,520**	**227,449**

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Thousand euro)

		Attributable to the Company's shareholders					
	Notes	Share capital	Share premium	Treasury shares	Cumulative translation difference	Retained earnings	Total equity
Balance at 1 January 2017		**6,558**	**13,633**	**(1,060)**	**(12,202)**	**220,520**	**227,449**
Profit/(loss) for 2017						**22,906**	**22,906**
Other comprehensive income:							
Currency translation differences					(5,163)		**(5,163)**
Total comprehensive income					**(5,163)**	**22,906**	**17,743**
Transactions with owners:							
Capital reductions							
Capital increases							
Dealings in treasury shares (net)	**13**			**(1,358)**			**(1,358)**
Dividend payment:						**(7,063)**	**(7,063)**
Out of profits						(7,063)	**(7,063)**
Change in internal dividends							
Balance at 31 December 2017		**6,558**	**13,633**	**(2,418)**	**(17,365)**	**236,363**	**236,771**

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTION, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2017 AND 2016

CONSOLIDATED CASH FLOW STATEMENT (Thousand euro)

	Notes	Year ended 31 December	
		2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		**35,968**	**27,443**
Cash generated from operations	27	39,184	31,110
Interest		(70)	(168)
Taxes paid (net)		(3,146)	(3,499)
CASH FLOWS FROM INVESTING ACTIVITIES		**23,321**	**(18,782)**
Acquisition of property, plant and equipment	6	(2,724)	(8,561)
Acquisition of intangible assets	8	(59)	(308)
Investment in biological assets		(1,472)	(604)
Held-to-maturity investments		27,576	(9,309)
CASH FLOWS FROM FINANCING ACTIVITIES		**60,396**	**(8,018)**
Acquisition of treasury shares	13	(1,358)	(445)
Issuance of borrowings		70,135	
Repayment of borrowings	18	(1,318)	(640)
Dividends paid to Company shareholders		(7,063)	(6,933)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**119,685**	**643**
Cash and bank overdrafts at beginning of the year	12	31,741	31,098
Exchange gains/(losses) on cash and bank overdrafts			
CASH AND BANK OVERDRAFTS AT THE END OF THE YEAR	**12**	**151,426**	**31,741**

The accompanying notes on pages 12 to 70 are an integral part of these consolidated annual accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Thousand euro)

1. General information

IBERPAPEL GESTION, S.A. has a group (the Group) made up of 17 companies at the end of 2017: IBERPAPEL GESTION, S.A., the parent company, and 16 subsidiaries. Appendix 1 to these notes contains additional information on the fully-consolidated companies. All the parent company's shares are listed on the Madrid and Bilbao stock exchanges.

The Group has a single production plant in Hernani and makes sales basically in Spain, its business being the manufacture and sale of writing and printing paper.

For the purposes of preparing the consolidated annual accounts, a group is understood to exist when the parent company has one or more subsidiaries, i.e. companies over which the parent has direct or indirect control.

IBERPAPEL GESTION, S.A., the Group's parent company, was founded in Huelva on 21 July 1997 as a limited liability company ("sociedad anónima"). It is entered in the Guipúzcoa Commercial Register on page SS-19511, sheet 43 of volume 1910, book 0, section 8 of the Companies Book.

The Annual General Meeting held on 20 April 2016 approved a share capital reduction of €318,694.20 through the redemption of 531,157 treasury shares. As a result of this resolution, Article 5 of the Bylaws was amended and the amendment was entered in the Guipúzcoa Commercial Register on 7 June 2016, as entry 51.

The Annual General Meeting also approved a share capital increase in the amount of €128,594.40 charged to voluntary reserves, by issuing 214,324 new shares in the same class and series. The General Meeting delegated to the Board of Directors the amendment to Article 5 of the Bylaws to reflect the new share capital figure and number of shares.

The Board of Directors, in a meeting held on 25 October 2016, approved the amendment of Article 5 of the Bylaws was amended and the amendment was entered in the Guipúzcoa Commercial Register on 29 November 2016, as entry 53.

IBERPAPEL GESTION, S.A.'s registered office is at Avenida de Sancho el Sabio 2-1°, San Sebastián.

The parent company's corporate objects are described in Article 2 of its Bylaws, consisting of:

i) Commercial transactions of all kinds, for its own account or for the account of third parties, relating to any goods or objects.

ii) Ownership and exploitation of all kinds of municipal, rural, agricultural, forestry and industrial properties.

iii) Subscription, derivative acquisition, ownership, possession, administration, purchase or sale of securities and shares, except those which relate to activities regulated by Law 46/84 or by specific legislation.

There were no changes to the consolidation scope in 2017 or 2016.

These consolidated annual accounts were issued by the Board of Directors on 27 February 2018 and will be submitted to the Annual General Meeting within the stipulated time period. The parent company's directors consider that they will be approved without significant changes.

2. Summary of the main accounting policies

The main accounting policies applied when preparing these consolidated annual accounts are described below. These policies have been applied consistently to all the years presented unless otherwise stated.

2.1. Basis of presentation

The Group's consolidated annual accounts at 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union and approved by European Council Regulations, in force at 31 December 2017, IFRIC interpretations and commercial law applicable to companies reporting under EU-IFRS.

The consolidated annual accounts have been prepared on a cost basis, as modified by the measurement of forestry assets under IAS 41.

The preparation of consolidated annual accounts under IFRS requires the use of certain critical accounting estimates; management must also exercise judgement when applying the Group's accounting policies. Note 4 explains the areas that require a higher degree of judgement or complexity and where assumptions and estimates are significant.

2.2. Consolidation principles

Subsidiaries are all companies (including special-purpose entities) in which the Group has the power to manage financial and operating policies, which is generally accompanied by more than one half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control when it does not hold over 50% of voting rights but is able to direct financial and operating policies by means of *de facto* control. This *de facto* control may arise in circumstances in which the number of voting rights held by the Group, as compared with the number and dispersion of other shareholdings, affords the Group the power to direct financial and operating policies, etc.

Subsidiaries are consolidated as from the date on which control is transferred to the Group and de-consolidated as from the date that control is lost.

Intercompany transactions, balances, income and expenses from transactions between Group companies are eliminated. Losses and gains from intragroup transactions recognised as assets are also eliminated. Subsidiaries' accounting policies have been brought into line with the policies adopted by the Group, where necessary, for consistency.

Appendix I to these notes set outs the identification details of the 16 fully-consolidated subsidiaries.

2.3. Segment reporting

Operating segments are presented taking into account the quantitative thresholds described in paragraph 10 of IFRS 8, particularly the segments of revenue which accounts for more than 10% of the Group's total revenue.

2.4. Foreign currency transactions

a) Functional and presentation currency

The items included in the annual accounts of each of the Group companies are measured using the currency of the principal economic environment in which each company operates ("functional currency"). The consolidated annual accounts are presented in euros, which is the Group's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are converted to the functional currency using exchange rates in force at the transaction dates, or the measurement dates in the case of items that are remeasured. Foreign exchange gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated foreign currency are recognised in the income statement.

Exchanges losses and gains on loans and cash and cash equivalents are presented on the income statement line “Financial income or expense”. Other exchange gains or losses are presented in “Other net gains/(losses)”.

Translation differences in respect of non-monetary items such as equity instruments held at fair value through profit or loss are presented as part of the fair value gain or loss. Currency translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

c) Group entities

The earnings and financial situation of all Group companies (none of which has the currency of a hyperinflationary economy) whose functional currency differs from the presentation currency are translated to the presentation currency as follows:

i) The assets and liabilities on each balance sheet presented are translated at the closing exchange rate at the balance sheet date;
ii) The income and expenses in each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates existing at the transaction dates, in which case income and expenses are translated at the rates on the transaction dates); and
iii) All resulting exchange differences are recognised in other comprehensive income.

2.5. Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation and cumulative impairment losses, except for land, which is presented net of impairment losses.

Historical cost includes expenses directly attributable to purchases of property, plant and equipment.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset may be reliably determined. The carrying amount of the assets replaced is written off for accounting purposes. All other repair and maintenance expenses are charged to the income statement of the year in which they are incurred.

Land is not depreciated. Other assets are depreciated on a straight-line basis over the following estimated useful lives:

	Years of estimated useful life
Buildings	33 years
Plant	3/28 years
Machinery and tooling	5/20 years
Furnishings	10 years
Data-processing equipment	4 years
Vehicles	10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

In 2015, the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) restated the estimated useful life of the assets referred to as Machine Four (MP-4) and Cellulose Plant Extension (CEL-2), based on a report issued by the independent expert Galtier Franco Ibérica. The directors applied an estimated useful life of 28 years as from the moment the assets were put into use, which is within the range of useful lives envisaged in the independent expert's report.

The new depreciation plan was submitted to the Guipúzcoa Provincial Finance Department and was approved on 21 April 2015.

When an asset's carrying amount is higher than its estimated recoverable amount, the carrying amount is immediately written down to the recoverable amount.

Gains and losses on the sale of property, plant and equipment are calculated by comparing the income obtained with the carrying amount and are included in the income statement.

2.6. Biological assets

Iberpapel's biological assets comprise tree plantations (silviculture). On each balance sheet date, the Group initially recognises biological assets at fair value less estimated costs to sell.

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

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

a) Determining inventories

The Group counts its biological assets every two years, grouping them together on the basis of their physical and geographic characteristics, as explained below:

i) It considers that the basic unit for grouping the biological assets is the "batch", i.e. the set of biological assets associated with a specific plot of land and with common physical characteristics.
ii) As the main physical characteristics when defining batches, the Group takes into account the species of the biological asset and its level of maturity, as the basic value parameters.

b) Basic characteristics of batches

Geographical location and common physical properties are stated for each batch of biological assets. The main characteristics are:

i) Species: The biological asset species identifies the different families of a group of biological assets (trees).
ii) Quality: A characteristic that identifies the differing qualities of each species (seed, clone).
iii) Average Annual Increase (AAI): A value that establishes the annual growth of biological assets for each batch, estimated based on measurements by technical personnel and statistical data.
iv) Degree of maturity: A code that identifies the degree of the asset's biological transformation:

    Immature: Assets that are not ready for harvesting or the biological transformation is insignificant.

    Mature: Assets that are ready for harvesting or picking, or are able to support regular production, harvesting or picking.

    Agricultural product: products obtained through processing or picking mature biological assets.

c) Measurement of Biological Asset Batches

Once the qualitative and quantitative characteristics of each batch have been ascertained, fair value less estimated costs to sell is calculated.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date.

Costs to sell are incremental costs directly attributable to the disposal of the asset, excluding financial expenses and income taxes.

In order to determine the fair value and costs to sell of biological assets, the quoted prices of standing timber in the most significant active markets have been used in each case. When active markets are not significant or when there are no active markets for the biological markets identified, the following are used:

i) most recent transaction price in the market, assuming that there have been no major changes in economic circumstances between the transaction and balance sheet dates;
ii) market prices of similar assets, as adjusted to reflect existing differences; and
iii) industry references.

When biological transformation since the initial costs were incurred is limited or the price impact of biological transformation is not expected to be significant, costs incurred are treated as a valid approximation of fair value.

2.7. Intangible assets

a) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire the specific software and ready it for use. These costs are amortised over the estimated useful life of the software (4 years).

Costs associated with developing or maintaining computer software are expensed when incurred. Costs directly related to the production of identifiable and unique software controlled by the Group that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets.

b) Research and development expenses

Research expenditure is recognised as an expense when incurred. Costs incurred in development projects (associated with the design and testing of new products or upgrades) are recognised as an intangible asset when the project is likely to be successful, taking into account its technical and commercial feasibility, and provided the costs may be reliably estimated. Other development expenditure is expensed when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs with a finite useful life are amortised from the start-up of the product's commercial production on a straight-line basis over the period in which profits are expected to be generated, without exceeding five years.

c) CO_2 emission allowances

CO_2 emission allowances allocated are carried at fair value at the start of the year, credited to "Government grants", since the Administration's transfer of the allowances is a grant. Since the assets are quoted on a regulated market, fair value matches the quoted value of these allowances at that date. Emission allowances acquired are carried at acquisition price.

"Other net (expense)/income" in the consolidated income statement reflects the cost of all the year's emissions, credited to the account "Short-term provisions for liabilities and charges".

This provision will be maintained until the obligation is settled by handing the allowances over to the Administration, by 30 April of the following year.

Additionally, government grants will be taken to income in the "Other income" account as the costs mentioned in the previous paragraph are recognised.

2.8. Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets.

2.9. Non-financial asset impairment losses

Intangible assets that have an indefinite useful life are not amortised and are tested annually for impairment. Other non-financial assets are tested for impairment provided that an event or change in circumstances indicates that carrying amount might not be recoverable. An impairment loss is recognised to reflect the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (cash-generating units). Impaired non-financial assets, other than goodwill, are tested at each balance sheet date to identify any reversal of the loss.

2.10. Financial assets

2.10.1. Classification

The Group classifies its financial assets in the following categories: loans and receivables. This classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at the time of initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months as from the balance sheet date, which are classified as non-current assets. The Group's loans and receivables are included in "Trade and other receivables" and "Cash and cash equivalents" in the balance sheet.

2.10.2. Recognition and measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

2.11. Financial asset impairment losses

a) Assets at amortised cost

At each reporting date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact that can be reliably estimated on the estimated future cash flows of the financial asset or group of financial assets.

Evidence of impairment may include indications that the debtors or a group of debtors have considerable financial difficulties or are defaulting on or making late payment of interest or principal, are likely to become insolvent or are involved in any other kind of financial reorganisation, and when observable data indicate that there is a measurable decrease in estimated future cash flows, such as changes to payment terms or to economic conditions correlated to payment default.

For loans and receivables, the amount of the loss is the difference between the asset's carrying amount and the present value of estimated future cash flows (not including future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The asset's carrying amount is written down and the impairment loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a floating interest rate, the discount rate used to measure any impairment loss is the present effective interest rate stated in the contract. For practical purposes, the Group may estimate impairment based on an instrument's fair value, using an observable market price.

If an impairment loss diminishes in a subsequent period and the decrease can be objectively attributed to an event that occurred after the impairment loss was recognised (such as an improvement in the debtor's credit quality), the previously recognised impairment is reversed with a credit to the consolidated income statement.

2.12. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw materials, direct labour, other direct costs and manufacturing overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable costs to sell.

Agricultural products included in this caption are carried at fair value, pursuant to IAS 41 Agriculture (see Note 2.6).

2.13. Receivables and other current assets

Trade receivables are amounts owed by customers for sales of goods or services in the ordinary course of business. If the receivable is expected to be collected in one year or less (or in the ordinary operating cycle, if longer), it is classified as a current asset. Otherwise, they are presented as non-current assets.

Bank deposits maturing after more than 90 days and less than 12 months are included in this category as current assets.

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less the provision for impairment.

2.14. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term, highly-liquid investments with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

2.15. Share capital

Ordinary shares are classed as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When a Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax) is deducted from equity attributable to the Company’s shareholders through to redemption, reissue or disposal. When these shares are sold or subsequently reissued, any amount received, net of any incremental directly attributable transaction cost and the corresponding income tax effects, is included in equity attributable to the Company's shareholders.

2.16. Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be collected and all applicable terms will be fulfilled.

Government grants related to costs are deferred and recognised in the income statement over the period necessary to match them to the costs intended to be offset.

Government grants for the acquisition of property, plant and equipment are included in non-current liabilities as deferred government grants and credited to the income statement on a straight-line basis over the estimated lives of the relevant assets.

2.17. Trade payables

Trade accounts payable are payment obligations arising from the purchase of goods or services from suppliers in the ordinary course of business. Payables are classified as current liabilities if payment falls due within one year (or they fall due in the normal operating cycle, if longer than one year). Otherwise they are presented as non-current liabilities.

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

2.18. Borrowings and government grants

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of costs necessary to obtain them) and the repayment value is recognised in the income statement over the period of the borrowings using the effective interest method.

Commissions paid to arrange credit lines are recognised as debt transaction costs provided that it is probable that part or all of the credit facility will be utilised. In this case, the commissions are deferred until the line is utilised. Insofar as it is not probable that all or part of the credit line will be used, the commission is capitalised as an advance payment for liquidity services and is amortised over the period during which the facility is available.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

2.19. Current and deferred taxes

Tax expense for the period comprises current and deferred tax. Tax expense is recognised in the income statement, except where it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases for assets and liabilities and their carrying amounts in the consolidated annual accounts. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither reported results nor taxable results. Deferred income tax is determined applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences may be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20. Employee benefits

a) Termination benefits

Termination benefits are the result of decisions taken by Group companies to terminate employment before the normal retirement age or when the employee voluntarily accepts redundancy in exchange for the benefits, which are recognised when a demonstrable commitment has been made to terminate the employment of current workers under a detailed formal plan that cannot be withdrawn, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

b) Pension commitments

The Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) makes periodic defined contributions to the pension fund "Geroa", as stipulated in the collective agreement for pulp, paper and cardboard manufacturers in Guipúzcoa province.

2.21. Provisions

Provisions for environmental restoration, restructuring and litigation are recognised when:

i) There is a present legal or constructive obligation as a result of past events;
ii) It is more probable than not that an outflow of funds will be required to settle the obligation; and
iii) The amount may be reliably estimated.

Provisions are carried at the present value of payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22. Revenue recognition

Ordinary revenue includes the fair value of the consideration received or receivable on the sale of goods and services in the ordinary course of business. Revenue is recognised net of value added tax, returns, rebates and discounts, and after eliminating intra-Group sales.

The Group companies recognise revenues when the amount may be reliably determined, it is likely that future profits will flow to the company and the specific conditions for each of its activities are met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a) Paper sales

Paper sales are recognised when the company has handed over the products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

b) Electricity sales

Sales of electricity generated using biomass and/or gas-fired cogeneration are recognised when the company has handed over the electricity to the customer, the customer has accepted and collectability of the related receivables is reasonably assured.

c) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the carrying amount is written down to the recoverable amount, discounting estimated future cash flows at the instrument's original effective interest rate and unwinding the discount as a reduction in interest income. Interest income on impaired loans is recognised either when the cash is collected or on a cost-recovery basis as conditions warrant.

2.23. Dividend payment

The payment of dividends to shareholders is recognised as a liability in the consolidated annual accounts in the year in which the dividends are approved.

2.24. Leases

Leases in which the lessor retains a substantial part of the risks and rewards of ownership are classified as operating leases. Operating lease payments, net of any incentive received from the lessor, are charged to the income statement on a straight-line basis over the lease term.

The subsidiaries lease certain property, plant and equipment. Leases of property, plant and equipment in which substantially all the risks and rewards of ownership are retained are classed as finance leases. Finance leases are capitalised at lease inception at the lower of the fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is distributed between the liability and finance charge, and a constant interest rate is obtained on the outstanding balance of the debt. Lease obligations, net of finance charges, are included in long-term payables. The interest component of the finance cost is taken to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the outstanding liability for each period. Property, plant and equipment being acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

2.25. Earnings per share

Basic earnings per share are calculated as a quotient formed by net profit for the period attributable to the parent company and the weighted average number of outstanding ordinary shares during the period, excluding the average number of parent company shares held by the Group companies.

Diluted earnings per share are calculated as the quotient formed by net profit for the period attributable to ordinary shareholders, adjusted for the effect of potentially dilutive ordinary shares, and the weighted average number of outstanding ordinary shares during the period, adjusted for the weighted average number of ordinary shares that would be issued if all the potentially dilutive ordinary shares were converted. For such purposes, conversion is deemed to take place at the start of the period or when the potentially dilutive ordinary shares are issued, where they have become outstanding during the period in question.

2.26. List and summary of standards, amendments to standards and interpretations published to date:

2.26.1. The following standards and interpretations have been taken into account, with effect on 1 January 2017, although their impact on the preparation of these consolidated annual accounts was immaterial.

IAS 7 (Amendment) “Disclosure initiative”: an entity is required to disclose information that enables users to understand the changes in liabilities that arise from financing activities. The Group has included in Note 18 a breakdown of movements in financial liabilities with credit institutions.

IAS 12 (Amendment) "Recognition of deferred tax assets due to unrealised losses". The changes to IAS 12 clarify the requirements to recognise deferred tax assets for unrealised losses. The changes clarify the accounting treatment of the deferred tax when an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies other aspects of the recognition of deferred tax assets.

2.26.2. Standards, amendments and interpretations that are not yet in force but may be early adopted in periods commencing on or after 1 January 2017.

At the signing date of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee has published the following standards, amendments and interpretations that become mandatory in 2018, although the Group has not early adopted them. They are not expected to have a significant effect on the Group's consolidated annual accounts.

IFRS 9 - Financial instruments. This standard replaces the current IAS 39 and will have effect in periods commencing on or after 1 January 2018.

The IAS 39 incurred loss impairment model is replaced by a new expected credit loss model. The Group covers the majority of commercial risks affecting sales by taking out credit insurance. The impairment loss is calculated as the difference between the carrying amount of the assets and the present value of estimated future flows from the assets. The Group regards risk coverage as an integral part of the insured receivable, so the expected credit loss calculation will take into account both expected cash flows when the receivable is collected and credit insurance flows. Very few receivables have been written off in the past, so this policy change is not expected to have a material impact.

IFRS 15 - "Revenue from contracts with customers". In force in periods beginning on or after 1 January 2018. Under this standard, revenue is recognised when the customer obtains control over the good or service sold, i.e. when it has the capacity both to direct the use of and to obtain benefits from the good or service. The impact of the application of this standard is immaterial because the Group has no contracts with customers generating a right or obligation enforceable in advance.

IFRS 16 - Leases. This new standard supersedes the current IAS 17. Effective for annual periods beginning on or after 1 January 2019. The standard stipulates that companies must recognise in the statement of financial position the assets and liabilities derived from all lease agreements (except for short-term leases and leases for assets having a low value). During the year, the Group assessed all the assets leased from third parties, which amount to €726 thousand, so the exception to the standard which allows the recognition of short-term leases or leases in which the underlying asset has a low value to be recognised as an expense on a straight-line basis over the lease period would be applicable.

2.26.3. Standards, amendments and interpretations of existing standards that cannot be early adopted or have not been adopted by the European Union.

At the date these consolidated annual accounts were prepared, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

Standard	Content	Mandatory application in periods commencing on or after
Amendments to IFRS 10 and IAS 28. Sale or contribution of assets between an investor and its associate or joint venture.	The investor will recognise the entire gain or loss when the non-monetary assets are a business	Pending adaptation by the EU
IFRS 2 (Amendment) "Classification and measurement of share-based payment transactions".	This clarifies how to account for certain types of share-based payment transactions.	Annual periods commencing on or after 1 January 2018

3. Financial risk management and capital management

3.1. Financial risk management

The Iberpapel Group's activities are exposed to various financial risks: market risk (including foreign exchange risk, price risk, cash flow interest rate risk and foreign operations risk), credit risk and liquidity risk. The risk management program is focused on minimising the effects of financial market uncertainty and any potential adverse impact on its financial returns.

Risk management is controlled on the basis of different supervisory levels applying policies approved by the Board of Directors, which is responsible for maintaining the internal control system, including the monitoring and control of relevant risks.

The Board has delegated risk supervision to the Audit Committee.

The Board assesses the operating risks supervised by the Audit Committee in order to control and manage risk by means of actions to improve the procedures in place.

a) Market risk

i) Foreign exchange risk

The Group basically operates in euros and is not therefore significantly exposed to foreign exchange risks in foreign currency transactions. Accordingly, this risk is not deemed to be significant and no hedging policies are applied.

Net exchange losses recognised in the 2017 income statement total €433 thousand (2016: €90 thousand), representing 1.67% (2016: 0.36%) of the pre-tax profit for the period. In this regard, Iberpapel considers that a sensitivity analysis of this risk would not add significant information for the users of the consolidated annual accounts.

ii) Price risk

The Iberpapel Group is not exposed to price risk with respect to equity and financial instruments.

iii) Interest rate risk on cash flows

Revenues and cash flows from operating activities are relatively independent of fluctuations in market interest rates.

In connection with this risk, at 31 December 2017 Iberpapel recognised long-term borrowings of €71,255 thousand (2016: €2,437 thousand), representing 20.17% (2016: 0.88%) of total consolidated liabilities. Of this debt, €70,000 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €151,426 thousand at 31 December 2017. On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

iv) Foreign operations risk

The Group is exposed to foreign exchange risk in relation to the Argentine and Uruguayan pesos against the euro, as a result of its investments in foreign operations through subsidiaries. The Argentine peso depreciated 25.66% against the euro from 31 December 2016 to 31 December 2017, and the Uruguayan peso depreciated 10.21% against the euro in the same time period.

Foreign operations risk affecting investments in subsidiaries in Argentina and Uruguay derives mainly from the effect of translating non-current assets, so that the most significant impact is on consolidated equity, in the item "Cumulative translation difference". The Group provides breakdowns of this equity item in Note 15 to the consolidated accounts. Other breakdowns are also provided, such as the location of assets abroad, foreign currency transactions and exchange differences recognised in the consolidated income statement.

b) Credit risk

The Group's main interest-bearing assets are cash, short-term bank deposits and trade and other receivables, which represent the Group's maximum credit risk exposure in relation to financial assets.

The main credit risk is attributable to trade receivables, which are reflected in the balance sheet net of bad debt provisions estimated by management, drawing on prior-year experience and an assessment of the current economic environment. The Group has no significant concentrations of credit risk and exposure is distributed among a large number of counterparties. Virtually all paper sales and therefore the majority of trade receivables are insured with the following companies:

Insurance company	Rating
Euler Hermes (Allianz)	AA
Solunión	A-
Crédito y Caución	A+
Cesce	BBB+
Coface	A+

As regards cash and short-term bank deposits, the most significant amount relates to interest-bearing deposits at financial institutions with good financial standing.

Cash at bank and short-term bank deposits	Rating	2017
A Banks	BBB+	54,059
B Banks	BB+	51,817
C Banks	A-	40,125
D Banks	BBB-	3,919
Other		1,506
		151,426

The Group has no direct exposures with the Company's directors at 31 December 2017.

c) Liquidity risk

Prudent liquidity risk management entails holding sufficient cash and available financing through adequate committed credit facilities, and the capacity to settle market positions.

Management follows up on liquidity forecasts periodically based on expected cash flows and keeps sufficient cash to meet its liquidity needs.

The following table analyses the Group's financial liabilities, grouped together by maturity, on the basis of estimated cash flows:

	Less than 1 Year	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328
Suppliers and creditors	28,552			

	Less than 1 Year	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
At 31 December 2016				
Bank borrowings	2,840	1,957	480	
Suppliers and creditors	28,592			

3.2. Capital risk management

The leverage ratio is calculated as net debt divided by equity, net debt being total borrowings (bank loans and credit facilities) less "cash and cash equivalents" and "short-term bank deposits", while consolidated equity is the amount shown in the relevant consolidated balance sheet item.

Leverage ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
Bank borrowings (Note 18)	74,071	5,277
Less: Cash and bank deposits	(153,197)	(60,408)
Net debt	(79,126)	(55,131)
Consolidated equity	236,771	227,449
Leverage ratio	**(33.42)%**	**(24.23)%**

When analysing sensitivities related to the above-mentioned risks, Group management takes into consideration IAS 1, paragraph 31, which states that the breakdowns required by IFRS are not necessary if they are relatively immaterial, although an assessment must be repeated at each year end to determine whether or not the risks are significant to the Group and thus require more detailed breakdowns, specifically the ones stipulated in IFRS 7, paragraph 40.

3.2. Fair value estimation

The Group records no financial instruments at fair value through profit or loss. It is assumed that the carrying amount less the provision for impairment of receivables and payables approximates fair value. Fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The consolidated balance sheet item "Biological assets" is carried at fair value, pursuant to IAS 41 Agriculture (see Note 2.6).

3.3. Regulations governing power generation companies

The Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. has two operational power cogeneration plants, one using biomass (black liquor), which is included in the cellulose production segment, and the other a gas combined-cycle facility, so the Group stays abreast of the vast body of legislation that has been published since 2013 in this area, the most relevant of which is described below.

Law 15/2012 of 27 December on tax measures for energy sustainability and Royal Decree-Law 2/2013 of 1 February on urgent measures for the electricity system and the financial sector were published. Both laws increased energy costs by levying a 7% linear tax on revenue from electricity generation and an additional tax on the volume of natural gas consumed ("green cent").

On 14 July 2013, Royal Decree-Law 9/2013 came into force, laying the foundations of a new legal and economic scheme for electricity production facilities using renewable energy sources, cogeneration and waste, and a remuneration regime based on standard parameters for standard facilities to be defined. The Royal Decree eliminated regulated tariffs for renewable energy and cogeneration, created the Electricity Self-Consumption Register and announced a new economic scheme designed mainly to guarantee that renewable energy plants obtain a return equivalent to the interest rate on 10-year government bonds plus 300 basis points, by reference to costs and investments in a standard facility, throughout the regulatory useful life. The RD also eliminated the efficiency supplement and the reactive energy supplement applicable to that date, which had a considerable additional impact on the Company's energy balance sheet. Additionally, RD did not bring in any new premiums. Definitive remuneration details were postponed pending publication of a ministerial order, the last tariffs remaining as a reference for provisional settlement in power generation from the publication of the Royal Decree to the publication of the ministerial order.

In 2014, Royal Decree 413/2014 of 6 June on electricity production using renewable energy sources, cogeneration and waste, and Order IET/1045/2014 of 16 June on remuneration parameters for standard facilities, applicable to certain facilities generating electricity from renewable energy sources, cogeneration and waste, were published. Regulations published in the current year have defined remuneration parameters for a period of time: Investment remuneration (Ri), operating remuneration (Ro) and operating hours of a standard facility, similar to the Company's cogeneration plant.

In 2015, RD 900/2015 of 9 October was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies, developing the content of Law 24/2013 of 26 December on self-consumption in the electricity industry. Royal Decree 900/2015 regulates the administrative, technical and economic conditions of the types of self-consumption electricity supplies defined in Article 9.1 of Law 24/2013.

Additionally, on 18 December 2015, Order IET/2735/2015 of 17 December was published, stipulating electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters for facilities generating electricity from renewable sources, cogeneration and waste. This Order provides remuneration parameters for cogeneration plants covering the first half of 2016.

Law 24/2013 of 26 December, introduced under Royal Decree 413/2014 of 6 June on power generation using renewable energy sources, cogeneration and waste, contains the basic regulations governing the remuneration framework to allow power generation facilities covered by this scheme to cover the costs necessary to compete in the market on equal terms with other technologies and to obtain a reasonable profit. A remuneration scheme is defined based on standard parameters for each standard facility. Article 14.4 of the Law and Article 20 of the Royal Decree lay down the system for updating the remuneration parameters for standard facilities. For facilities having operating costs that depend essentially on fuel prices, Order IET/1345/2015 of 2 July develops the above-mentioned articles and brings in a methodology for updating remuneration for the operation, applicable half-yearly.

These regulations envisage the review of generation market price estimates for the first three years of the regulatory period, 2014, 2015 and 2016, to adjust them to the actual market prices, pursuant to Article 22 of Royal Decree 413/2014 on market price estimation and adjustment due to market price departures, subsection 3 of which states that when the average annual price in the daily and intraday markets is outside the regulatory limits, an annual positive or negative balance will be generated, referred to as the market price departure adjustment value. The market price departure adjustment value will therefore be calculated annually.

On 7 December 2016, the Ministry of Energy, Tourism and Digital Agenda published in its website the Proposed Order updating remuneration parameters for standard facilities, applicable to certain plants that generate power using renewable energy sources, cogeneration and waste during the regulatory semi-period commencing on 1 January 2017, together with its report analysing the regulatory impact, for the purposes of Article 26.6 of Government Law 50/1997 (27 December) in which, among other aspects, the amounts of the market price departure adjustment value for each year and standard facility have been published. The definitive Royal Decree was published on 22 February 2017 and did not include any changes.

4. Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

4.1. Significant estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will not exactly match the related actual results. There follow explanations of the most significant estimates and judgements that could affect the following financial year, although Group management considers material adjustments to be unlikely.

a) Useful lives of property, plant and equipment

Group management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. They could change, particularly due to significant technological innovations. Management will increase the depreciation charge where useful lives are shorter than previously estimated and write down or write off technically obsolete or non-strategic assets that have been abandoned or sold. A ±10% change in the estimated useful lives of property, plant and equipment would increase or decrease the 2017 depreciation charge by €1,167 thousand and €1,013 thousand, respectively (2016: €1,177 thousand and €964 thousand).

The change during 2015 in the useful lives of certain assets owned by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) is specified in Note 2.5.

b) Deferred tax assets

Deferred tax assets are recognised provided that sufficient future taxable income is likely to be obtained against which to apply them.

c) Asset impairment

The Group assesses whether property, plant and equipment are impaired applying the accounting policy described in Note 2.5 and uses assumptions to make the calculations.

4.2. Critical judgements when applying the accounting policies

a) Measurement of forestry assets

As indicated in Note 2.6, the Group makes certain assumptions to determine the value of biological assets. In order to establish fair value, biological assets are grouped together based on qualitative characteristics and are measured on the basis of quantitative characteristics.

5. Segment reporting

The Board of Directors focuses on the business mainly from a product viewpoint, irrespective of the geographic area.

Accordingly, the operating segments obtain ordinary income mainly from the manufacture and selling of paper, selling of electricity generated by means of gas-fired cogeneration and, finally, returns on investments in forestry assets.

Since 2009, when a gas-fired cogeneration plant became operational, separate information has been reported on a new operating segment, "gas-fired electricity cogeneration", the ordinary income accounting for over 10% of the Group's ordinary income. Nonetheless, the Group's ultimate management body assesses business evolution on the basis of a single consolidated income statement and a single consolidated balance sheet.

Segment information for the year ended 31 December 2017 is as follows:

	Paper	Gas cogen. electricity	Forestry business and other	Group
Total segment revenue	178,373	43,642	68,489	290,504
Inter-segment sales		(7,230)	(66,221)	(73,451)
Sales to external customers	**178,373**	**36,412**	**2,268**	**217,053**
Depreciation of property, plant and equipment (Note 6)	(7,755)	(2,859)	(212)	(10,826)
Amortisation of intangible assets (Note 8)	(41)		(7)	(48)
Impairment losses on trade receivables (Note 10)	(3)			(3)
Operating profit	**16,811**	**9,366**	**(144)**	**26,033**
Net financial costs and exchange differences (Note 24)	(269)		(309)	(578)
Profit/(loss) on disposal of non-current assets			476	476
Profit before taxes	**16,542**	**9,366**	**23**	**25,931**
Income tax	(789)	(1,637)	(599)	(3,025)
Profit for the year	**15,753**	**7,729**	**(576)**	**22,906**

	Paper	Electricity	Forestry business	Group
Total assets	**247,582**	**48,604**	**57,116**	**353,302**
Of which:				
Fixed asset investments (Notes 6 and 8)	2,606		177	2,783
Total liabilities	**(104,970)**	**(4,903)**	**(6,658)**	**(116,531)**

The 2016 information is set out below:

	Paper	Gas cogen. electricity	Forestry business and other	Group
Total segment revenue	167,453	35,067	68,257	270,777
Inter-segment sales		(6,619)	(62,265)	(68,884)
Sales to external customers	**167,453**	**28,448**	**5,992**	**201,893**
Depreciation of property, plant and equipment (Note 6)	(7,979)	(2,460)	(150)	(10,589)
Amortisation of intangible assets (Note 8)	(34)			(34)
Impairment losses on trade receivables (Note 10)	(9)			(9)
Operating profit	**16,557**	**4,677**	**3,742**	**24,976**
Net financial costs (Note 24)	115		(101)	14
Profit/(loss) on disposal of non-current assets				
Profit before taxes	**16,672**	**4,677**	**3,641**	**24,990**
Income tax	(2,340)	(1,360)	(1,185)	(4,885)
Profit for the year	**14,332**	**3,317**	**2,456**	**20,105**

	Paper	Electricit y	Forestry business	Group
Total assets	**164,072**	**51,383**	**60,604**	**276,059**
Of which:				
Fixed asset investments (Notes 6 and 8)	2,622	5,217	785	8,624
Total liabilities	**(33,233)**	**(7,224)**	**(8,153)**	**(48,610)**

Inter-segment transfers or transactions are completed at arm's length.

The following tables show the Group's ordinary income and total assets by geographic area:

Sales	**2017**	**2016**
European Union (excluding Spain)	74,391	67,111
Africa and Overseas	13,220	17,498
South America	2,268	5,992
Spain	127,174	111,292
	217,053	**201,893**

Sales are assigned on the basis of the country where the customer is located.

Total assets	**2017**	**2016**
Spain	317,614	236,873
South America	35,688	39,186
	353,302	**276,059**

Total assets are assigned on the basis of the assets' location.

The assets in South America consist basically of land and biological assets in different stages of growth, measured in accordance with IAS 41 (Agriculture).

The geographic distribution of fixed asset investments is as follows:

Fixed asset investment	**2017**	**2016**
Spain	2,612	7,891
South America	171	733
	2,783	**8,624**

A breakdown of sales by category is as follows:

Distribution of sales by category	**2017**	**2016**
Paper sales	174,490	164,583
Electricity sales	40,295	31,318
Timber sales	2,268	5,992
	217,053	**201,893**

6. Property, plant and equipment

Set out below is a breakdown of property, plant and equipment showing movements:

Cost	**Balance at 31.12.15**	**Additions**	**Disposals**	**Translation differences**	**Consolidation adjustments**	**Balance at 31.12.16**
Land and buildings	58,815	589		771		60,175
Plant and machinery	219,583	7,203	(3,324)			223,462
Fixtures, fittings, tools and equipment	38,279	730	(24)	23		39,008
Other PPE	1,010	39			(9)	1,040
	317,687	**8,561**	**(3,348)**	**794**	**(9)**	**323,685**
Accumulated depreciation						
Buildings	(10,583)	(727)				(11,310)
Plant and machinery	(146,526)	(7,321)	3,324			(150,523)
Fixtures, fittings, tools and equipment	(23,210)	(2,485)	24			(25,671)
Other PPE	(777)	(56)			(7)	(840)
	(181,096)	**(10,589)**	**3,348**		**(7)**	**(188,344)**
Net amount	**136,591**					**135,341**

Cost	**Balance at 31.12.16**	**Additions**	**Disposals**	**Translation differences**	**Consolidation adjustments**	**Balance at 31.12.17**
Land and buildings	60,175	116	(41)	(2,472)		57,778
Installations under construction		1,418				1,418
Plant and machinery	223,462	382		(127)	16	223,733
Fixtures, fittings, tools and equipment	39,008	581		(29)		39,560
Other PPE	1,040	227		(26)		1,241
	323,685	**2,724**	**(41)**	**(2,654)**	**16**	**323,730**
Accumulated depreciation						
Buildings	(11,310)	(714)	9	8		(12,007)
Plant and machinery	(150,523)	(7,787)		61	17	(158,232)
Fixtures, fittings, tools and equipment	(25,671)	(2,267)		33		(27,905)
Other PPE	(840)	(55)		5		(890)
	(188,344)	**(10,823)**	**9**	**107**	**17**	**(199,034)**
Net amount	**135,341**					**124,696**

a) Fully-depreciated assets

At 31 December 2017, fully-depreciated property, plant and equipment still in use amount to €54,898 thousand (2016: €51,796 thousand).

b) Additions

The most significant additions during the year relate to the announcement published on 9 May 2017, which literally reads as follows:

"*The Board of Directors of Iberpapel Gestión, S. A., in its meeting of 25 April 2017, agreed to undertake the "Hernani Project" in its subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U., which will entail an investment of approximately €180 million.*

This investment project is subject to the transfer of a high-voltage line that crosses the plot of land on which the new facilities will be located, the related formalities being in a very advanced stage.

The "Hernani Project" will consist basically of the installation of a new machine with a Yankee dryer cylinder to make MG paper for flexible packaging of various kinds, having an estimated production capacity of 85,000 tonnes per year. The existing cellulose plant will also be reformed and modernised to include technological and environmental improvements (BATs), which will allow an increase of between 15% and 20% in the plant's gross production capacity.

The project is expected to be commissioned in between 24 and 30 months."

c) Commitments

At 31 December 2017 and 2016, the Group had no commitments to purchase property, plant and equipment.

d) Disposals

There were no significant disposals during 2017 and 2016.

e) Repairs

Maintenance expenses are charged to the income statement when they are incurred, amounting to €9,534 thousand at 31 December 2017 (2016: €8,387 thousand) (see Note 22).

Costs arising from maintenance activities and technical inspections performed at intervals of over 12 months are identified in the accounts as a separate component of property, plant and equipment and are depreciated at a different rate over the period remaining to a major repair, pursuant to IAS 16, paragraph 14.

The acquisition of certain property, plant and equipment was partly financed by government grants received in an accumulated total amount of €13,886 thousand (2016: €13,886 thousand) (Note 18.c).

7. Biological assets (Eucalyptus)

	2017	2016
Opening balance	**15,419**	**13,109**
Gain (loss) due to physical changes	1,712	1,949
Gain (loss) due to fair value changes	37	900
Decrease due to sales	(1,225)	(899)
Exchange differences and other	(2,303)	360
Closing balance	**13,640**	**15,419**

At 31 December 2017, biological assets amounted to €13,640 thousand (2016: €15,419 thousand). As explained in point *iv) Degree of maturity* of Note 2.6 to the consolidated accounts, and in accordance with the accounting policies referred to above, biological assets are measured as follows:

- ✓ "Immature" (fair value hierarchy 3 as per IFRS 13). According to the report from the independent expert "Galtier Franco Ibérica, S.A.", fair value is calculated based on costs incurred, optimum maturity not having been reached, in the amount of €13,592 thousand at 31 December 2017 (2016: €13,296 thousand). The most significant costs include the plant, preparation of the land, cultural work, etc.

- ✓ "Mature" (fair value hierarchy 2 as per IFRS 13): biological assets that are ready for harvesting or picking, according to the report from the independent expert "Galtier Franco Ibérica, S.A.", are measured by reference to the selling price of standing timber in each market in which the asset is located. In 2017, mature biological assets amount to €48 thousand (2016: €2,123 thousand).

8. Intangible assets

Set out below is an analysis of the main intangible asset categories showing movements in assets generated internally and other intangible assets:

Cost	**Balance at 31.12.15**	**Additions**	**Disposals**	**Balance at 31.12.16**
Computer software	942	63		1,005
CO_2 allowances	4,518	821	(3,194)	2,145
	5,460	**884**	**(3,194)**	**3,150**
Accumulated amortisation				
Computer software	(789)	(34)		(823)
	(789)	**(34)**		**(823)**
Net amount	**4,671**			**2,327**

Cost	**Balance at 31.12.16**	**Additions**	**Disposals**	**Balance at 31.12.17**
Computer software	1,005	59		1,064
CO_2 allowances	2,145	450	(1,275)	1,320
	3,150	**509**	**(1,275)**	**2,384**
Accumulated amortisation				
Computer software	(823)	(51)		(874)
	(823)	**(51)**		**(874)**
Net amount	**2,327**			**1,510**

a) Fully-amortised assets

At 31 December 2017, fully-amortised intangible assets still in use amount to €776 thousand (2016: €768 thousand).

b) CO_2 emission allowances

As regards greenhouse gas emission allowance trading, a new compliance period commenced in 2013 and will run to 2020. The new period brought in a number of changes, including new target industries, more complex emission monitoring regulations and new allocation rules. In the latter case, European industry benchmarks are used, replacing the national allocation plans.

Three basic concepts apply to the allocation of allowances for the period 2013-2020:

- ✓ No allowances are allocated for electricity generation.
- ✓ 100% of the allowances allocated to sectors exposed to carbon leakage. 100% relates to the findings of the benchmark study of European facilities, as in the case of Papelera Guipuzcoana de Zicuñaga, S.A.U., Appendix I.
- ✓ Industries exposed to carbon leakage may change over the period, on the basis of successive reviews.

The volume of allowances allocated for the period 2013 to 2020 is analysed below:

	2013	2014	2015	2016	2017	2018	2019	2020
CO_2 emission allowances allocated	74,051	72,766	71,464	70,149	68,820	67,478	66,120	64,756

Emission allowances granted in 2017 are recognised at their quoted price of €6.54 per allowance at the beginning of the year (2016: €8.22 per allowance).

In 2017, Papelera Guipuzcoana de Zicuñaga, S.A.U. (Appendix I) did not acquire any allowances (EUAs). In 2016, it acquired 50,000 allowances (EUAs) for a total of €245 thousand.

9. Financial instruments

9.1. Financial instruments by category

Non-current assets	**2017** **Financial assets at amortised cost**	**2016** **Financial assets at amortised cost**
Loans to third parties	2,276	2,654
Held-to-maturity investments	1,120	1,760
Other financial assets	15	7
	3,411	**4,421**

The item "Loans to third parties" includes the long-term amount arising from the review of power generation market price estimates for the first three years of the regulatory semi-period, relating to 2014, 2015 and 2016, adjusted to actual market prices pursuant to Article 22 of Royal Decree 413/2014. This amount has been obtained from Proposed Order of 7 December 2016, which also updates the remuneration parameters for standard facilities applicable to certain plants generating electricity using renewable energy sources, cogeneration and waste for the regulatory semi-period commencing on 1 January 2014. This all relates to the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I).

At year-end 2017, the item "Investments held to maturity" includes the long-term portion of a promissory note deposit at Kutxabank in the amount of €1,120 thousand (2016: €1,760 thousand), securing the loan granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), the final maturity date of both positions being 9 September 2020.

	2017	**2016**
Current assets	**Financial assets at amortised cost**	**Financial assets at amortised cost**
Trade and other receivables (Note 10)	41,213	64,235
Cash and cash equivalents (Note 12)	151,426	31,741
	192,639	**95,976**

	2017	**2016**
Non-current liabilities	**Other financial liabilities at amortised cost**	**Other financial liabilities at amortised cost**
Borrowings (Note 18)	73,901	5,787
	73,901	**5,787**

	2017	**2016**
Current liabilities	**Other financial liabilities at amortised cost**	**Other financial liabilities at amortised cost**
Borrowings (Note 18)	2,816	2,840
Trade and other payables (Note 17)	28,552	28,592
	31,368	**31,432**

a) Credit quality of financial assets

The credit quality of financial assets that have not yet matured and are not impaired may be assessed on the basis of credit ratings issued by external bodies or, if there are no such ratings, by distinguishing amounts receivable from social security authorities and official bodies which, by nature, do not become impaired, barring specific circumstances.

The Group insures virtually all its paper sales, through its subsidiaries, under credit insurance policies with the companies listed below. The following table shows the relevant Thomson Reuters ratings.

Receivables		**2017**	**2016**
Trade receivables insured through:	**Rating**		
Euler Hermes (Allianz) (A)	AA	3,229	2,267
Solunión (B)	A-	3,027	2,512
Crédito y Caución (C)	A+	8,344	8,957
Cesce (D)	BBB+	13,046	9,585
Coface (E)	A+	6,921	6,090
Other (F)		183	90
		34,750	**29,501**

		2017
Cash at bank and short-term bank deposits	**Rating**	
A Banks	BBB+	54,059
B Banks	BB+	51,817
C Banks	A-	40,125
D Banks	BBB-	3,919
Other		1,506
		151,426

10. Trade and other receivables

	2017	2016
Trade receivables	37,775	32,523
Less: Provision for impairment losses on receivables	(3,025)	(3,022)
Trade receivables – Net	**34,750**	**29,501**
Other receivables	5,823	7,788
Total trade payables	**40,573**	**37,289**
Short-term bank deposits	**640**	**26,946**
Total current portion	**41,213**	**64,235**

The fair values of trade and other receivables do not differ significantly from their current values, as they consist basically of balances receivable within one year.

In 2017, the impairment loss on receivables amounted to €3 thousand; in 2016 it was €9 thousand. The provision stands at €3,025 thousand at 31 December 2017 (€3,022 thousand at 31 December 2016). Movements in the provision for impairment of trade receivables are as follows:

	2017	2016
Opening balance	**(3,022)**	**(3,013)**
Provision for impairment of receivables	(3)	(9)
Closing balance	**(3,025)**	**(3,022)**

The other accounts included in receivables show no impairment.

The item “Other receivables” includes the short-term portion of the receivable derived from the Proposed Order of 7 December 2016 (Note 9.1) relating to the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I).

In 2016, the item “Short-term bank deposits” included immediately available short-term deposits at credit institutions subject to no penalty for early cancellation nor risk of changes in value. The effective interest rate was between 0.05% and 0.35%.

11. Inventories

	2017	2016
Raw materials	1,715	4,823
Other supplies	3,608	3,514
Work in progress	68	318
Finished products	9,349	11,781
Agricultural products	744	258
Prepayments to suppliers	375	500
	15,859	**21,194**

Inventories located abroad are included in “Other supplies” in the amount of €232 thousand (2016: €308 thousand) and in “Agricultural products” in the amount of €744 thousand (2016: €258 thousand).

12. Cash and cash equivalents

	2017	2016
Cash and banks	137,396	24,731
Cash equivalents	14,030	7,010
	151,426	**31,741**

The item “Cash and banks” includes current account balances bearing no interest (2016: 0.17%).

13. Share capital

	No. of shares	Share capital	Share premium	Treasury shares	Total
At 1 January 2016	**11,247,357**	**6,748**	**13,633**	**(7,071)**	**13,310**
Capital reduction	(531,157)	(319)		6,451	6,132
Capital increase	214,324	129			129
Acquisition of treasury shares				(440)	(440)
Balance at 31 December 2016	**10,930,524**	**6,558**	**13,633**	**(1,060)**	**19,131**
Capital reduction					
Capital increase					
Acquisition of treasury shares				(1,358)	(1,358)
Balance at 31 December 2017	**10,930,524**	**6,558**	**13,633**	**(2,418)**	**17,773**

Ordinary shares total 10,930,524 (2016: 10,930,524 shares) with a par value of €0.60 per share (2016: €0.60 per share).

In 2017, the Company acquired 99,756 treasury shares on the stock exchange. A total of €2,894 thousand was paid for the shares. In 2017, 54,731 treasury shares were sold for €1,536 thousand. At 31 December 2017, the Company held a total of 120,156 treasury shares at an original cost of €2,418 thousand. These shares represent 1.099% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

In 2016, the Company acquired 24,989 treasury shares on the stock exchange. A total of €474 thousand was paid for the shares. In 2016, 1,649 treasury shares were sold for €29 thousand. At 31 December 2016, the Company held a total of 75,131 treasury shares at an original cost of €1,063 thousand. These shares represent 0,687% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

On 20 April 2016, the Annual General Meeting granted authorisation to the Board of Directors, for a five-year period, including specific substitution powers, so that the Company itself or its subsidiaries could acquire treasury shares, as stipulated by law, cancelling the authorisation granted by the General Meeting on 22 June 2011.

a) Capital reduction

The Annual General Meeting held on 20 April 2016 unanimously approved agenda item five proposing a capital reduction through the redemption of treasury shares, as follows:

"Reduce the Company's share capital by €318,694.20 through the redemption of 531,157 treasury shares, which were previously acquired under the authorisation issued by the General Meeting and within the limits stipulated in the Spanish Companies Act.

The capital reduction is charged to voluntary reserves and a capital redemption reserve is recorded in the amount of €318,694.20 (equal to the par value of the redeemed shares), which may only be used subject to the same requirements applicable to a share capital reduction, pursuant to Article 335.c) of the Spanish Companies Act. Consequently, in accordance with that article, the Company's creditors shall not have the right to object referred to in Article 335 of the Spanish Companies Act in connection with the agreed capital reduction.

The reduction does not entail the reimbursement of contributions since the Company owns the redeemed shares. The purpose of the reduction will therefore be to redeem treasury shares.

This capital reduction through the redemption of treasury shares shall be completed within six months as from the date of this resolution.

The capital reduction resolution entails the amendment of Article 5 of the Bylaws, which to date reads as follows:

ARTICLE 5.- Share capital consists of SIX MILLION SEVEN HUNDRED AND FORTY-EIGHT THOUSAND FOUR HUNDRED AND FOURTEEN EUROS, TWENTY CENTS (€6,748,414.20).

Capital is divided into ELEVEN MILLION TWO HUNDRED AND FORTY-SEVEN THOUSAND THREE HUNDRED AND FIFTY-SEVEN (11,247,357) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

Following the resolution, it shall read as follows:

ARTICLE 5.- Share capital consists of SIX MILLION FOUR HUNDRED AND TWENTY-NINE THOUSAND SEVEN HUNDRED AND TWENTY EUROS (€6,429,720.00).

Capital is divided into TEN MILLION SEVEN HUNDRED AND SIXTEEN THOUSAND TWO HUNDRED (10,716,200) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series".

b) Capital increase

The General Meeting unanimously approved agenda item to increase share capital out of voluntary reserves, the resolution reading as follows:

1.- Share capital increase charged to reserves: Increase the Company's share capital out of reserves in the amount of €128,594.40 by issuing 214,324 new shares in the same class and series, carrying the same rights as the shares currently outstanding, with a par value of €0.60 each, represented by book entries to be kept by Iberclear and its member entities in the terms of legislation in force from time to time.

The new shares shall carry the same rights as the rest of the Company's shares as from the date of issuance.

For the purposes of Article 311 of the Spanish Companies Act, the subscription or allotment of the capital increase may be incomplete.

The shares are issued at their par value of €0.60 and without a share premium.

The capital increase shall be charged entirely to the reserve accounts or sub-accounts (from among the ones envisaged in Article 303.1 of the Spanish Companies Act) to be determined by the Board of Directors or the person delegated.

2.- Condition applicable to the capital increase resolution: The execution of this capital increase resolution by the Board of Directors shall be conditional upon the prior execution of the capital reduction described in agenda item five above.

3.- Capital increase balance sheet: The balance sheet that is the basis for the operation is the balance sheet closed at 31 December 2016, duly audited by the Company's auditor and approved by this Annual General Meeting in agenda item one.

4.- Allotment of the new shares: The new shares issued shall be allotted free of charge to the Company's shareholders in the proportion of one (1) new share for every 50 free allotment rights. Each Company share shall carry one (1) free allotment right.

The Company or some of its shareholders shall waive the number of free allotment rights necessary in order for the above-mentioned proportion to balance.

The free allotment rights are to be granted to the Company shareholders that are legitimately reflected in the accounting records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) at 11:59 p.m. on the day the capital increase announcement is published in the Commercial Registry's Official Gazette. However, the Board of Directors or the person delegated by the Board may modify the timing of the rights allotment, pursuant to legislation in force at the time, and determine the rest of the relevant dates for the correct execution of the operations relating to the rights allotment, the price of the rights and the price of the Company's new shares.

The free allotment rights for the new shares shall be transferable. The free allotment rights may be traded in the market during the period to be determined by the Board of Directors, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette. During that period, free allotment rights may be acquired in the market in a sufficient number and in the necessary proportion to receive new shares.

5.- Share deposit: The new shares that could not be allotted will remain on deposit and available for persons that attest to the legitimate ownership of the relevant free allotment rights. Once three years have elapsed, the shares that have still not been allotted may be sold pursuant to Article 117 of the Spanish Companies Act, for the account and risk of the interested parties. The cash amount of the said sale shall be held available for the interested parties in the manner stipulated in applicable legislation.

6.- Admission to listing: Request the admission to listing of the new shares on the Madrid and Bilbao Stock Markets and their inclusion in the Stock Exchange Interconnection System (Continuous Market).

7.- Delegation: It is agreed to delegate to the Board of Directors, pursuant to Article 297.1.a) of the Spanish Companies Act, with express powers of substitution, the authority to set the date on which the share capital increase resolution adopted is to be executed, within a maximum period of one (1) year as from the adoption date, and to redraft Article Five of the Bylaws to reflect the new share capital figure and number of shares.

Moreover, it is agreed to delegate to the Board of Directors, also pursuant to Article 297.1.a) of the Spanish Companies Act and also with express powers of substitution, the authority to stipulate the terms of the capital increase for all aspects not envisaged in the preceding paragraphs. In particular, for illustrative, non-restrictive purposes:

(i) Determine the specific reserve account or sub-account in which the capital increase will be charged.

(ii) Waive, if applicable, the number of free allotment rights necessary to balance the proportion of new shares freely allotted.

(iii) Establish the duration of the free allotment rights trading period, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette.

(iv) Declare the capital increase to have been executed and completed.

(v) Amend Article 5 of the Bylaws to reflect the new share capital figure and number of shares.

(vi) Execute the capital increase deed.

(vii) Designate the agent and other advisors in the operation.

(viii) Carry out all steps or formalities that may be necessary or advisable and draw up and sign all documentation that may be necessary or advisable to fully authorise and execute the issue, as well as the admission to listing of the new shares, vis-à-vis any Spanish or foreign, public or private entity or body, including the Commercial Registry, the Spanish National Securities Market Commission, the Stock Market Governing Companies, Sociedad de Bolsas and Iberclear.

(ix) Draw up and publish all announcements that may be necessary or advisable for such purposes.

(x) If applicable, not execute and render void the capital increase resolution.

(xi) In general, in the broadest possible terms, take all steps that may be necessary or merely advisable to fully execute the resolutions adopted, being able to correct, clarify, adapt or supplement the resolutions".

The Board of Directors, in its meeting of 25 October 2016, approved the execution of the bonus share capital increase charged to the Company's reserves, which was approved by the Annual General Meeting on 20 April 2016.

The full text of Article 5 of the Bylaws reads as follows:

ARTICLE 5.- Share capital consists of SIX MILLION FIVE HUNDRED AND FIFTY-EIGHT THOUSAND THREE HUNDRED AND FOURTEEN EUROS, FORTY CENTS (€6,558,314.40).

Capital is divided into TEN MILLION NINE HUNDRED AND THIRTY THOUSAND FIVE HUNDRED AND TWENTY-FOUR (10,930,524) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

The Company received 1,476 shares in this capital increase process.

There are no restrictions on the transfer of the shares.

All the parent company's shares are listed on the Madrid and Bilbao stock exchanges.

All issued shares are paid up.

At 31 December 2017 and 2016, the parent company has no knowledge of any legal entity holding an interest of more than 10% in share capital. Significant direct or indirect shareholdings are as follows:

Shareholder's name or business name	No. of direct voting rights	No. of indirect voting rights	% of total voting rights
ONCHENA	882,188		8.07
MIQUEL Y COSTAS & MIQUEL, S. A.		551,783	5.05
NORGES BANK	545,969		4.99
MAGALLANES VALUE INVESTORS, S.A., SGIIC		356,963	3.27
SANTANDER ASSET MANAGEMENT, S.A., SGIIC		327,983	3.00

14. Retained earnings and other reserves

	Reserves in consolidated companies	Reserve for conversion to euros	Retained earnings and other reserves	Total
At 1 January 2016	**113,238**	**12**	**100,314**	**213,564**
Change in reserves of consolidated	5,996		(5,996)	
Dividends			(6,933)	**(6,933)**
2016 profit/(loss)			20,105	**20,105**
Capital reduction			(6,132)	**(6,132)**
Capital increase			(129)	**(129)**
Dealings in treasury shares			8	**8**
Change in internal dividend			37	**37**
Balance at 31 December 2016	**119,234**	**12**	**101,274**	**220,520**
Change in reserves of consolidated	3,830		(3,830)	
Dividends			(7,063)	**(7,063)**
2017 profit/(loss)			22,906	**22,906**
Dealings in treasury shares				
Change in internal dividend				
Balance at 31 December 2017	**123,064**	**12**	**113,287**	**236,363**

The item "Retained earnings and other reserves" includes the legal reserve amounting to €1,435 thousand (2016: €1,435 thousand) and a restricted reserve for redeemed shares in the amount of €742 thousand (2016: €742 thousand).

Iberpapel Gestión, S.A. records a restricted reserve of €12 thousand for differences arising on the conversion of share capital to euros, in accordance with Law 46/1998 (17 December) on the introduction of the euro.

15. Cumulative translation difference

	Currency translation differences
1 January 2016	**(12,975)**
Currency translation differences	773
31 December 2016	**(12,202)**
Currency translation differences	(5,163)
31 December 2017	**(17,365)**

A breakdown of the cumulative translation difference by company or subgroup at year-end 2017 and 2016 is as follows:

	2017	2016
Company or subgroup		
Iberpapel Argentina, S.A.	(7,963)	(6,924)
Forestal Los Gurises Entrerrianos, S.A.	(852)	(784)
Forestal Santa María, S.A.	(208)	66
Forestal Loma Alta, S.A.	(2,822)	(2,425)
Forestal Vonger, S.A.	(947)	(851)
Los Eucaliptus, S.A.	(3,970)	(683)
Samakil, S.A.	(603)	(601)
	(17,365)	**(12,202)**

The Argentine peso depreciated 25.66% against the euro from 31 December 2016 to 31 December 2017, while the Uruguayan peso fell 10.21% in the same period.

16. Availability and restrictions on Reserves, Retained earnings and Other reserves

There follows a breakdown by company of reserves in consolidated companies at 31 December 2017 and 2016:

	2017	2016
Company or subgroup		
Iberbarna Papel, S.A.U.	333	333
Moliner Domínguez y Cia., S.A.U.	546	545
Distribuidora Papelera, S.A.U.	280	280
Central de Suministros de Artes Gráficas Papel, S.A.U.	429	429
Papelera Guipuzcoana de Zicuñaga, S.A.U.	86,630	86,501
Copaimex, S.A.U.	164	154
Ibereucaliptos, S.A.U.	36,141	33,098
Zicupap, S.A.U.	58	57
Iberpapel Argentina, S.A.	(1,793)	(2,114)
Forestal Los Gurises Entrerrianos, S.A.	(332)	(339)
Forestal Santa María, S.A.	(469)	(456)
Forestal Loma Alta, S.A.	(724)	(890)
Forestal Vonger, S.A.	115	108
Los Eucaliptus, S.A.	1,767	1,609
Samakil, S.A.	(109)	(108)
Iberpapel On line, S.L.U.	28	27
	123,064	**119,234**

At 31 December 2017, restricted reserves and retained earnings amounted to €2,189 thousand (2016: €2,189 thousand), consisting of the legal reserve, reserve for conversion of share capital to euros and reserve for redeemed shares.

Appropriations to the legal reserve, which stands at €1,435 thousand, have been made in compliance with Article 274 of the Spanish Companies Act 2010, which stipulates that 10% of the profits for each year must be transferred to this reserve until it reaches at least 20% of share capital.

Until that limit is exceeded, this reserve may only be used to offset losses, provided that there are no other sufficient reserves available for this purpose. Set out below is a breakdown of contributions to consolidated results from each company included in the consolidated scope, including the portion relating to non-controlling interests:

Company/ subgroup	2017 Consolidated profit/(loss)	2016 Consolidated profit/(loss)
Iberpapel Gestión, S.A.	(1,340)	(1,233)
Papelera Guipuzcoana de Zicuñaga, S.A.U.	22,020	17,350
Ibereucaliptos, S.A.U.	1,340	509
Iberbarna Papel, S.A.U.	(243)	36
Moliner Domínguez y Cía., S.A.U.	15	17
Distribuidora Papelera, S.A.U.	62	35
Central de Suministros de Artes Gráficas Papel, S.A.U.	59	61
Iberpapel Argentina, S.A.	(61)	321
Forestal Los Gurises Entrerrianos, S.A.	(14)	7
Forestal Santa María, S.A.	121	(13)
Forestal Loma Alta, S.A.	140	166
Forestal Vonger, S.A.	57	7
Los Eucaliptus, S.A.	560	2,693
Samakil, S.A.	(1)	(1)
Copaimex, S.A.U.	45	95
Zicupap, S.A.U.	31	25
Iberpapel On Line, S.L.U.	115	30
	22,906	**20,105**

The proposed distribution of the parent company's 2017 profits, determined in accordance with commercial law and the accounting principles used to prepare the parent company's individual annual accounts, for submission to the Annual General Meeting, and the approved distribution for 2016, are as follows:

	2017	2016
Available for distribution		
Profit/(loss)	19,262	13,816
	19,262	**13,816**
Application		
Interim dividend	3,244	3,257
Supplementary dividend	2,703	3,800
Voluntary reserves	13,315	6,759
	19,262	**13,816**

On 10 March 2017, the parent company paid out an interim dividend for 2016 in the gross amount of €0.30 per share and on 24 May 2017 a supplementary, definitive gross dividend of €0.35 per share was paid out, making a total of €7,063 thousand.

On 10 March 2016, the parent company paid out an interim dividend for 2015 in the gross amount of €0.30 per share and on 4 May 2016 a supplementary, definitive gross dividend of €0.35 per share was paid out, making a total of €6,933 thousand.

17. Trade and other payables

	2017	2016
Suppliers	24,286	24,042
Other payables	4,266	4,550
	28,552	**28,592**
Current tax liabilities	**4,531**	**5,147**
Total	**33,083**	**33,739**

Pursuant to the Ruling of 29 January 2016 from the Spanish Institute of Accounting and Auditing (ICAC), set out below is the information on the deferral of payments to suppliers required by Additional Provision Three "Duty of Information" of Law 15/2010 of 5 July, for 2017 and 2016:

	2017	2016
	Days	
Average supplier payment period	26.43	38.85
Ratio of settled transactions	24.20	38.91
Ratio of transactions pending payment	49.24	40.53
	Amount	
Total payments for the year	**288,820**	**291,545**
Total payments outstanding	**28,169**	**29,547**

18. Borrowings and government grants

	2017	2016
Non-current		
Borrowings	71,255	2,437
Government grants	2,646	3,350
	73,901	**5,787**
Current		
Borrowings	2,816	2,840
	2,816	**2,840**
Total borrowings and government grants	**76,717**	**8,627**

Non-current "Borrowings" include a loan of €1,120 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I) (2016: €1,760 thousand), finally maturing on 9 September 2020. It also includes the amount of €70,135 thousand relating to two loans obtained by the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) from two financial institutions, both with a two-year grace period and a six-year maturity to July 2023. In the second half of the year, the latter company obtained four credit lines with a limit of €105,000 thousand with different banks for a 10-year period.

Current "Borrowings" relate to short-term payables arising from discounted bills in the amount of €2,092 thousand (2016: €2,200 thousand) and the short-term portion of the loan of €640 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), finally maturing on 9 September 2020 (2016: €640 thousand).

a) Bank loans and credit facilities

Interest rate exposure and contractual interest review dates applicable to the Group's bank loans and credit lines are as follows:

	6 months or less
At 31 December 2016	2,840
Total borrowings	**2,840**
At 31 December 2017	135
Total borrowings	**135**

The overall limit on bank credit lines and loans at 31 December 2017 amounts to €176,760 thousand (2016: €43,800 thousand).

The carrying amounts and fair values of non-current borrowings (bank loans and credit lines) are as follows:

	Carrying amount		Fair value	
	2017	**2016**	**2017**	**2016**
Bank borrowings	71,255	2,840	71,255	2,840

The fair values of current borrowings match their carrying amounts, since the effect of discounting is immaterial. Fair values for 2017 are based on cash flows discounted at a rate based on the three-month Euribor rate at 31 December 2017.

Non-current borrowings have the following maturities:

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
At 31 December 2016				
Bank borrowings	2,840	1,957	480	

The effective interest rates at the balance sheet date were as follows:

	2017	**2016**
	%	%
Bank credit lines and loans	0.650%	1.000%

b) Government grants

The most significant capital grants break down as follows:

Grant date	Purpose	Amount granted	Capital grants to be released to income
30/06/1998	New factory project	8,799	953
26/12/2000	Cellulose plant extension	4,243	1,060
18/06/2002	Environmental improvements	205	36
05/03/2008	Environmental improvements	90	49
11/10/2011	Stripping column	177	71
11/10/2011	Wastewater treatment plant	172	136
09/01/2015	Wastewater treatment plant	200	176
		13,886	**2,481**

c) Foreign currency balances

The carrying amount of the Group's borrowings is denominated entirely in euros.

19. Deferred taxes

The net movement in the deferred tax account is as follows:

	2017	2016
At 1 January	**(1,362)**	**(1,344)**
(Charged)/credited to income statement	1,287	(18)
At 31 December	**(75)**	**(1,362)**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to net current and deferred tax assets and liabilities relating to the same tax authority.

Movements during the year in deferred tax assets and liabilities, setting aside the netting of balances relating to the same tax authority, are as follows:

Deferred tax liabilities	**Portfolio provision**	**Biological assets**	**Total**
At 1 January 2016	**(3,171)**	**(30)**	**(3,201)**
(Charged)/credited to income statement	525	(67)	458
At 31 December 2016	**(2,646)**	**(97)**	**(2,743)**
(Charged)/credited to income statement	1,024	97	1,121
At 31 December 2017	**(1,622)**		**(1,622)**

Deferred tax assets	**Tax credits for new fixed assets + R&D&i**	**Inventories**	**Other**	**Total**
At 1 January 2016	**1,558**	**66**	**233**	**1,857**
Application of deferred tax assets	(1,558)			(1,558)
(Charged)/credited to income statement	1,024	58		1,082
At 31 December 2016	**1,024**	**124**	**233**	**1,381**
Application of deferred tax assets				
(Charged)/credited to income statement	218	(74)	22	166
At 31 December 2017	**1,242**	**50**	**255**	**1,547**

Deferred tax assets pending offset are recognised to the extent that it is probable that future taxable profits will be available to realise the assets.

Deferred tax assets relate mainly to Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I), which is registered in Guipúzcoa for tax purposes and is therefore subject to the provincial tax scheme, the applicable corporate income tax rate not having changed.

Deferred tax liabilities relate basically to temporary differences in the company Ibereucaliptos, S.A.U. (see Appendix I).

20. Provisions for other liabilities and charges

	CO_2 allowances	Other	Total
At 1 January 2016	**3,909**	**986**	**4,895**
Charged to income statement	1,376		1,376
Additional provisions		152	152
Applied during the year	(4,486)		(4,486)
At 31 December 2016	**799**	**1,138**	**1,937**
Charged to income statement	956	343	1,299
Additional provisions			
Applied during the year	(799)		(799)
At 31 December 2017	**956**	**1,481**	**2,437**

Additions relate to the provisions for CO2 emission allowances consumed in 2017. Forecast consumption for 2017 stands at 218,264 CO2 emission allowances (2016: 202,256), which have been transferred to the income statement for the year, partly as grant income and partly as expenditure.

Applications of this provision derive from the handover in April 2016 of CO2 emission allowances consumed in 2016 and the balance pending settlement of the provision to cover the impact of Order IET/1045/2015 of 16 June.

The item “Other” includes a provision of €1,481 thousand for tax accrued on electricity generated (2016: €916 thousand).

The item “Provisions” in “Non-current liabilities” includes a provision recorded in 2015 by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) in the amount of €834 thousand arising from different interpretations of the application of the reduced rate of tax on hydrocarbons. The item also includes €639 thousand (2016: €730 thousand) to cover different possible interpretations of the tax scheme applicable to the Argentinian subsidiaries.

In 2017, Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) recorded a provision of €1,200 thousand as a result of the review of power generation market price estimates for this year in the regulatory semi-period, relating to 2017, 2018 and 2019, adjusted to actual market prices pursuant to Article 22 of Royal Decree 413/2014. This amount has been obtained from Proposed Order of 7 December 2016, which also updates the remuneration parameters for standard facilities applicable to certain plants generating electricity using renewable energy sources, cogeneration and waste for the regulatory semi-period commencing on 1 January 2017.

21. Revenue and other income

	2017	2016
Paper sales	174,490	164,582
Electricity sales	40,295	31,319
Timber sales	2,268	5,992
Total revenue	**217,053**	**201,893**
Lease income	985	786
Sundry service income	815	358
Grants released to income for the year	1,187	1,298
Other income	709	72
Total other income	**3,696**	**2,514**
Total	**220,749**	**204,407**

22. Expenses by nature

	2017	2016
Depreciation/amortisation (Notes 6 and 8)	10,874	10,623
Employee benefit expense (Note 23)	20,102	19,254
Changes in inventories of finished goods and work in progress	2,519	(2,774)
Raw materials and consumables used	84,907	84,469
Transportation	8,381	8,695
Repairs and maintenance	9,534	8,387
Supplies (gas and electricity)	41,268	35,248
Independent professional services	5,228	4,901
Rent and royalties	726	755
Insurance premiums	1,442	1,407
Other taxes (including electricity tax)	5,485	4,584
CO_2 allowances consumed	1,432	1,375
Other services	2,818	2,507
Total	**194,716**	**179,431**

23. Employee benefit expenses

	2017	2016
Wages and salaries	15,287	14,931
Indemnities	739	305
Social security contributions	3,873	3,841
Other benefits	203	177
	20,102	**19,254**

24. Net financial income

	2017	2016
Bank loans and credit facilities	(266)	(62)
Losses on exchange	(544)	(805)
Other financial expenses	(5)	(2)
Interest expense	**(815)**	**(869)**
Yield from fixed income securities	126	168
Gains on exchange	111	715
Interest income	**237**	**883**
	(578)	**14**

25. Income tax

	2017	2016
Current tax	4,312	6,425
Deferred tax (Note 19)	(1,287)	(1,540)
	3,025	**4,885**

The Group's pre-tax profit differs from the theoretical amount that would have been obtained had the weighted average tax rate applicable to the consolidated companies' profits been applied, as follows:

	2017	2016
Profit/(loss) before tax	**25,931**	**24,990**
Tax calculated at the Group's average tax rate	**(7,227)**	**(6,317)**
Income not subject to taxes		
Tax credits	3,211	1,024
Accelerated reversal of impairment under RD Law 3/2016	525	525
Deferred tax assets (other)	466	(117)
Income tax expense	**(3,025)**	**(4,885)**

The Group's average tax rate in 2017 was 27.87% (2016: 25.28%).

On the basis of the taxable income generated in previous years and forecast taxable income for the coming years, the directors have no reasonable doubts as to the recoverability of the above-mentioned tax credits recognised and pending application for tax purposes.

Additionally, the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) records €4,463 thousand in tax credits for R&D&i under the Guipúzcoa Provincial Tax scheme, pending application in the 2018 income tax return. Other tax credits pending application amount to €7,032 thousand and expire from 2019 to 2029. Both amounts are subject to a ceiling with respect to tax payable. Based on the best estimate of recoverability and taking into account the volatility of results, the Company has capitalised the amount of €1,475 thousand.

Legislation governing the assessment of 2017 corporate income tax by the Group companies having their headquarters in Guipúzcoa province is Provincial Regulation 2/2014 (17 January) on corporate income tax in Guipúzcoa province.

The directors of the Group companies headquartered in Guipúzcoa have calculated income tax for 2017 and the years open to inspection in accordance with provincial legislation in force at each year end, on the understanding that the final outcome of various litigation and related appeals filed will not have a significant impact on the annual accounts taken as a whole.

The Group companies referred to in the preceding paragraphs have been applying tax legislation in force at all times and therefore any impact that the Supreme Court Judgement of 9 December 2004 may have on the annual accounts for periods open to inspection is deemed to be remote.

The group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) is not affected by Additional Provision 10 of Provincial Regulation 7/1997 (22 December), which was repealed by Provincial Regulation 3/2000 (13 March).

On 10 March 2016, the Group's subsidiary Ibereucaliptos, S.A.U. (see Appendix I) received notification of the start of a partial tax inspection of corporate income tax for 2010 and 2011. The proceeding was extended to the 2012 tax period on 17 March 2015. It was completed on 25 May 2017, when the Company accepted a favourable tax assessment.

Years open to inspection vary for the Spanish consolidated Group companies, although this generally relates to the last four years. The other foreign subsidiaries are subject to applicable legislation in their respective countries.

In accordance with current legislation, tax assessments may not be considered definitive until the returns filed have been inspected by the tax authorities or the limitation period has elapsed. The parent company's directors do not expect any additional significant liabilities to arise in the event of an inspection.

Pursuant to applicable accounting standards, contingencies deemed to be probable are provisioned in the accounts, while other contingencies that are classed as remote are not recognised as such or disclosed, except where the degree of probability may be considered at least possible.

Deferred tax liabilities have not been recognised in respect of withholdings and other taxes payable on profits not remitted by foreign subsidiaries, since the amounts involved are permanently reinvested and, in any event, the dividend payment policy can be controlled.

26. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of outstanding ordinary shares for the year, excluding treasury shares acquired by the Company (Note 13).

	2017	**2016**
Profit attributable to the Company's shareholders (thousand)	22,906	20,105
Weighted average number of outstanding ordinary shares	10,566,420	10,635,517
Basic earnings per share (€ per share)	**2.168**	**1.890**

The calculation of diluted earnings per share does not differ from the calculation of basic earnings per share, as there are no potentially dilutive shares.

27. Cash generated from operations

	2017	2016
Profit for the year	**22,906**	**20,105**
Adjustments to	**14,985**	**14,763**
Taxes (Note 25)	3,025	4,885
Depreciation of property, plant and equipment (Note 6)	10,823	10,589
Amortisation of intangible assets (Note 8)	51	35
Interest income (Note 24)	(126)	(168)
Interest expense (Note 24)	271	64
Exchange differences (Note 24)	433	(90)
Change in provisions	1,695	730
Grants released to income for the year	(1,187)	(1,282)
Changes in working capital	**1,293**	**(3,758)**
Inventories	5,335	(3,526)
Trade and other receivables	(4,257)	(5)
Trade and other payables	(40)	(227)
Other current assets and liabilities	255	
Cash generated from operations	**39,184**	**31,110**

28. Contingencies

At 31 December 2017, the company Ibereucaliptos, S.A.U. (see Appendix I) has furnished a bank guarantee of €452 thousand to the association Comunidad de Regantes del Andévalo Fronterizo, maturing on 31 July 2019, to secure its participation in the first phase of the transformation of farmland owned by the association into irrigated land. The Company had given no bank guarantees at year-end 2016.

29. Related-party transactions

Transactions effected with related parties, which include key executives and the members of the parent company's Board of Directors, are as follows:

a) Remuneration paid to key executives and Board directors

	2017	2016
Board directors' salaries and other short-term remuneration	811	776
Salaries and other short-term remuneration paid to key executives (senior managers who are not Board directors)	1,251	1,394
	2,062	2,170

There follows a breakdown of remuneration accrued to each of the parent company's Board directors for all items.

	Remuneration for membership of the parent company's Board	Remuneration as a senior manager
Mr. Iñigo Echevarría Canales	51	350
Mr. Néstor Basterra Larroude	66	
Mr. Jesús Alberdi Areizaga	52	
Mr. Iñaki Usandizaga Aranzadi	61	
Mr. Martín González del Valle Chavarri	57	
Ms. María Luisa Guibert Ucín	56	
Mr. Gabriel Sansinenea Urbistondo	52	
Mr. Iñaki Martínez Peñalba	66	

The Group has no pension commitments with any member of the Board.

The Company has granted no guarantees of any kind for Board members.

The Company has taken out a third-party liability insurance policy for its directors and executives, having paid the sum of €8 thousand.

b) Directors' conflicts of interest

As regards the duty to avoid conflicts of interest with the Company, during the year the Board directors fulfilled the obligations stipulated in Article 228 of the Spanish Companies Act. Both the directors and their related parties avoided the conflict of interest scenarios envisaged in Article 229 of the Act, except for cases in which the necessary authorisation was obtained.

c) Key executives

Key executives are senior managers who report directly to the Chairman of the Board.

30. Environment

Having regard to Royal Decree 437/1998 (20 March) on the adaptation of the Chart of Accounts to electricity industry companies, which is partially applicable to the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. as an electricity producer in its cogeneration activity, and with respect to the disclosures to be included in the notes to the accounts on the figures for this activity, it should be noted that the power generation activity commenced in February 1990. The main items and amounts relating to this activity in 2017 and 2016 are set out below:

	2017	2016
Balance sheet		
Plant	78,505	78,461
Accumulated depreciation	(41,721)	(38,182)
Profit/(loss)		
Income from sales of gas cogeneration electricity	36,412	28,448
Income from sales of biomass electricity	3,883	2,870
Depreciation of property, plant and equipment	(3,538)	(3,139)
Maintenance	(1,828)	(1,940)
Supplies (natural gas and electricity)	(41,118)	(35,104)

During 2016, the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) made environmental investments totalling €243 thousand. Environmental protection and improvement expenses taken directly to the income statement amount to €1,336 thousand (2016: €939 thousand).

Any contingencies, indemnities and other environmental risks that could be incurred by the above-mentioned Group company are adequately covered by third-party liability insurance.

31. Other information

a) The average number of employees by category during the year is as follows:

	2017	**2016**
Board directors	1	1
Executives	8	9
Technical specialists and administrative staff	76	74
Workers and specialists	205	212
	290	**296**

The average number of persons with recognised disabilities employed by the Group in 2017 was 12 (men), five of whom are skilled workers and seven are unskilled workers (2016:13 (men), five of whom were skilled workers and eight were unskilled workers).

b) The gender distribution of the Group's personnel at the year end is as follows:

			2017
	Men	**Women**	**Total**
Board directors	1		**1**
Executives	8		**8**
Technical specialists and administrative staff	49	27	**76**
Workers and specialists	202	4	**206**
	260	**31**	**291**

			2016
	Men	**Women**	**Total**
Board directors	1		**1**
Executives	9		**9**
Technical specialists and administrative staff	46	27	**73**
Workers and specialists	205	5	**210**
	261	**32**	**293**

c) Fees of auditors and their group or related companies

Fees for audit services rendered by PricewaterhouseCoopers Auditores, S.L. during 2017 totalled €119 thousand (2016: €118 thousand) and €28 thousand relating to the review of the annual corporate governance report (2016: €33 thousand).

Additionally, fees, net of tax, accrued during the year to other companies in PwC's network for ongoing tax advisory services and the review of transfer pricing documentation amounted to €62 thousand (2016: €62 thousand).

Fees for the audit services provided by other companies in 2017 amounted to €20 thousand (2016: €25 thousand).

32. Events after the reporting date

On 23 January 2018, the Board of Directors resolved to pay out an interim dividend for 2017 in a fixed, gross amount of €0.30 for each outstanding share carrying dividend rights. The proposal for the distribution of 2017 profits to be put to the Annual General Meeting will include the pay-out of a gross supplementary dividend of €0.25 for each outstanding share carrying dividend rights.

APPENDIX I
(Subsidiaries included in the consolidation scope)

Company name	Address	Interest: Cost in thousand €	Interest: % of par value	Shareholder	Consol. method	Activity	Auditor
Papelera Guipuzcoana de Zicuñaga, S.A.U.	Bº de Zicuñaga, S/N Hernani (Spain)	41,516	100	Iberpapel Gestión, S.A.	a	1	A
Distribuidora Papelera, S.A.U.	C/ Velázquez, 105 Madrid (Spain)	223	100	Iberpapel Gestión, S.A.	a	2	A
Moliner, Domínguez y Cia., S.A.U.	C/Francesc Layret, 52 3º 1ª Badalona (Spain)	60	100	Iberpapel Gestión, S.A.	a	2	A
Ibereucaliptos, S.A.U.	C/ Real, 14. La Palma del Condado (Spain)	25,362	100	Iberpapel Gestión, S.A.	a	3	A
Central de Suministros de Artes Gráficas Papel, S.A.U.	C/ Velázquez, 105 Madrid (Spain)	60	100	Iberpapel Gestión, S.A.	a	2	A
Iberbarna Papel, S.A.U.	C/Francesc Layret, 52 3º 1ª Badalona (Spain)	60	100	Iberpapel Gestión, S.A.	a	2	A
Zicupap, S.A.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	60	100	Iberpapel Gestión, S.A.	a	4	A
Copaimex, S.A.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	475	100	Papelera Guipuzcoana de Zicuñaga, S.A.U.	a	4	A
Iberpapel Argentina, S.A.	C/ General Urquiza, 137. Colón (Argentina)	11,906	94.83	Ibereucaliptos, S.A.U.	a	3	B
Forestal Los Gurises Entrerrianos, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,388	90.91	Ibereucaliptos, S.A.U.	a	3	B
Forestal Santa María, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,388	90.91	Ibereucaliptos, S.A.U.	a	3	B
Forestal Loma Alta, S.A.	C/ General Urquiza, 137. Colón (Argentina)	4,507	99.99	Ibereucaliptos, S.A.U.	a	3	B
Forestal Vonger, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,064	90.91	Ibereucaliptos, S.A.U.	a	3	B
Iberpapel Argentina, S.A.	C/ General Urquiza, 137. Colón (Argentina)	11,906	5.17	Iberbarna Papel, S.A.U.	a	3	B
Forestal Los Gurises Entrerrianos, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,388	9.09	Iberbarna Papel, S.A.U.	a	3	B
Forestal Santa María, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,388	9.09	Iberbarna Papel, S.A.U.	a	3	B
Forestal Loma Alta, S.A.	C/ General Urquiza, 137. Colón (Argentina)	4,507	0.01	Iberbarna Papel, S.A.U.	a	3	B
Forestal Vonger, S.A.	C/ General Urquiza, 137. Colón (Argentina)	1,064	9.09	Iberbarna Papel, S.A.U.	a	3	B
Los Eucaliptus, S.A.	Paraje Constancia Padrones, Nº 22-2982- y 9370 Paysandú. (Uruguay)	30,018	100	Ibereucaliptos, S.A.U.	a	3	B
Samakil, S.A.	Circunvalacion Dr. Enrique Tarigo, 1335 oficina 1101 Montevideo (Uruguay)	14	100	Ibereucaliptos, S.A.U.	a	5	B
Iberpapel On Line, S.L.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	6	100	Iberpapel Gestión, S.A.	a	2	A

Notes:

Reason for Consolidation:

The following cases are envisaged in Article 42 of the Code of Commerce:

a) The parent company holds a majority of voting rights.

b) The parent company is empowered to appoint or dismiss the majority of the administrative body's members.

c) The parent company may cast, by virtue of agreements concluded with other shareholders, the majority of voting rights.

d) The parent company has appointed solely with its votes the majority of the administrative body's members, who hold their positions at the time the consolidated accounts are drawn up and for the two immediately preceding years.

For such purposes, rights held through other subsidiaries or persons acting in their own name but for the account of the parent company or other subsidiaries or those held by agreement with any other person, will be added to the rights held by the parent company.

It will similarly be assumed that there is a single decision-making unit when, through any other means, one or several companies are under a single management team. In particular, when the majority of the members of the subsidiary's administrative body are members of the administrative body or senior managers of the parent company or any other company controlled by the latter.

Unless otherwise stated, the closing date of the annual accounts is 31 December 2017.

Activity:

1) Manufacture, transformation and sale of paper
2) Paper wholesaler.
3) Reforestation and forestry activities.
4) Promotion of exports.
5) Timber merchant.

Auditor:

A) Audited by PricewaterhouseCoopers Auditores, S.L.

B) Audited by P & A Auditores.

1. THE IBERPAPEL GROUP

Iberpapel is an integrated international paper group and owns:

- ✓ **25,788** hectares of land;
- ✓ Cellulose pulp installed capacity of **200,000** metric tonnes; and
- ✓ **250,000** metric tonnes of printing and writing paper.
- ✓ The Group also produces **10 Mwh** of electricity using its **20 Mwh** biomass turbine generator.
- ✓ **50 Mwh** of electricity by means of gas cogeneration.

The Iberpapel Group is engaged in the following activities:

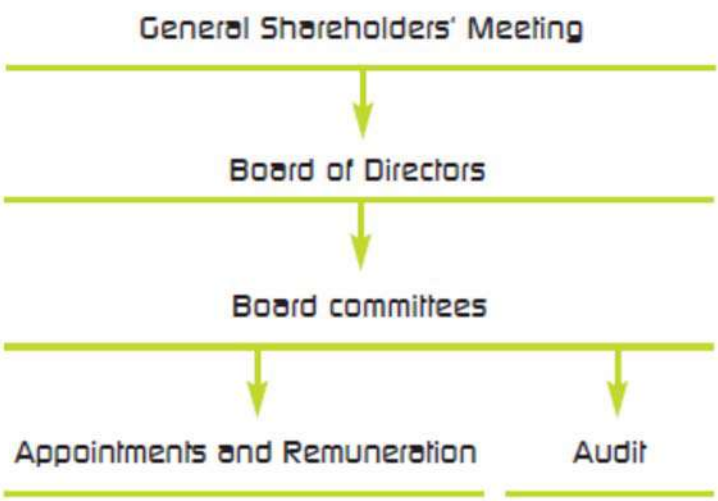
- ✓ Forestry activity through companies having their tax domicile in Spain, Uruguay and Argentina.
- ✓ Industrial, Papelera Guipuzcoana de Zicuñaga, S.A.U.
- ✓ Commercial activity, through companies that sell paper in Spain, where approximately 50% of products are sold, and companies exporting paper mainly to Europe.

The Iberpapel Group is formed by 17 companies: the parent company Iberpapel Gestión, S.A. and 16 wholly-owned direct or indirect subsidiaries, there being no non-controlling interests. Appendix 1 to these consolidated annual accounts contains additional information on the fully-consolidated companies.

All the parent company's shares are listed on the Madrid and Bilbao stock exchanges.

1.1. Iberpapel Gestión, S.A.'s governing body

Iberpapel has two main governing bodies, the *General Shareholders' Meeting* and the *Board of Directors*. Their functions have been determined in accordance with Spanish law and the rules and recommendations of the Spanish National Securities Market Commission.



As stipulated in the Bylaws, the Board of Directors has between three and nine members designated by the General Meeting for a maximum term of four years; they may be re-elected one or more times for the same maximum period.

The approval of the Group's general policies and strategies is reserved for the Board, in particular:

- ✓ *Investment and funding policy.*
- ✓ *Definition of the Group's structure.*
- ✓ *Corporate governance policy.*
- ✓ *Corporate social responsibility policy*
- ✓ *Strategic or business plan, management objectives and annual budgets.*
- ✓ *Senior management remuneration policy and performance evaluation.*
- ✓ *Risk control and management policy; periodic follow-up of internal information and control systems.*
- ✓ *Dividend and treasury share portfolio policy, particularly related limits.*

In 2017, the Board of Directors held 10 meetings, all attended by the Chairman. The Audit Committee met seven times, the Appointments and Remuneration Committee five times and the Corporate Social Responsibility Committee twice.

The subsidiaries Papelera Guipuzcoana de Zicuñaga, S.A.U., the Group's industrial plant, and Ibereucaliptos, S.A.U., which owns the forestry companies, also have a Board of Directors, formed by seven and eight members, respectively, at 31 December 2017. The other companies are governed by joint administrators.

As part of Iberpapel Gestión, S.A. permanent exercise in transparency and communication with shareholders and the markets, on 21 September 2017 the Company's Board of Directors approved the amendment of Article 10 of the Board Regulations so as to include a new section 10.3 named "*Corporate Social Responsibility Committee*", which reads as follows:

"*Article 10.3 Corporate Social Responsibility Committee.*

1. The Company shall have a Corporate Social Responsibility Committee (the Committee), a permanent internal body of an informative and consultative nature, without executive functions, with powers to inform, advise and propose within its remit, which shall be governed by the provisions of the Bylaws and of these Board of Directors regulations.
2. The Committee shall be formed by a minimum of three (3) and a maximum of five (5) Board directors designated by the Board of Directors, who may be executive directors or external directors.
3. The Committee members shall be appointed for a four-year period and may be re-elected. Renewal, re-election and removal shall be carried out by the Board of Directors.
4. The Board of Directors shall designate a Chairperson from among its members.

The Corporate Social Responsibility Committee shall also designate a person to act as Committee Secretary, entitled to speak but not to vote, who need not be a Board director and, in any event, shall fulfil all the obligations imposed on the Board directors in these Board Regulations which, by nature, are applicable to them.
5. The Committee shall meet in the registered office or in a location designated by the Committee Chairperson, whenever the Chairperson or a majority of members request a meeting, or whenever required to do so under a resolution adopted by the Company's Board of Directors. The Committee may cast votes in writing without holding a meeting provided none of its members objects.
6. For the Committee to be validly assembled, meetings shall be attended, in person or through representatives, by half plus one of its members. Representative status may only be granted to a Board director who is a Committee member.
7. Committee resolutions shall be adopted by a majority of members present or represented. In the event of a tie, the Committee Chairman shall have a casting vote.
8. The Committee may regulate its own internal functioning in the interests of its activities.
9. The Corporate Social Responsibility Committee may use the resources deemed fit to carry out its functions, including external advisory services, and may utilise adequate funds for such purposes.
10. Minutes shall be drawn up for the Committee meetings and a copy shall be sent to all the members of the Board.
11. Without affecting the other functions attributed by the Bylaws or these Regulations, or any other tasks that may be assigned by the Board of Directors, the Corporate Social Responsibility Committee shall have the following minimum remit:

a) Periodically review social responsibility policies and propose changes or updates to the Board of Directors.

b) Promote the Company's corporate governance strategy.

c) Oversee compliance with legal requirements and corporate governance standards.

d) Examine, promote and guide the Company's corporate social responsibility actions and report them to the Board of Directors.

e) Evaluate and review the Company's plans for the implementation of social responsibility policies, monitoring the degree of fulfilment.

f) Assess the Group's corporate social responsibility status.

g) Issue reports and carry out corporate social responsibility and sustainability activities also within the Committee's remit under the corporate governance framework or requested by the Board of Directors or its Chairperson.

h) Analyse voluntary initiatives and documents containing recommendations relating to corporate social responsibility as they arise in the market.

i) Report, prior to approval, on the Company's Annual Corporate Governance Report, obtaining the reports of the Audit Committee and the Appointments and Remuneration Committee in connection with the sections of the Report that are within the Committee's remit.

j) Report on possible impacts on the Group of European regulations and domestic, regional and local legislation on corporate social responsibility.

Advise the Board of Directors on regulatory compliance as regards the disclosure of non-financial information and information on diversity.

12. The Committee Chair shall report to the Board of Directors the matters discussed and resolutions adopted in its meetings, in the first Board of Directors meeting held following the Committee meetings. Moreover, within three months as from each year end, the Committee shall submit to the Board of Directors for approval a report on its activities in the previous year, which shall then be made available to the shareholders in the terms of the General Shareholders' Meeting Regulations.
13. The Committee may freely access, through the Secretary to the Board of Directors, all kinds of information and documents available to the Company in connection with the matters within the Committee's remit, as deemed necessary to carry out its functions.
14. If applicable, the Committee may obtain information and collaboration from the members of the Iberpapel Group's executive team, through the Committee Chairperson.
15. The Committee members must show independence of judgement and action with respect to the rest of the organisation and carry out their work with the utmost diligence and professional competence."

This new Corporate Social Responsibility Committee is formed by:

Mr. Jesús Alberdi Areizaga, as the Chairman.
Mr. Martín González del Valle Chavarri, voting member.
Mr. Gabriel Sansinenea Urbistondo, voting member.

1.2. Strategic vision and prospects

Iberpapel is an integrated paper group committed to quality, service and the environment. Since Papelera Guipuzcoana de Zicuñaga was founded in 1935, we have become one of the leaders in Spain's printing and writing paper market.

The success of our business model is based on a high level of integration of each of the production phases: cellulose, paper and cogeneration. This provides a clear competitive advantage in terms of costs and a high degree of industrial and commercial flexibility. Our model's main strengths are:

- ✓ Highly-integrated production process
- ✓ Manufacturing to order
- ✓ Productivity and efficiency leadership
- ✓ Low-carbon energy sources
- ✓ Emphasis on sustainability, transparency and respect for the environment
- ✓ Investment effort
- ✓ Research, development and innovation
- ✓ Clean balance sheet

These distinctive factors have allowed us to reach a good positioning in the industry and overcome exceptionally difficult market circumstances. We aim to consolidate our model's efficiency, productivity and cost control without losing sight of growth, thanks to new investments in production capacity and product diversification.

Iberpapel's international vocation complements its growth strategy and has helped to reduce exposure to the economic situation. Exports and major investments in both industrial and forestry activities have brought considerable flexibility in the face of fluctuating supply prices, and optimisation of the customer portfolio and paper sales.

The strategy for 2017 is based on the following pillars:

- Continued tight cost control, as in recent years.
- Recurring capex of around €3 million in plants and properties.

The most relevant strategic aspects affecting the Group's operating divisions in 2017 are described below:

- Forestry Division:

Forest land exploitation is considered to be optimal, assuring a significant supply of the Group's main raw material, eucalyptus. Provided there are no raw material price tensions on the Cantabrian coast, logged timber is sold in the local markets.

- Industrial Division:

On 9 May 2017, the Company published a significant event, which reads as follows:

"*The Board of Directors of Iberpapel Gestión, S. A., in its meeting of 25 April 2017, agreed to undertake the "Hernani Project" in its subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U., which will entail an investment of approximately €180 million.*

This investment project is subject to the transfer of a high-voltage line that crosses the plot of land on which the new facilities will be located, the related formalities being in a very advanced stage.

The "Hernani Project" will consist basically of the installation of a new machine with a Yankee dryer cylinder to make MG paper for flexible packaging of various kinds, having an estimated production capacity of 85,000 tonnes per year. The existing cellulose plant will also be reformed and modernised to include technological and environmental improvements (BATs), which will allow an increase of between 15% and 20% in the plant's gross production capacity.

The project is expected to be commissioned in between 24 and 30 months."

- Commercial Division:

The policy designed to extend the specialty papers market in Spain and abroad continued in order to stand out from our competitors.

2. BUSINESS PERFORMANCE

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

In 2017, the Group's improved in all business areas except forestry. The resulting net profit amounted to €22,906 thousand (2016: €20,105 thousand), 13.93% up on 2016.

EBITDA[1] also rose by 3.67% on the previous year to reach €36,907 thousand.

2.1. HIGHLIGHTS

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

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

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

2.2. Consolidated income statement

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

[1] EBITDA.- Earnings before interest, tax, depreciation and amortisation.

a) OPERATING INCOME

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

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

i. Paper sales

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

ii. Electricity sales

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

iii. Timber sales

In 2017, in accordance with the Group's strategy in this business area, i.e. "*while no tensions are observed in timber prices on the Cantabrian coast, Iberpapel will continue to sell timber in the local markets*", the forestry companies made sales of eucalyptus timber in the Uruguayan market totalling €2,268 thousand (2016: €5,992 thousand).

b) OPERATING EXPENSES

i. Staff costs

The average number of employees in 2017 was 290, including senior management (2016: 296). The Group employed an average of 12 people with recognised disabilities in 2017 (2016: 13 people).

	2017	2016
Board directors	1	1
Executives	8	9
Technical specialists and administrative staff	76	74
Workers and specialists	205	212
	290	**296**

Chart I reflects the average headcount in the last five years.

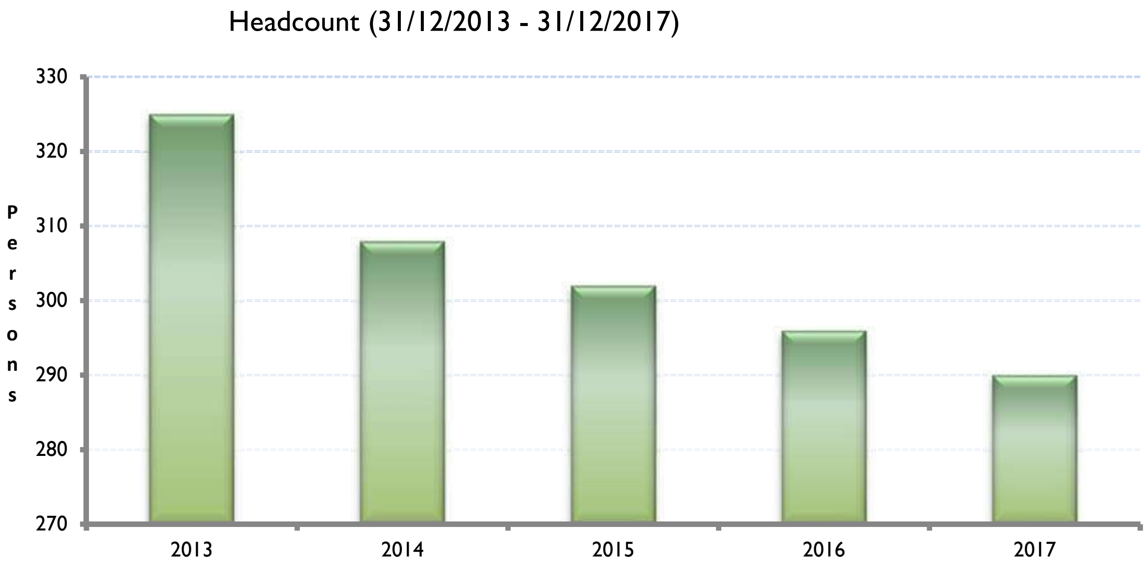


Chart I

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

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

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

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

a) Biological assets

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

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

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

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

i) *Exchange differences.*

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

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

b) Bank borrowings

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

Thousand euro	**31/12/2017**	**31/12/2016**
Short- and long-term bank borrowings	74,071	5,277
(Less: Cash and cash equivalents)	(153,197)	(60,408)
Net debt	**(79,126)**	**(55,131)**
Equity	236,771	227,449
Leverage ratio[2]	**(33.42%)**	**(24.23%)**

2 Leverage ratio, calculated as net debt divided by equity times one hundred.

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

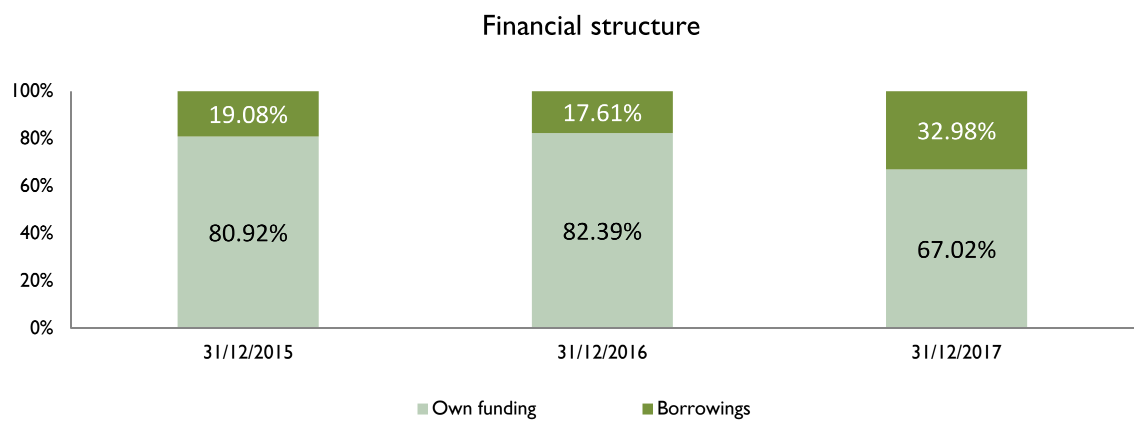


Chart II

4. INVESTMENTS

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

5. ACCOUNTING POLICIES

This accounting information for 2017 has been prepared applying the International Financial Reporting Standards (IFRS) adopted by the European Union and approved by European Council Regulations, and which are in force at 31 December 2017, and with all prevailing IFRIC interpretations and company law applicable to companies reporting under EU-IFRS.

6. SHARE PRICE EVOLUTION

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

Main stock data

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

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

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

Comparative stock performance in 2017
(Base 100 at 31/12/2016)

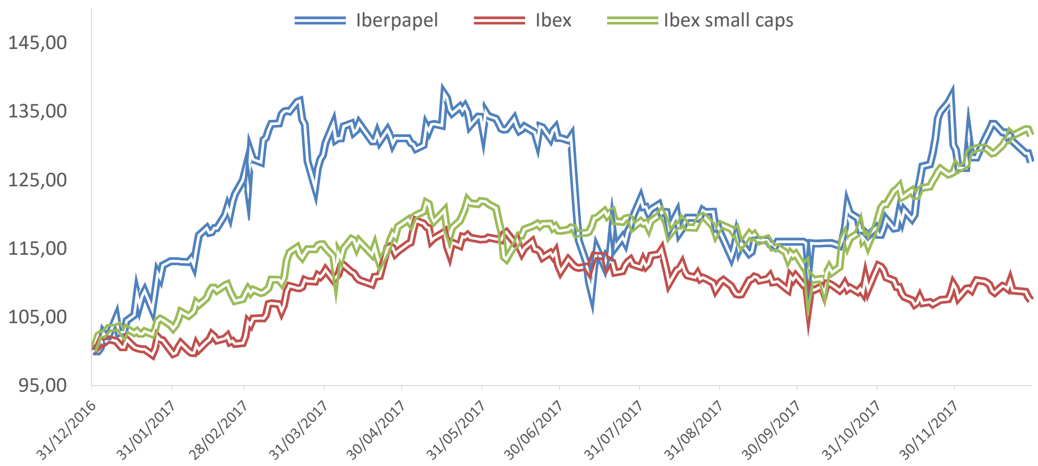


Chart III

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

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

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

7. TREASURY SHARES

In 2017, the Company acquired 99,756 treasury shares on the stock exchange. A total of €2,894 thousand was paid for the shares. In 2017, 54,731 treasury shares were sold for €1,536 thousand. At 31 December 2017, the Company held a total of 120,156 treasury shares at an original cost of €2,418 thousand. These shares represent 1.099% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

In 2016, the Company acquired 24,989 treasury shares on the stock exchange. A total of €474 thousand was paid for the shares. In 2016, 1,649 treasury shares were sold for €29 thousand. At 31 December 2016, the Company held a total of 75,131 treasury shares at an original cost of €1,063 thousand. These shares represent 0,687% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

On 20 April 2016, the Annual General Meeting granted authorisation to the Board of Directors, for a five-year period, including specific substitution powers, so that the Company itself or its subsidiaries could acquire treasury shares, as stipulated by law, cancelling the authorisation granted by the General Meeting on 22 June 2011.

a) Capital reduction

The Annual General Meeting held on 20 April 2016 unanimously approved agenda item five proposing a capital reduction through the redemption of treasury shares, as follows:

"Reduce the Company's share capital by €318,694.20 through the redemption of 531,157 treasury shares, which were previously acquired under the authorisation issued by the General Meeting and within the limits stipulated in the Spanish Companies Act.

The capital reduction is charged to voluntary reserves and a capital redemption reserve is recorded in the amount of €318,694.20 (equal to the par value of the redeemed shares), which may only be used subject to the same requirements applicable to a share capital reduction, pursuant to Article 335.c) of the Spanish Companies Act. Consequently, in accordance with that article, the Company's creditors shall not have the right to object referred to in Article 335 of the Spanish Companies Act in connection with the agreed capital reduction.

The reduction does not entail the reimbursement of contributions since the Company owns the redeemed shares. The purpose of the reduction will therefore be to redeem treasury shares.

This capital reduction through the redemption of treasury shares shall be completed within six months as from the date of this resolution.

The capital reduction resolution entails the amendment of Article 5 of the Bylaws, which to date reads as follows:

ARTICLE 5.- Share capital consists of SIX MILLION SEVEN HUNDRED AND FORTY-EIGHT THOUSAND FOUR HUNDRED AND FOURTEEN EUROS, TWENTY CENTS (€6,748,414.20).

Capital is divided into ELEVEN MILLION TWO HUNDRED AND FORTY-SEVEN THOUSAND THREE HUNDRED AND FIFTY-SEVEN (11,247,357) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series".

Following the resolution, it shall read as follows:

ARTICLE 5.- Share capital consists of SIX MILLION FOUR HUNDRED AND TWENTY-NINE THOUSAND SEVEN HUNDRED AND TWENTY EUROS (€6,429,720.00).

Capital is divided into TEN MILLION SEVEN HUNDRED AND SIXTEEN THOUSAND TWO HUNDRED (10,716,200) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

b) Capital increase

The General Meeting unanimously approved agenda item to increase share capital out of voluntary reserves, the resolution reading as follows:

1.- Share capital increase charged to reserves: Increase the Company's share capital out of reserves in the amount of €128,594.40 by issuing 214,324 new shares in the same class and series, carrying the same rights as the shares currently outstanding, with a par value of €0.60 each, represented by book entries to be kept by Iberclear and its member entities in the terms of legislation in force from time to time.

The new shares shall carry the same rights as the rest of the Company's shares as from the date of issuance.

For the purposes of Article 311 of the Spanish Companies Act, the subscription or allotment of the capital increase may be incomplete.

The shares are issued at their par value of €0.60 and without a share premium.

The capital increase shall be charged entirely to the reserve accounts or sub-accounts (from among the ones envisaged in Article 303.1 of the Spanish Companies Act) to be determined by the Board of Directors or the person delegated.

2.- Condition applicable to the capital increase resolution: The execution of this capital increase resolution by the Board of Directors shall be conditional upon the prior execution of the capital reduction described in agenda item five above.

3.- Capital increase balance sheet: The balance sheet that is the basis for the operation is the balance sheet closed at 31 December 2016, duly audited by the Company's auditor and approved by this Annual General Meeting in agenda item one.

4.- Allotment of the new shares: The new shares issued shall be allotted free of charge to the Company's shareholders in the proportion of one (1) new share for every 50 free allotment rights. Each Company share shall carry one (1) free allotment right.

The Company or some of its shareholders shall waive the number of free allotment rights necessary in order for the above-mentioned proportion to balance.

The free allotment rights are to be granted to the Company shareholders that are legitimately reflected in the accounting records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) at 11:59 p.m. on the day the capital increase announcement is published in the Commercial Registry's Official Gazette. However, the Board of Directors or the person delegated by the Board may modify the timing of the rights allotment, pursuant to legislation in force at the time, and determine the rest of the relevant dates for the correct execution of the operations relating to the rights allotment, the price of the rights and the price of the Company's new shares.

The free allotment rights for the new shares shall be transferable. The free allotment rights may be traded in the market during the period to be determined by the Board of Directors, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette. During that period, free allotment rights may be acquired in the market in a sufficient number and in the necessary proportion to receive new shares.

5.- Share deposit: The new shares that could not be allotted will remain on deposit and available for persons that attest to the legitimate ownership of the relevant free allotment rights. Once three years have elapsed, the shares that have still not been allotted may be sold pursuant to Article 117 of the Spanish Companies Act, for the account and risk of the interested parties. The cash amount of the said sale shall be held available for the interested parties in the manner stipulated in applicable legislation.

6.- Admission to listing: Request the admission to listing of the new shares on the Madrid and Bilbao Stock Markets and their inclusion in the Stock Exchange Interconnection System (Continuous Market).

7.- Delegation: It is agreed to delegate to the Board of Directors, pursuant to Article 297.1.a) of the Spanish Companies Act, with express powers of substitution, the authority to set the date on which the share capital increase resolution adopted is to be executed, within a maximum period of one (1) year as from the adoption date, and to redraft Article Five of the Bylaws to reflect the new share capital figure and number of shares.

Moreover, it is agreed to delegate to the Board of Directors, also pursuant to Article 297.1.a) of the Spanish Companies Act and also with express powers of substitution, the authority to stipulate the terms of the capital increase for all aspects not envisaged in the preceding paragraphs. In particular, for illustrative, non-restrictive purposes:

(i) Determine the specific reserve account or sub-account in which the capital increase will be charged.
(ii) Waive, if applicable, the number of free allotment rights necessary to balance the proportion of new shares freely allotted.

(iii) Establish the duration of the free allotment rights trading period, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette.
(iv) Declare the capital increase to have been executed and completed.
(v) Amend Article 5 of the Bylaws to reflect the new share capital figure and number of shares.
(vi) Execute the capital increase deed.
(vii) Designate the agent and other advisors in the operation.
(viii) Carry out all steps or formalities that may be necessary or advisable and draw up and sign all documentation that may be necessary or advisable to fully authorise and execute the issue, as well as the admission to listing of the new shares, vis-à-vis any Spanish or foreign, public or private entity or body, including the Commercial Registry, the Spanish National Securities Market Commission, the Stock Market Governing Companies, Sociedad de Bolsas and Iberclear.
(ix) Draw up and publish all announcements that may be necessary or advisable for such purposes.
(x) If applicable, not execute and render void the capital increase resolution.
(xi) In general, in the broadest possible terms, take all steps that may be necessary or merely advisable to fully execute the resolutions adopted, being able to correct, clarify, adapt or supplement the resolutions".

The Board of Directors, in its meeting of 25 October 2016, approved the execution of the bonus share capital increase charged to the Company's reserves, which was approved by the Annual General Meeting on 20 April 2016.

The full text of Article 5 of the Bylaws reads as follows:

ARTICLE 5.- Share capital consists of SIX MILLION FIVE HUNDRED AND FIFTY-EIGHT THOUSAND THREE HUNDRED AND FOURTEEN EUROS, FORTY CENTS (€6,558,314.40).

Capital is divided into TEN MILLION NINE HUNDRED AND THIRTY THOUSAND FIVE HUNDRED AND TWENTY-FOUR (10,930,524) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

The Company received 1,476 shares in this capital increase process.

8. RESEARCH AND DEVELOPMENT

The Group is progressing in the R&D&i programmes undertaken in recent years, focused mainly on:

i. Search for new products, three new product ranges having been placed on the market:
   Zicubag (paper for bags, with high mechanical resistance).
   Ziculflex (paper for packaging).
   Vellum SC (label face).
ii. As part of the production process improvement, in April 2013 the Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. completed and commissioned the modernisation and extension of its cut-size line at the Hernani plant.

iii. Additionally, in 2013 a novel system became operational for eliminating odorous compounds; besides reducing the environmental impact on the surrounding area, this system has considerably increased the plant's energy efficiency.
iv. In 2013, Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) undertook an R&D project on energy recovery using lignin derived from the cooking of timber to obtain cellulose. The aim is to transform traditional processes into biorefinery processes that can be used to obtain intermediate organic chemical products during the synthesis of other compounds. This is a project performed in association with universities.
v. As regards the fight against climate change, in recent years Iberpapel has been developing an innovative project to reduce greenhouse gas emissions at its plantations in Uruguay. The Group developed specific methodology to calculate and monitor CO_2 absorption which was subsequently applied in other forestry projects in Brazil, China, Chile, India and the Democratic Republic of Congo. The project was conducted in accordance with Verified Carbon Standard (VCS) requirements and was registered in 2013.
vi. Finally, the Group permanently monitors new technologies that could affect each business process.

9. RISK MANAGEMENT

➢ Financial risk management

The Iberpapel Group's activities are exposed to various financial risks: market risk (including foreign exchange risk, price risk, cash flow interest rate risk and foreign operations risk), credit risk and liquidity risk. The risk management program is focused on minimising the effects of financial market uncertainty and any potential adverse impact on its financial returns.

Risk management is controlled on the basis of different supervisory levels applying policies approved by the Board of Directors, which is responsible for maintaining the internal control system, including the monitoring and control of relevant risks.

The Board has delegated risk supervision to the Audit Committee.

The Board assesses the operating risks supervised by the Audit Committee in order to control and manage risk by means of actions to improve the procedures in place.

a) Market risk

i) Foreign exchange risk

The Group basically operates in euros and is not therefore significantly exposed to foreign exchange risks in foreign currency transactions. Accordingly, this risk is not deemed to be significant and no hedging policies are applied.

Net exchange losses recognised in the 2017 income statement total €433 thousand (2016: €90 thousand), representing 1.67% (2016: 0.36%) of the pre-tax profit for the period. In this regard, Iberpapel considers that a sensitivity analysis of this risk would not add significant information for the users of the consolidated annual accounts.

ii) Price risk

The Iberpapel Group is not exposed to price risk with respect to equity and financial instruments.

iii) Cash flow interest rate risk

Revenues and cash flows from operating activities are relatively independent of fluctuations in market interest rates.

In connection with this risk, at 31 December 2017 Iberpapel recognised long-term borrowings of €71,255 thousand (2016: €2,437 thousand), representing 20.17% (2016: 0.88%) of total consolidated liabilities. Of this debt, €70,000 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €151,426 thousand at 31 December 2017. On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

iv) Foreign operations risk

The Group is exposed to foreign exchange risk in relation to the Argentine and Uruguayan pesos against the euro, as a result of its investments in foreign operations through subsidiaries. The Argentine peso depreciated 25.66% against the euro from 31 December 2016 to 31 December 2017, and the Uruguayan peso depreciated 10.21% against the euro in the same time period.

Foreign operations risk affecting investments in subsidiaries in Argentina and Uruguay derives mainly from the effect of translating non-current assets, so that the most significant impact is on consolidated equity, in the item "Cumulative translation difference". The Group provides breakdowns of this equity item in Note 15 to the consolidated accounts. Other breakdowns are also provided, such as the location of assets abroad, foreign currency transactions and exchange differences recognised in the consolidated income statement.

b) Credit risk

The Group's main interest-bearing assets are cash, short-term bank deposits and trade and other receivables, which represent the Group's maximum credit risk exposure in relation to financial assets.

The main credit risk is attributable to trade receivables, which are reflected in the balance sheet net of bad debt provisions estimated by management, drawing on prior-year experience and an assessment of the current economic environment. The Group has no significant concentrations of credit risk and exposure is distributed among a large number of counterparties. Virtually all paper sales and therefore the majority of trade receivables are insured with the following companies:

Insurance company	**Rating**
Euler Hermes (Allianz)	AA
Solunión	A-
Crédito y Caución	A+
Cesce	BBB+
Coface	A+

As regards cash and short-term bank deposits, the most significant amount relates to interest-bearing deposits at financial institutions with good financial standing.

Cash at bank and short-term bank deposits	**Rating**	**2017**
A Banks	BBB+	54,059
B Banks	BB+	51,817
C Banks	A-	40,125
D Banks	BBB-	3,919
Other		1,506
		151,426

The Group has no direct exposures with the Company's directors at 31 December 2017.

c) Liquidity risk

Prudent liquidity risk management entails holding sufficient cash and available financing through adequate committed credit facilities, and the capacity to settle market positions.

Management follows up on liquidity forecasts periodically based on expected cash flows and keeps sufficient cash to meet its liquidity needs.

The following table analyses the Group's financial liabilities, grouped together by maturity, on the basis of estimated cash flows:

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328
Suppliers and creditors	28,552			

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
At 31 December 2016				
Bank borrowings	2,840	1,957	480	
Suppliers and creditors	28,592			

- **Capital risk management**

The leverage ratio is calculated as net debt divided by equity, net debt being total borrowings (bank loans and credit facilities) less "cash and cash equivalents" and "short-term bank deposits", while consolidated equity is the amount shown in the relevant consolidated balance sheet item.

Leverage ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
Bank borrowings (Note 18)	74,071	5,277
Less: Cash and bank deposits	(153,197)	(60,408)
Net debt	(79,126)	(55,131)
Consolidated equity	236,771	227,449
Leverage ratio	**(33.42)%**	**(24.23)%**

- **Other risks.**

During 2017, the following risks affecting the Iberpapel Group's activities were also assessed:

a) Global economic situation risk; and b) market, competition, selling price and raw material risks.
c) Forestry risks.
d) Environmental risks.
e) Regulatory risks.
f) Risks relating to new investments and other.
g) Plans and systems to assure the quality of products or services.
h) Risks of material damages and loss of earnings.
i) Criminal risks.
j) Financial information reliability risks.
k) Cyberattack risks.
l) Tax risks.

a) and b) Global economic situation risk, and market, competition, selling price and raw material risks.

Iberpapel mitigates these risks by maintaining a highly competitive cost structure that enables the impact of market crises to be absorbed comparatively better than its competitors.

c) Forestry risks.

The Group reduces these risks by controlling the distribution of forestry assets in three distant forestry areas (Argentina, Uruguay and Huelva) and a reasonable distribution of properties in each area. Moreover, forest cleaning and firebreak work, etc. is carried out on a regular basis, thereby considerably reducing the impact of any fire damage. This is all complemented by silvopastoral systems to control pastures and the forest understory.

d) Environmental risks.

The Iberpapel Group has an environmental management system based on the international ISO 14.001 standard and certified by independent auditors, guaranteeing compliance with applicable, European, state and regional legislation. It is actively involved in the development of new environmental commitments. Progress is being made in the progressive implementation of Best Available Technologies (BAT) under Directive 96/61/EC of 24 September 1996 concerning Integrated Pollution Prevention and Control (IPPC), as subsequently amended by Directive 2010/75/EC, and the Group has the mandatory Integrated Environmental Authorisation. A series of actions carried out by the Group in this connection are particularly noteworthy:

- Impact reduction using odour elimination systems.
- Reduction in specific water consumption.
- Continuous atmospheric emissions monitoring and communication to the administration.
- Best available technologies to improve emissions and disposals, and reduce waste.
- Installation of a second effluent treatment facility.

In the coming months, pursuant to Law 26/2007 on Environmental Liability and Royal Decree 2090/2008 containing the implementing legislation, the Iberpapel Group will analyse environmental risks and will monetise them applying the Environmental Damage Index (IDM) and the Environmental Responsibility Offer Model (MORA) approved by the Spanish Ministry of Agriculture, Food and the Environment, which will lead to the creation of a financial guarantee to cover possible environmental liabilities.

The Iberpapel Group is also proceeding with its reforestation policy; important tools include the Clean Development Mechanism (CDM) and voluntary carbon markets. These mechanisms, regulated in the Kyoto Protocol and European law, enhance the feasibility of projects launched while assuring a supply of raw materials suitable for paper production.

With respect to voluntary carbon markets, a reforestation programme has been developed based on the variety of seed or development eucalyptus cloned at the properties purchased by the group's Uruguayan subsidiary, properties previously used as grazing land. In recent years, approximately 7,069 hectares of land in Uruguay have been reforested.

• **CO2 emission allowances**. A new compliance period for greenhouse gas emission allowance trading commenced in 2013 and will run to 2020. The new period brought in a number of changes, including new target industries, more complex emission monitoring regulations and new allocation rules. In the latter case, European industry benchmarks are used, replacing the national allocation plans.

Three basic concepts apply to the allocation of allowances for the period 2013-2020:

- No allowances are allocated for electricity generation.
- 100% of the allowances allocated to sectors exposed to carbon leakage. 100% relates to the findings of the benchmark study of European facilities, as in the case of Papelera Guipuzcoana de Zicuñaga, S.A.U.
- Industries exposed to carbon leakage may change over the period, on the basis of successive reviews.

The volume of allowances allocated for the period 2013 to 2020 is analysed below:

	2013	2014	2015	2016	2017	2018	2019	2020
CO_2 emission allowances allocated	74,051	72,766	71,464	70,149	68,820	67,478	66,120	64,756

The Iberpapel Group is currently closely monitoring the negotiations in progress in the European Commission to amend the Emission Allowance Directive that will govern the allowance management mechanism as from 2021, when Stage 4 of carbon emissions trading begins. The Group is analysing in detail the new benchmark proposals, the review of free allocation rules and the new criteria for determining sectors showing risk of carbon leakage.

e) Regulatory risks (power generation companies)

The Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. has two operational power cogeneration plants, one using biomass (black liquor), which is included in the cellulose production segment, and the other a gas combined-cycle facility, so the Group stays abreast of the vast body of legislation that has been published since 2013 in this area, the most relevant of which is described below.

Law 15/2012 of 27 December on tax measures for energy sustainability and Royal Decree-Law 2/2013 of 1 February on urgent measures for the electricity system and the financial sector were published. Both laws increased energy costs by levying a 7% linear tax on revenue from electricity generation and an additional tax on the volume of natural gas consumed ("green cent").

On 14 July 2013, Royal Decree-Law 9/2013 came into force, laying the foundations of a new legal and economic scheme for electricity production facilities using renewable energy sources, cogeneration and waste, and a remuneration regime based on standard parameters for standard facilities to be defined. The Royal Decree eliminated regulated tariffs for renewable energy and cogeneration, created the Electricity Self-Consumption Register and announced a new economic scheme designed mainly to guarantee that renewable energy plants obtain a return equivalent to the interest rate on 10-year government bonds plus 300 basis points, by reference to costs and investments in a standard facility, throughout the regulatory useful life. The RD also eliminated the efficiency supplement and the reactive energy supplement applicable to that date, which had a considerable additional impact on the Company's energy balance sheet. Additionally, RD did not bring in any new premiums. Definitive remuneration details were postponed pending publication of a ministerial order, the last tariffs remaining as a reference for provisional settlement in power generation from the publication of the Royal Decree to the publication of the ministerial order.

In 2014, Royal Decree 413/2014 of 6 June on electricity production using renewable energy sources, cogeneration and waste, and Order IET/1045/2014 of 16 June on remuneration parameters for standard facilities, applicable to certain facilities generating electricity from renewable energy sources, cogeneration and waste, were published. Regulations published in the current year have defined remuneration parameters for a period of time: Investment remuneration (Ri), operating remuneration (Ro) and operating hours of a standard facility, similar to the Company's cogeneration plant.

In 2015, RD 900/2015 of 9 October was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies, developing the content of Law 24/2013 of 26 December on self-consumption in the electricity industry. Royal Decree 900/2015 regulates the administrative, technical and economic conditions of the types of self-consumption electricity supplies defined in Article 9.1 of Law 24/2013.

Additionally, on 18 December 2015, Order IET/2735/2015 (17 December) was published, stipulating electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters for facilities generating electricity from renewable sources, cogeneration and waste. This Order provides remuneration parameters for cogeneration plants covering the first half of 2016.

Law 24/2013 of 26 December, introduced under Royal Decree 413/2014 of 6 June on power generation using renewable energy sources, cogeneration and waste, contains the basic regulations governing the remuneration framework to allow power generation facilities covered by this scheme to cover the costs necessary to compete in the market on equal terms with other technologies and to obtain a reasonable profit. A remuneration scheme is defined based on standard parameters for each standard facility. Article 14.4 of the Law and Article 20 of the Royal Decree lay down the system for updating the remuneration parameters for standard facilities. For facilities having operating costs that depend essentially on fuel prices, Order IET/1345/2015 of 2 July develops the above-mentioned articles and brings in a methodology for updating remuneration for the operation, applicable half-yearly.

These regulations envisage the review of generation market price estimates for the first three years of the regulatory period, 2014, 2015 and 2016, to adjust them to the actual market prices, pursuant to Article 22 of Royal Decree 413/2014 on market price estimation and adjustment due to market price departures, subsection 3 of which states that when the average annual price in the daily and intraday markets is outside the regulatory limits, an annual positive or negative balance will be generated, referred to as the market price departure adjustment value. The market price departure adjustment value will therefore be calculated annually.

On 7 December 2016, the Ministry of Energy, Tourism and Digital Agenda published in its website the Proposed Order updating remuneration parameters for standard facilities, applicable to certain plants that generate power using renewable energy sources, cogeneration and waste during the regulatory semi-period commencing on 1 January 2017, together with its report analysing the regulatory impact, for the purposes of Article 26.6 of Government Law 50/1997 (27 December) in which, among other aspects, the amounts of the market price departure adjustment value for each year and standard facility have been published. The definitive Royal Decree was published on 22 February 2017 and did not include any changes.

f) Risks relating to new investments and other.

There is a programme for the development, analysis and follow-up of investments that enable business growth processes to be satisfactorily addressed. In this regard, on 9 May 2017 the Company's Board of Directors announced the start of the "Hernani Project", which will entail an investment of approximately €180 million. The investment will consist of acquiring a new paper machine with an estimated production capacity of 85,000 tonnes per year and of modernising the existing cellulose plant.

g) Plans and systems to assure the quality of products.

The Iberpapel Group's defined quality policy assigns top priority to customer satisfaction and continuous improvement, ensuring that products and services meet quality standards. In this regard, the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) has ISO 9001:2008 certification and AENOR certification for its Forestry Product Chain-of-Custody model (PEFC standard) in the industrial division, Bureau Veritas FSC Chain of Custody certification and FSC Sustainable Forestry Management certification for our plantations in Huelva and Uruguay, and manages the forests in Argentina under the same principles, guaranteeing a lawful, sustainable source of timber and timber traceability.

The basic objectives of the quality policy are as follows:

- To review, improve and optimise existing processes and controls in order to ensure product quality and traceability.
- To provide an adequate response to claims, implementing a process to examine, record and respond to such claims.

Finally, this subsidiary also has ISO 50000 certification for the energy management system.

h) Risks of material damages and loss of earnings.

It is the Iberpapel Group's policy to arrange the necessary insurance and hedges so as to mitigate to the extent possible risks related to loss of profit, material damage, trade receivables, machine breakdown, etc. The main policies in force include:

- Loss of profit (including the industrial company).
- Machinery breakdown (covering material damage and loss of profit).
- Fully-comprehensive insurance.
- Trade receivables (the Group insures domestic and export paper sales).
- Third-party liability (including party at fault and damage).
- Directors' liability.
- Environmental liability policy renewed in May 2017 as regards coverage for environmental damage to third parties.

i) Criminal risks.

During 2016, the criminal risk prevention model in place in the Iberpapel Group was reviewed and updated (Corporate Defence). This update was carried out due, among other factors, to the reform of the Criminal Code under Organic Law 1/2015 (30 March), bearing in mind the more specific provisions of Article 31.ii) with respect to compliance and prevention. The criteria issued by the Public Prosecutor's Office in Circular 1/2016 in relation to that reform were also considered, as regards the elements that must be included in a compliance model of this kind.

On 20 December 2017, in line with Technical Guide 3/2017 on audit committees at public-interest entities and pursuant to Articles 21.3 and 21.4 of the Revised Stock Market Act, Iberpapel's Board of Directors approved the Whistleblower Hotline Use Policy for the Iberpapel Group's Spanish companies, except for Papelera Guipuzcoana de Zicuñaga, S.A.U., which already had a whistleblower hotline since 2012.

The Guide states that audit committees must take into account the basic principles set out in the Guide while performing their functions. Among other aspects, this entails implementing and supervising a system that allows irregularities to be communicated to the audit committee, particularly those of a financial and accounting nature.

Additionally, Article 10.1.(ix) of the Board Regulations states, among the Audit Committee's functions, that it "shall receive any information from Group employees expressing their concern about possible questionable practices in accounting, finance or auditing, and shall assure confidentiality and anonymity".

The objective scope of the Whistleblower Channel encompasses:

- Criminal conduct defined in the Criminal Code and offences contained in other special laws that could generate criminal liability for IBERPAPEL.
- This includes any conduct that implies or could imply situations of workplace and/or sexual harassment, as stipulated in Articles 173 and 184 of the Criminal Code.
- Behaviour that conflicts with the principles and rules of conduct contained in IBERPAPEL's General Code of Conduct.
- The scope also includes any irregularities or infringements of a financial or accounting nature, in accordance with the guidelines published by the Spanish National Securities Market Commission, such as disputes relating to accounting treatment and any other accounting and financial malpractice.

Oversight of the Whistleblower Channel is the responsibility of the Audit Committee.

j) Tax risks.

During 2016, the Company's Board of Directors, in response to a proposal by the Finance Department and to comply with Article 529.iii) of the Spanish Companies Act, designed the Iberpapel Group's tax strategy, defining the governing principles for the tax function of Iberpapel Gestión, S.A. and all the Group companies.

The Finance Department also prepared, in 2016, and maintained in 2017, the Tax Risk Management System (*SGRF*), the purpose being to lay down principles and guidelines to ensure that tax risks that could affect the tax strategy and objectives are identified, assessed and managed systematically, in order to comply with the new requirements of the Spanish Companies Act and of stakeholders.

The scope of the system encompasses all tax risks affecting activities and processes applicable to all taxes paid in Spain and by the subsidiaries abroad.

Control activities

The Iberpapel Group (through the bodies responsible for the internal control system) designs and implements the control activities that must be carried out at each level in the organisation to mitigate risks identified. The control activities are communicated by senior management to ensure that they are understood by the relevant employees and applied correctly.

Depending on the risks in question, control activities may address different procedures (so as to guarantee the proper performance of operations and achievement of the organisation's objectives; and the financial information internal control system, comprising activities focused on the risks to which financial information is exposed, etc.).

All controls are designed to prevent, detect, mitigate, offset and correct the potential impact of risks on a timely basis. Depending on the type of activity, preventive (risk reduction) and/or detective (identification after the event) control activities are designed, as well as manual and/or automatic controls.

Information and communication

The information and communication systems identify, compile, process and distribute the necessary information to allow each user to carry out the correct functions. The internal communication systems allow the criteria, guidelines, instructions and, in general, information required by the organisation's members to perform their functions to be transmitted, including related deadlines. In turn, the information systems are designed to facilitate access to internal and external data that could have an impact.

Internal supervision procedure

The Group has assessed risks on the basis of the standard universal risk model, performing reviews as deemed necessary to update the risk map. Similarly, the impact of those risks has been calculated together with follow-up and management actions relating to each of the aforementioned areas.

Iberpapel considers it to be essential to maintain a supervision system to verify that the internal control system is functioning and operating in due time and form, making it possible to apply the necessary measures if any of the controls designed is not working correctly.

10. AVERAGE PAYMENT PERIOD

Pursuant to the Ruling of 29 January 2016 from the Spanish Institute of Accounting and Auditing (ICAC), set out below is the information on the deferral of payments to suppliers required by Additional Provision Three "Duty of Information" of Law 15/2010 of 5 July, for 2017 and 2016:

	2017	**2016**
	Days	
Average supplier payment period	26.43	38.85
Ratio of settled transactions	24.20	38.91
Ratio of transactions pending payment	49.24	40.53
	Amount	
Total payments for the year	**288,820**	**291,545**
Total payments outstanding	**28,169**	**29,547**

11. GROUP'S FORESEEABLE EVOLUTION

The Group's prospects are analysed below for each of the three business areas:

In the forestry area, maintenance work will continue on our forestry assets in the South American plantations and the timber that the specialists consider is ready for logging will be sold in the local markets or imported for our plant.

As regards revenue from paper sales, our strategy is still to place 50% of production in the domestic market, 40% in exports to Europe and the remaining 10% in overseas exports. The Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. has the capacity to produce 250,000 metric tonnes of writing and printing paper. The majority is sold in the European market, which consumes over six million tonnes of this type of paper.

Finally, in 2018 and subsequent years the Iberpapel Group will doubtless focus its efforts on successfully completing the "Hernani Project" which, as explained in this report, will entail an investment of approximately €180 million.

12. RELEVANT EVENTS

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

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

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

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

30/05/2017.- Dividend information.

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

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

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

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

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

13. EVENTS AFTER THE REPORTING DATE

On 23 January 2018, the Board of Directors resolved to pay out an interim dividend for 2017 in a fixed, gross amount of €0.30 for each outstanding share carrying dividend rights. The proposal for the distribution of 2017 profits to be put to the Annual General Meeting will include the pay-out of a gross supplementary dividend of €0.25 for each outstanding share carrying dividend rights.

14. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report forms part of this Directors' Report and will be published in the Spanish National Security Market Commission's website www.cnmv.es on 28 February 2018.

Madrid, 27 February 2018