THIS CIRCULAR AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or otherwise transfer, or have sold or otherwise transferred, all your Ordinary Shares, please forward this Circular, but not the accompanying personalised Form of Proxy, as soon as possible to the purchaser or the transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying document into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part I (*Letter from the Chairman*) of this Circular and which contains a recommendation from the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors which are set out in Part II (*Risk Factors*) of this Circular.

DS Smith Plc

(a public company incorporated in England and Wales with registered number 01377658)

Proposed Acquisition of Papeles y Cartones de Europa, S.A.

Circular to Shareholders

and

Notice of General Meeting

Notice of a General Meeting of the Company, to be held at Melia White House, Albany Street, London NW1 3UP at 11.00 a.m. on 10 July 2018, is set out at the end of this Circular. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom by no later than 9.00 a.m. on 6 July 2018 (or, in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). Shareholders wishing to appoint a proxy online can do so by visiting www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the enclosed Form of Proxy. Members who have already registered with the Registrar's online portfolio service Shareview can appoint a proxy by logging into their profile at www.shareview.co.uk using their usual user ID and password. Once logged in, members should click "View" on the "My Investments" page, click on the link to vote and then follow the on-screen instructions. Shareholders that hold their Ordinary Shares in CREST may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti Limited (CREST Participant ID RA19), so that it is received no later than 9.00 a.m. on 6 July 2018 (or, in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting or any adjournment of the General Meeting, if you wish to do so and are so entitled.

A summary of the actions to be taken by Shareholders is set out on page 25 of this Circular and in the Notice of General Meeting set out at the end of this Circular.

This Circular is not a prospectus, but a shareholder circular relating to the Acquisition and the Resolution, and it is not intended to and does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of an offer to sell, dispose of, issue, purchase, acquire or subscribe for, any security. This Circular has been prepared in accordance with the Listing Rules and approved by the FCA.

The information provided in this Circular is provided solely in compliance with the Listing Rules for the purpose of enabling Shareholders to consider the Resolution.

Citigroup Global Markets Limited ("**Citi**"), which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, is acting solely for the Company and no one else in connection with the Acquisition and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or any other matters referred to in this document.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, is acting solely for the Company and no one else in connection with the Acquisition and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or any other matters referred to in this document.

J. P. Morgan Securities plc ("**JPM**"), which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, is acting solely for the Company and no one else in connection with the Acquisition and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or any other matters referred to in this document.

Save for the responsibilities and liabilities, if any, of each of Citi, Goldman Sachs and JPM under FSMA or the regulatory regime established under FSMA, each of Citi, Goldman Sachs and JPM assumes no responsibility whatsoever and makes no representations or warranties, express or implied, in relation to the contents of this Circular, including its accuracy, completeness or verification or for any other statement made or purported to be made by the Company, or on the Company's behalf, or by Citi, Goldman Sachs or JPM, or on any of their behalf, and nothing contained in this Circular is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with the Company or the Acquisition. Each of Citi, Goldman Sachs and JPM disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Circular or any such statement.

Notice to all Shareholders

The information provided in this Circular is provided solely for the purpose of considering the Resolution. Any reproduction or distribution of this Circular, in whole or in part, and any disclosure of its contents or use of any information contained in this Circular for any purpose other than considering the Resolution is prohibited.

No person has been authorised to give any information or make any representations other than those contained in this Circular or incorporated by reference into it and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or Citi, Goldman Sachs or JPM. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules, the delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of DS Smith plc ("**DS Smith**", or the "**Company**") or the Europac Group since the date of this Circular or that the information in this Circular is correct as at any time subsequent to the date of this Circular.

The contents of this Circular and the information incorporated by reference into it should not be construed as legal, business or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

Notice to overseas Shareholders

This Circular is not an offer of securities for sale in the United States and there will be no public offer of securities in the United States. The securities discussed in this Circular have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States, except pursuant to an applicable exemption from, or a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The securities discussed in this Circular have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of these securities or the accuracy or adequacy of this Circular. Any representation to the contrary is a criminal offence in the United States.

Distribution of this Circular by any recipient may be restricted or prohibited by US law. Recipients are required to inform themselves of, and comply with, all such restrictions or prohibitions.

This Circular is dated 19 June 2018.

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IMPORTANT INFORMATION

1. Forward-looking statements

Certain statements contained in this Circular or incorporated by reference into it constitute, or may be deemed to constitute, "forward-looking statements" with respect to the financial condition, results of operations and business of the DS Smith Group and, upon Completion, the Enlarged Group and certain plans and objectives of the Directors with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use forward-looking terminology including words such as "anticipate", "target", "expect", "estimate", "intend", "aim", "plan", "predict", "projects", "continue", "assume", "goal", "believe", "will", "may", "should", "would", "could" or, in each case, their negative, or other variations thereon or words of similar meaning, which identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. In particular, any statements regarding the Company's strategy, plans, objectives, goals and other future events or prospects are forward-looking statements.

An investor should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Company's control. Forward-looking statements are based on assumptions and assessments made by the Directors in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, including the principal risks and uncertainties facing the business as described in Part II (*Risk Factors*) of this Circular, because they relate to events and depend on circumstances that will occur in the future. The factors described in the context of such forward-looking statements in this Circular could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

The Company cautions investors that forward-looking statements are not guarantees of future performance and that its actual results of operations and financial condition, and the development of the industry in which it operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Circular and/or information incorporated by reference into it. Factors that may cause the Company's actual results to differ materially from those expressed or implied by the forward-looking statements in this Circular include but are not limited to the risks described in Part II (*Risk Factors*) of this Circular.

Each forward-looking statement speaks only as of the date it was made and is not intended to give any assurances as to future results. Furthermore, forward-looking statements contained in this Circular that are based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules, none of the Company, Citi, Goldman Sachs and JPM undertakes any obligation to update or revise these forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from new information, events or circumstances arising after the date of this Circular. The Company will comply with its obligations to publish updated information as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules or otherwise by law and/or by any regulatory authority, but assumes no further obligation to publish additional information.

For the avoidance of doubt, nothing in this paragraph 1 (*Forward-looking statements*) is intended to qualify the working capital statements set out in paragraph 11 (*Working Capital*) of Part VI (*Additional information*) of this Circular.

2. Currency and exchange rate presentation

Unless otherwise indicated, references to **pounds sterling**, **sterling**, **pounds**, **GBP**, **pence**, **p** or **£** are to the lawful currency of the United Kingdom, references to **US dollars**, **USD** or **$** are to the lawful currency of the United States, and references to **Euros**, **EUR** or **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise specified, the financial information contained in this Circular has been expressed in sterling.

The basis of translation of foreign currency transactions and amounts in the financial information set out in Note 2.7 of the Historical Financial Information relating to the Europac Group in Section A of Part IV (*Historical Financial Information relating to the Europac Group*) is described in that Part. Unless otherwise stated, information derived from this financial information set out elsewhere in this Circular has been translated on the same basis.

For current EUR amounts, a rate of £1 to EUR 1.148 has been used, and for current USD amounts, a rate of £1 to USD 1.327 has been used, unless otherwise stated in this Circular.

3. Market, economic and industry data

This Circular contains information regarding the DS Smith Group's, the Europac Group's and the Enlarged Group's business and the market in which they operate and compete, which DS Smith has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as DS Smith is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified. Where third party information has been used in this Circular, the source of such information has been identified.

4. Rounding

Certain data in this Circular, including financial, statistical and operating information, has been rounded. As a result of rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data. Percentages have also been rounded and accordingly may not add to 100 per cent.

5. Presentation of financial information

Unless otherwise stated:

(a) financial information relating to the DS Smith Group has been extracted without material adjustment from the audited consolidated financial statements of the DS Smith Group;

(b) financial information relating to the Europac Group has been extracted without material adjustment from the historical financial information relating to the Europac Group set out in Section A of Part IV (*Historical Financial Information relating to the Europac Group*) of this Circular;

(c) any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information set out in Section A of Part V (*Unaudited pro forma financial information relating to the Enlarged Group*) of this Circular; and

(d) all prices quoted for the Ordinary Shares are the Closing Prices in pounds sterling.

Unless otherwise indicated, financial information in this Circular relating to the DS Smith Group and the Europac Group has been prepared in accordance with IFRS and in accordance with the accounting policies adopted by DS Smith in preparing its financial statements for the 2018 Financial Year.

6. Non-IFRS financial information

6.1 *DS Smith Group*

Introduction

In the reporting of financial information, the DS Smith Group has adopted various non-IFRS measures of historical or future financial performance, position or cash flows other than those defined or specified under IFRS.

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-IFRS measures, including those in the DS Smith Group's industry.

Non-IFRS measures should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The DS Smith Group presents reported and adjusted financial information in order to help shareholders better understand the DS Smith Group's operational performance and financial position.

Total reported financial information represents the DS Smith Group's overall performance and financial position, but can contain significant unusual or non-operational items or involve calculations that may obscure understanding of the key trends and position.

Certain non-IFRS performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average twelve month balances or average exchange rates.

DS Smith Group's Alternative Performance Measures (non-IFRS metrics)

The key non-IFRS financial measures used in this Circular include adjusted operating profit, return on sales, adjusted earnings per share and adjusted diluted earnings per share, return on average capital employed, adjusted EBITDA, net debt/EBITDA, cash generated from operations before exceptional cash items, free cash flow, net cash flow, cash conversion, adjusted effective tax rate, dividend cover before amortisation and exceptional items and average working capital to revenue. Further information regarding these measures, including certain reconciliations, can be found at Note 32 on pages 134 to 136 of DS Smith's 2018 Annual Reports and Accounts, which are incorporated by reference into this Circular.

6.2 ***Europac Group***

The non-IFRS performance measures of the Europac Group used in this Circular and their calculation methods are as follows:

Consolidated EBITDA

Consolidated EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is an indicator that that is calculated as the Operating Profit/(Loss) before depreciation and amortisation charges.

EBITDA is calculated as the Operating Profit/(Loss) before depreciation and amortisation charges.

It provides an analysis of the operating profit/(loss) excluding depreciation and amortisation as these variables do not represent cash flows and may vary substantially from company to company depending on accounting policies and the value of the assets.

It is used by management to assess earnings over time, allowing comparison with other companies in the sector. Finally, it is an indicator that is widely used by investors and analysts and by financial institutions.

Consolidated EBITDA for 2017, 2016 and 2015 appears in the Notes to Part IV of the Circular (*Historical Financial Information Relating to the Europac Group*) – Note 4 (Segment reporting).

Recurring EBITDA

Recurring EBITDA is an indicator that measures the company's operating margin deducting interest, taxes, depreciation and amortisation, but without taking into account non-recurring items that by their nature are not assigned to the operations, such as termination payments or gains and (losses) on mergers and acquisitions.

Europac's management uses this indicator as the best reflection of the company's business and one which allows comparison over several years as it is not distorted by one-off, extraordinary or recurring effects.

Recurring EBITDA for 2017, 2016 and 2015 appears in the Notes to Part IV of the Circular (*Historical Financial Information Relating to the Europac Group*) – Note 4 (Segment reporting) and is named "Operating profit before depreciation/amortisation for the segment".

Consolidated EBITDA for Q1 2018 and Q1 2017

Consolidated EBITDA for Q1 2018 and Q1 2017 is shown below:

			€'000s	
First quarter 2018	*Paper*	*Corrugated Board*	*Eliminations*	*Consolidated*
Net segment revenue				
external customers	135,524	99,836	–	235,360
other segments	31,035	1,813	(32,849)	–
Total	166,560	101,649	(32,849)	235,360
Operating profit before depreciation/ amortisation for the segment	53,035	(2,898)	–	50,137
unassigned profit or loss				(783)
Consolidated EBITDA				49,354
Depreciation and amortisation				(12,179)
Operating profit				37,174
Net financial expense				(2,063)
Share of profit of equity-accounted investees				–
Profit before tax from continuing operations				35,112
Corporate income tax				(9,908)
Profit for the year from continuing operations				25,203

			€'000s	
First quarter 2017	*Paper*	*Corrugated Board*	*Eliminations*	*Consolidated*
Net segment revenue				
external customers	117,575	92,496	–	210,071
other segments	21,772	2,222	(23,993)	–
Total	139,347	94,717	(23,993)	210,071
Operating profit before depreciation/ amortisation for the segment	25,672	3,849	–	29,521
unassigned profit or loss				1,509
Consolidated EBITDA				31,030
Depreciation and amortisation				(12,411)
Operating profit				18,620
Net financial expense				(2,175)
Share of profit of equity-accounted investees				44
Profit before tax from continuing operations				16,489
Corporate income tax				(5,312)
Profit for the year from continuing operations				11,176

7. No profit forecast

No statement in this Circular is intended as a profit forecast or profit estimate and no statement in this Circular should be interpreted to mean that earnings per Ordinary Share for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share.

8. No incorporation of website information

Without prejudice to the documents incorporated by reference into this Circular, which will be made available on DS Smith's website (www.dssmith.com), neither the contents of DS Smith's website nor of any website accessible via hyperlinks from DS Smith's website are incorporated into, or form part of, this Circular and Shareholders and prospective investors should not rely on them.

9. Defined terms

Defined terms are defined and explained in Part VII (*Definitions and Glossary*) of this Circular.

10. Times

All references to time in this Circular are, unless otherwise stated, references to time in London, United Kingdom.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.[(1)]

Announcement of the Acquisition and the Rights Issue	4 June 2018
Publication and posting of this Circular and the Forms of Proxy	19 June 2018
Record date for voting at the General Meeting	4.30 p.m. on 6 July 2018
Latest time and date for receipt of Forms of Proxy, CREST Proxy Instructions and registration of online votes from Shareholders for the General Meeting	9.00 a.m. on 6 July 2018
General Meeting	11.00 a.m. on 10 July 2018
Expected Completion	Fourth quarter of 2018
Long-stop date for Completion	31 March 2019

Notes:

(1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this Circular are indicative only and are subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders via a Regulatory Information Service and will be available on www.dssmith.com.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Gareth Davis *(Non-executive Chairman)* Miles Roberts *(Group Chief Executive)* Adrian Marsh *(Group Finance Director)* Jonathan Nicholls *(Senior Independent Director)* Christopher Britton *(Independent Non-executive Director)* Ian Griffiths *(Independent Non-executive Director)* Kathleen O'Donovan *(Independent Non-executive Director)* Louise Smalley *(Independent Non-executive Director)*
Company Secretary	Iain Simm
Registered Office	DS Smith Plc 350 Euston Road London NW1 3AX
Financial Adviser, Sponsor and Joint Underwriter	J. P. Morgan Securities plc 25 Bank Street Canary Wharf London E14 5JP
Lead Financial Adviser and Joint Underwriter	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB
Joint Underwriter	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB
Reporting Accountants	Deloitte LLP 2 New Street Square London EC4A 3BZ
Legal Advisers to the Company as to English law	Slaughter and May One Bunhill Row London EC1Y 8YY
Legal Advisers to the Company as to US law	Sullivan & Cromwell LLP 1 New Fetter Lane London EC4A 1AN
Legal Advisers to the Company as to Spanish law	Pérez-Lorca Paseo de la Castellana, 50 28046 Madrid

Legal Advisers to the Joint Underwriters as to English and US law	Linklaters LLP One Silk Street London EC2Y 8HQ
Registrar	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

PART I

LETTER FROM THE CHAIRMAN

DS Smith Plc

(Incorporated and registered in England and Wales with registered number 01377658)

Registered and Head Office
DS Smith Plc
350 Euston Road
London
NW1 3AX

Directors

Gareth Davis	*(Non-executive Chairman)*
Miles Roberts	*(Group Chief Executive)*
Adrian Marsh	*(Group Finance Director)*
Jonathan Nicholls	*(Senior Independent Director)*
Christopher Britton	*(Independent Non-executive Director)*
Ian Griffiths	*(Independent Non-executive Director)*
Kathleen O'Donovan	*(Independent Non-executive Director)*
Louise Smalley	*(Independent Non-executive Director)*

19 June 2018

Dear Shareholder,

Proposed Acquisition of Europac, fully underwritten Rights Issue and Notice of General Meeting

1. Introduction

On 4 June 2018, DS Smith announced its Proposed Offer for the entire issued share capital of Europac, a leading Western European integrated packaging business for cash consideration of EUR 1,667 million (approximately £1,453 million) (the "**Acquisition**"). DS Smith will absorb or refinance Europac's outstanding financial indebtedness at Completion. Headroom has been built into the New Debt Facility Agreement to ensure that DS Smith is able to refinance Europac's financial indebtedness, if necessary, including where change of control provisions apply.

The Proposed Offer will be financed through:

(a) approximately £1,000 million (c.EUR 1,148 million) net of expenses fully underwritten Rights Issue; and,

(b) the utilisation of up to €740 million (c.£645 million from a new, fully committed debt facility (the "**New Debt Facility Agreement**")

The Rights Issue and the New Debt Facility Agreement are described more fully in paragraph 7 of this letter.

DS Smith has received undertakings to accept the Acquisition from a total of 58.97 per cent. of the entire share capital of Europac (the "Acceptance Undertakings"). The Acceptance Undertakings comprise:

- the Irrevocable Undertakings, which are binding in all circumstances, from certain members of the Isidro family, including the Executive Chairman, the Executive Vice Chairman and two further Board members of Europac, and other key shareholders representing 52.83 per cent. of the entire share capital of Europac; and
- the Treasury Shares Commitment, being agreement from the Board of Europac that it will procure acceptance at the start of the acceptance period for the Acquisition in respect of all treasury shares held by Europac representing 6.14 per cent. of the entire share capital of Europac (subject to fiduciary

duties and to issuing the mandatory board report taking into account the relevant financial and legal advice).

Europac is a leading Western European, integrated packaging business with assets concentrated in the Iberian peninsula and France, operating from 24 locations and having c.2,300 employees.

For the year ended 31 December 2017, Europac had revenues of EUR 868 million (c.£756 million), Consolidated EBITDA of EUR 158 million (c.£138 million) and an EBITDA margin of 18.2 per cent. Europac's operations are split into two divisions (Paper and Packaging). For Financial Year 2017 Europac's Paper/Packaging divisional revenue split was 56 per cent./44 per cent.

Europac operates across the entire paper and packaging value chain including raw materials, paper manufacturing, design, packaging manufacturing and customer logistics. Customers in Spain and Portugal accounted for 53 per cent. of revenue generated and customers in France for 34 per cent. of revenue generated in the year ended 31 December 2017. Europac's Paper division produced approximately 940,000 tonnes of kraftliner and recycled papers and 360,000 tonnes of corrugated packaging in the year ended 31 December 2017. Europac has a diversified customer portfolio, with a strong FMCG agri-food and e-commerce orientation.

DS Smith is a leading multi-national provider of corrugated packaging in Europe and the United States, supported by paper and recycling operations. DS Smith has a growing business with global customers and the Acquisition of Europac further strengthens DS Smith's platform to address these growing customer opportunities.

DS Smith believes that the Acquisition represents an exceptional scale opportunity to build its position in a key packaging growth region. Specifically, DS Smith plans to build upon Europac's high quality, well-invested operational asset base and distribution network on the Iberian peninsula and in France to support Europac's existing customers and DS Smith's multi-national customers, many of whom have operations in these regions.

DS Smith also believes the Acquisition will provide a clear opportunity to develop Europac's packaging assets and to strengthen DS Smith's global supply chain, delivering significant integration benefits, cost synergies and strong financial returns to DS Smith's shareholders.

DS Smith will draw upon its considerable experience in previous integrations to build on Europac's regional market presence and expertise in the management of paper and packaging assets to drive improved performance and realise the combined strength of DS Smith and Europac.

In view of its size, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules, and, therefore, requires the approval of the Shareholders. The Acquisition is conditional on, among other things, such approval being given. Accordingly, a General Meeting of Shareholders has been convened at 11.00 a.m. on 10 July 2018 to be held at Melia White House, Albany Street, London NW1 3UP. The Notice of General Meeting can be found at the end of this Circular.

DS Smith currently intends to seek the delisting of the Europac Shares as soon as practicable following Completion. If the Proposed Offer is accepted by a high number of shareholders, it is currently intended that DS Smith and Europac will apply to the CNMV for authorisation to delist Europac Shares without making a delisting tender offer.

On 4 June 2018, the Company also announced it had initiated a strategic review of DS Smith's Plastics division, in accordance with DS Smith's stated strategy to be the leading supplier of sustainable packaging solutions and increasing focus on the production of high quality, cost effective corrugated packaging. The Company will update investors with regards to this process at the appropriate time.

The Board considers that the Acquisition is in the best interests of DS Smith and its Shareholders as a whole and recommends that Shareholders vote in favour of the Resolution, as each DS Smith Director intends to do (or seeks to procure to be done) in respect of his or her own legal and beneficial holdings of Ordinary Shares.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why the Board considers it to be in the best interests of the Company and the Shareholders as a whole and to recommend that you vote in favour of the Resolution.

2. Strategy

The DS Smith Group's vision is to be the leading global supplier of sustainable packaging solutions. Its goal is to deliver growth through offering comprehensive customer service, high quality products and innovative and sustainable solutions to its customers. To build a successful and sustainable business model that consistently delivers returns above its cost of capital, the DS Smith Group focuses on the following strategic priorities:

- **To delight its customers** by delivering outstanding results to them as it increases their sales, reduces their costs and manages their risk.
- **To realise the potential of its people** by creating a safe environment where every colleague can use and develop their skills and ideas.
- **To double its size and profitability** by driving operational excellence, growing market share and expanding into new markets.
- **To lead the way in sustainability** by championing sustainable supply cycle solutions and using materials responsibly throughout its production processes and beyond.

Over the last eight years, DS Smith has built a leading position in its core European markets, through acquisitions and growing its existing operations organically. In 2017, with the acquisition of 80 per cent. of Interstate Resources, DS Smith expanded its paper and packaging operations into North America for the first time, to address a significant growth opportunity in the largest single global paper and packaging market and provide broader coverage for its multi-national customer base as well as global customers based within the US market.

DS Smith has maintained a close commercial relationship and built strong dialogue with Europac over many years and the Board now believes that the acquisition of Europac represents an important next step in strengthening its paper and packaging positions in the Iberian Peninsula and France in support of its multi-national customers' requirements.

In order to achieve this DS Smith intends to continue to focus on leveraging its innovative packaging solutions strategy across the Enlarged Group's multi-national FMCG and e-commerce orientated customer base.

Since 2010, DS Smith has targeted five medium-term financial criteria that underpin its strategy. The Board believes that the Acquisition is consistent with these medium-term financial criteria and that, following the Acquisition, the Enlarged Group will continue to target these criteria, which are:

- organic corrugated box volume growth (organic volume of corrugated box products sold measured by area) from packaging at least GDP plus 1 per cent.;
- a return on sales (earnings before interest, tax, amortisation and adjusting items as a percentage of revenue) target of between 8 and 10 per cent. This metric was upgraded from between 6 and 8 per cent. for the financial year ended 30 April 2011 and between 7 and 9 per cent. for the financial years ended 30 April 2012 to 30 April 2015;
- a return on average capital employed (earnings before interest, tax amortisation and adjusting items as a percentage of average capital employed over the financial year) of between 12 and 15 per cent.;
- a net debt/EBITDA ratio (net debt at the period end, over earnings before interest, tax, depreciation, amortisation and adjusting items over the financial year) of less than or equal to 2.0 times; and
- cash conversion (free cash flow before tax, net interest, growth capital expenditure, pension payments and adjusting cash flows as a percentage of earnings before interest, tax, amortisation and adjusting items) of greater than or equal to 100 per cent. of operating profit.

Since 2010, DS Smith has transformed both its geographic footprint and customer offering capability. Its major acquisitions during the period comprise:

- 2010—Otor (€247 million), a leading French corrugated packaging producer, provided DS Smith with an established business in this large market, broader international customers, more technical innovation capability and greater exposure to the large, and more resilient, FMCG market segment.
- 2012—SCA Packaging (€1.6 billion), the second largest corrugated packaging business in Europe, taking DS Smith's reach from five to twenty countries across Europe, better matching the location and scale of the Group's key pan-European FMCG customers.
- 2015—Duropack (€305 million), a leading recycled corrugated packaging business with operations across South Eastern Europe which, combined with DS Smith's existing operations in Hungary, Slovakia and Austria, enabled DS Smith to develop a strong position in the region.
- 2015—The corrugated activities of Grupo Lantero (€190 million), a well-invested Spanish corrugated producer with a strong focus in the FMCG sector, operating across the Iberian peninsula. This acquisition significantly strengthened DS Smith's operations in Spain, the fourth largest market for corrugated packaging within Europe, facilitating the serving of pan-European customers.
- 2017— 80 per cent. of Interstate Resources, Inc. ($920 million), providing a well-balanced and invested platform for the Company to build its position in the North American market. This acquisition addressed a significant customer pull for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets and also strengthened the Group's global supply chain particularly in relation to kraftliner production.
- 2018 — EcoPack and EcoPaper (€208 million), a leading integrated packaging and paper group in Romania. The acquisition significantly increased DS Smith's capacity to serve customers in the high-growth region of Eastern Europe, particularly with respect to EcoPack's and EcoPaper's high-quality packaging assets and light-weight papermaking capability, both of which are strongly aligned to DS Smith's existing product offering.

In addition, DS Smith has acquired smaller corrugated packaging businesses in Spain, Portugal, Greece, the UK and the US, and display businesses in Portugal, Denmark, Turkey and the UK. Together, the acquisitions have created a group which has a leading position across Europe and is increasingly well positioned to serve the growing requirement from large multi-national customers for a limited number of strategic suppliers together with additional innovation and capability to benefit from changing dynamics within the retail environment.

As a result of the acquisitions, DS Smith has driven further value through efficiencies and economies of scale, in particular in the area of procurement. DS Smith has also leveraged the impact of innovation through the roll-out of Impact and PackRight Centres and has been able to roll out programmes for the more efficient and effective manufacture of corrugated packaging.

The acquisition of Europac is consistent with DS Smith's acquisition strategy which has been predominantly focussed on expanding its corrugated paper and packaging footprint and capability in those geographic areas where it was underrepresented.

In addition to the acquisition-led strategy, DS Smith has also taken other significant strategic actions, including:

- focussing capital investment on areas and products that support recycled packaging for multi-national FMCG customers and global brands;
- strengthening the business portfolio of the DS Smith Group through the expansion of its e-commerce, point of sale and display capabilities;
- strengthening the DS Smith Group's operational structure, adding additional resources in key commercial and operational functions of the business, with the objective of improving key processes for managing a growing business with global customers, operations and supply chains; and
- recycling of capital into its core business areas through selectively disposing of non-core assets, such as the office products business Spicers in December 2011. Consistent with this longstanding approach, DS Smith announced on 4 June 2018 that it would commence a strategic review of its Plastics division, reflecting the continuing focus on corrugated packaging.

The Board remains committed to owning certain strategic paper manufacturing assets, as in the case of DS Smith's 2017 acquisition of an 80 per cent. interest in Interstate Resources, Inc. in the United States

and the Romanian paper mill at Zărnești as part of the acquisition of EcoPack and EcoPaper. DS Smith will continue to evaluate the Enlarged Group's paper requirements on a commercial basis and the Acquisition will also provide an opportunity for DS Smith to assess the Enlarged Group's paper asset base.

DS Smith plans to build upon the Europac Group's well-invested operational asset base, technology and distribution network in Iberia and France to support the Europac Group's existing customers and DS Smith's multinational customers. DS Smith will draw upon its experience in previous integrations to realise the combined strength of the Enlarged Group.

3. Background to and reasons for the Acquisition

The Board believes that the Acquisition represents an exceptional scale opportunity to enhance DS Smith's position in one of the largest and fastest growing European fibre-based packaging markets to further accelerate DS Smith's vision to be the leading supplier of sustainable packaging solutions on a broader geographic basis.

The Board believes that the Acquisition has a highly compelling strategic rationale, will create significant value for customers and expects it to create consistent and attractive returns for Shareholders:

- Exceptional scale opportunity to enhance DS Smith's customer offer in a key packaging growth region;
- Clear opportunity to develop Europac's packaging assets;
- Strengthens DS Smith's global supply chain;
- Significant cost synergies, delivering estimated €50 million (c.£44 million) annual run-rate pre-tax cost synergies identified from procurement and operational efficiencies by the end of 30 April 2021 with over 50 per cent. achieved in the first full financial year; and
- Anticipated to be accretive to EPS and offering an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital in the first full financial year following Completion.

Overall, the Acquisition is expected to create a higher quality, higher margin group with further growth potential. In making the Acquisition, DS Smith expects to create significant value for its customers and offer Shareholders attractive financial returns.

3.1 *Exceptional scale opportunity to enhance DS Smith's customer offer in a key packaging growth region*

DS Smith believes that Western Europe, and the Iberian Peninsula in particular, has clear potential for further development, based on the strong regional demand and momentum from DS Smith and Europac customers for retail-ready packaging initiatives, e-commerce and increased fibre-based packaging efficiency. DS Smith's current Iberian assets have consistently delivered growth ahead of the average of the rest of the DS Smith Group.

Europac is a high quality business centred on the Iberian peninsula, with an attractive growth and margin profile and a leading market presence in a key packaging growth region for DS Smith.

In addition to the opportunities from Europac's existing customer base, the Board believes that there are also clear opportunities to drive additional revenue growth through the strong pull effect for DS Smith's offering and multi-national capabilities from existing customers and the development of relationships with new customers.

The Acquisition is a highly complementary fit with DS Smith's current Western European asset base and builds on the successful acquisitions of Andopack, Lantero, Gopaca and P&I Display in the region and is anticipated to transform the scale and breadth of the Enlarged Group's operations and customer offering in the Iberian peninsula.

3.2 *Clear opportunity to develop Europac's packaging assets*

Europac has direct exposure to the strong underlying trends driving pan-European market demand including the continued rise of e-commerce, changes in consumption style, customisation and sustainable paper packaging.

DS Smith believes that though Europac is well positioned, it has not capitalised on the strong fundamentals of the pan-European packaging market, and in particular that there is a clear opportunity to develop the performance of Europac's packaging assets, which have been impacted by the short-term lag effect of significant paper price increases. The Acquisition of Europac enhances DS Smith's Iberian market position and offers substantial growth, margin and customer opportunities.

Europac has a diverse, long-term customer portfolio which is primarily orientated towards value-added packaging segments (e.g. agri-foods, FMCG and e-commerce). The Board believes there is a significant packaging opportunity within the Europac customer base to drive sales by leveraging DS Smith's insight into lightweight, fibre-based packaging and in particular its retail-ready and e-commerce expertise. Europac also shares DS Smith's strong emphasis on design and innovation with both companies successfully employing customer-centric strategic partnership models.

DS Smith intends to apply its significant relevant expertise, drawn from delivering value in previous regional integrations, to improve performance in the Europac packaging division by using DS Smith's insight to drive sales, in particular utilising its retail-ready and e-commerce expertise. DS Smith's strategy of focussing on value-added products and services has also enabled DS Smith to reduce its customers' supply chain costs, increasing the value of DS Smith's products to customers, and simultaneously assisting in the mitigation of raw material inflation.

DS Smith also believes that there is an opportunity to improve the operating efficiencies of Europac's packaging operations. DS Smith's established working practices are described in more detail in paragraph 3.4 below.

DS Smith intends that the combined business will continue to invest in packaging innovation and drive value into all areas of the supply chain and leverage DS Smith's strong track record of delivering value in previous integrations, in order to build on its recent successes to achieve a leading market position in Iberia, with substantial growth and margin potential.

3.3 ***Strengthens DS Smith's global supply chain***

Europac is a well-invested, well-established, vertically integrated packaging company, with a high quality, geographically complementary asset base with dedicated kraftliner production capability.

DS Smith's 2017 acquisition of Interstate Resources, has demonstrated the advantage of global procurement benefits and the Acquisition of Europac will be an important addition to DS Smith's global supply chain capabilities with the addition of production assets in Europe.

The Board remains committed to DS Smith's short paper strategy, while retaining an appropriate level of supply and reflecting the significant historical and future expected growth of packaging production. The Acquisition also provides an opportunity for the Board to assess the paper asset base of the Enlarged Group once Europac is integrated.

3.4 ***Substantial annual run-rate pre-tax cost synergies of €50 million and further integration benefits identified***

DS Smith has a very experienced management team with proven integration expertise based on a strong track record of integrating acquisitions, realising cost synergies from procurement and operational efficiencies and driving revenue growth. DS Smith believes that as a result of its long standing relationship with Europac, knowledge of the market and collaborative due diligence process that it will achieve similar success in respect of the Acquisition of Europac.

The Board believes the Enlarged Group will also, with a broader pan-European and global customer presence, be well positioned to benefit from enhanced revenue growth prospects. The attractive returns delivered by DS Smith's Duropack, Interstate Resources, Lantero, Otor and SCA Packaging acquisitions demonstrate the benefit accruing from functional disciplines (including commercial, procurement, human resources and finance) operating across a broader business.

The Board has developed a clear integration plan with paths to cost synergy achievement and believes that the Acquisition presents significant opportunities for recurring pre-tax cost synergies of approximately EUR 50 million (£44 million) by 30 April 2021.

These cost synergies are expected to be realised through cost reductions, with approximately 70 per cent. through operational efficiencies, including the optimisation of paper uses implementing DS Smith's technology and operational practices at Europac and procurement benefits, and approximately 30 per cent. expected to be through efficiencies at the corporate centre and paper and packaging divisions.

DS Smith estimates one-off cash costs, including both capex required and one-off exceptional items, to implement the integration and deliver these cost synergies of approximately €70 million. Approximately €55 million of the full one-off costs will be incurred largely by the end of the first full financial year. In addition there is expected to be costs of approximately £50 million in relation to the Acquisition and related financing. DS Smith also estimates there will be a potential working capital impact as a result of integrating Europac's paper assets into DS Smith's supply chain.

The estimated cost synergies are contingent on the Acquisition completing, could not be achieved independently and reflect both beneficial elements and relevant costs. The expected cost synergies have been calculated on the basis of the existing procurement and operational structures of DS Smith and Europac.

In assessing the estimate of cost synergies, the Board and management have been aided by their strong track record of integration experience, having completed 19 acquisitions since 2010 including the integration of Otor and SCA Packaging, more recently, Duropack in South-Eastern Europe, Lantero in Spain and in 2017 acquiring 80 per cent. of Interstate Resources Inc. in North America. DS Smith will be assisted and supported in the integration process by an experienced Europac management team.

The above statement of estimated cost synergies relates to future actions and circumstances, which, by their nature involve risks, uncertainties, contingencies and other factors. The figures set out in the preceding paragraphs are unaudited numbers based on management estimates.

3.5 ***Attractive financial returns***[1]

The Board believes that the Acquisition will also be financially attractive for Shareholders taking into account the terms of the Acquisition and the expected cost synergies and is consistent with DS Smith's focus on maintaining its medium-term financial targets.

The Acquisition is expected to be accretive to EPS in the first full financial year following Completion[2], excluding any benefit other than cost synergies.

The Directors believe that the Acquisition will offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital in the first full financial year following Completion, using only cost synergies and before exceptional costs and anticipate further EPS growth and pre-tax return on invested capital accretion over the medium-term.

4. Information on the Europac Group

Founded in 1995, Europac is a leading Western European, integrated packaging business. Europac's core business is the manufacture and sale of paper and corrugated board for packaging, and the manufacture of corrugated board packaging. The Europac Group has its headquarters in Spain alongside four paper mills and 14 packaging sites, and five waste management sites across Spain, Portugal and France.

Europac's business model is based on the vertical integration of its paper and packaging divisions. Europac's paper division produces a wide variety of papers and weights, including a significant volume of kraftliner paper – Europac is one of only five companies in Europe to produce this paper. In Financial Year 2017, sales within Europac's paper division grew by approximately 9.9 per cent. driven by paper price rises and strategic positioning in higher value added segments.

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[1] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

[2] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

Europac's packaging division is predominantly focused on the agri-food, FMCG and e-commerce sectors and provides a wide variety of packaging solutions including retail-ready, heavy-duty and online packaging. In Financial Year 2017 packaging division sales grew by 6.5 per cent., driven by progress in every geographic market where it is represented, particularly in Spain. The packaging division experienced a short-term lag effect driven by increased paper prices which generated significantly increased raw material costs suppressing profitability.

The Europac Group owns four paper mills and 14 packaging sites which would transform DS Smith's regional capabilities, geographic coverage and market share along with five waste management sites adding to DS Smith's existing recycling operations. These facilities, combined with access to approximately 8,000 hectares of managed forest, allowed Europac's Paper division to produce approximately 940,000 tonnes of kraftliner and recycled papers and 360,000 tonnes of corrugated packaging in the year ended 31 December 2017. Europac's kraftliner paper supply via its Viana do Castelo mill in Portugal will provide an important addition to DS Smith's global supply chain.

On a consolidated basis, over the last three financial years (between Financial Years 2015 and 2017) Europac revenues grew at 3.8 per cent., CAGR and Consolidated EBITDA grew at 19.3 per cent., and CAGR and Consolidated EBITDA margins improved by 440bps to 18.2 per cent.

On a consolidated basis, in Q1 FY18 Europac revenues grew at 12 per cent. against Q1 FY17, Consolidated EBITDA grew at 59.1 per cent. against Q1 FY17, and Consolidated EBITDA margin improved by 620bps to 21.0 per cent.

5. Information on the DS Smith Group

DS Smith is a leading, vertically integrated international supplier of corrugated packaging. As at 30 April 2018, DS Smith employed approximately 28,500 people across its approximately 200 manufacturing locations and 42 Impact and PackRight Centres, in 37 countries. DS Smith operates six core divisions: UK, Western Europe, DCH and Northern Europe, Central Europe and Italy, North American Paper and Packaging and Plastics. For the 2018 Financial Year, the Group's customer base for its corrugated box products was made up of approximately 68 per cent. FMCG, food and e-commerce.

DS Smith is listed on the main market of the London Stock Exchange and is a member of the FTSE 100 index. As at 1 June 2018, being the latest practicable date prior to the date of the DS Smith Announcement, DS Smith had a market capitalisation of approximately £6.0 billion. In the 2018 Financial Year, DS Smith's sales volumes included 2.9 million tonnes of CCM, 8.0 billion square metres of corrugated board and 5 million tonnes of recycled fibre.

The DS Smith Group's principal operations are designing and manufacturing corrugated packaging. In order to support its packaging operations, the DS Smith Group has recycling operations that collect used paper and corrugated cardboard, from which the DS Smith Group's paper manufacturing facilities make the CCM used in corrugated packaging. The DS Smith Group, through its DS Smith Plastics business, also designs and manufactures certain types of plastic packaging, in particular, the plastic bags and taps for bag-in-box packaging and rigid crates for bottled liquids.

Since 2010, DS Smith has transformed both its geographic footprint and customer offering capability. Its major acquisitions during the period comprise Otor (€247 million), SCA Packaging (€1.6 billion), Duropack (€305 million); Lantero (€190 million); 80 per cent. of Interstate Resources ($920 million); and EcoPack and EcoPaper (€208 million). Consistent with its strategic goal of increasing size and profitability, DS Smith is continuously seeking further opportunities to expand its scale and improve the quality of its businesses through strategic acquisitions.

For the 2018 Financial Year, DS Smith reported revenue of £5,765 million, adjusted operating profit of £530 million, operating profit after adjusting items of £483 million and profit before income tax and adjusting items of £380 million.

6. Principal terms and conditions of the Proposed Offer

In order for the Proposed Offer to become unconditional, the following conditions precedent must be met:

- the Shareholders must approve the Resolution at the General Meeting;

- at least 49,618,920 Europac Shares being tendered in acceptance of the Proposed Offer Proposed Offer (including the treasury shares currently held by Europac), representing greater than 50 per cent. of Europac's entire share capital. DS Smith has received Acceptance Undertakings, in aggregate covering a total of 58,520,671 Europac Shares, representing 58.97 per cent. of the entire share capital of Europac as at the Latest Practicable Date; and
- the EU Commission making a decision to approve the Acquisition or, to the extent the Acquisition or any matter arising from it is referred to the competent authorities in one or more Member States, those competent authorities making a decision to the same effect.

If the acceptance condition relating to the tendering of acceptances of the Acquisition is fulfilled during the acceptance period for the Proposed Offer, DS Smith intends to delist Europac's shares from their listings on the Madrid and Barcelona stock markets.

If the acceptance condition relating to the tendering of acceptances of the Proposed Offer is not fulfilled during the acceptance period for the Proposed Offer, DS Smith may waive the condition in accordance with Spanish law. As at the Latest Practicable Date, DS Smith's current intention in such an event would be to not waive this condition. DS Smith will undertake in the Offer Document that following the CNMV notifying it of the outcome of the Proposed Offer, DS Smith shall, if applicable, notify the CNMV within one day whether or not it intends to waive this condition.

The conditions of the Proposed Offer are more fully described at page 43 (*Principal terms and conditions of the Proposed Offer*), below, and within the DS Smith Announcement which is incorporated by reference into this Circular.

7. Financing of the Acquisition

Rights Issue

DS Smith is proposing to raise approximately £1,000 million (c.€1,148 million) of net proceeds pursuant to the Rights Issue. The Rights Issue is being fully underwritten by the Joint Underwriters, subject to certain customary conditions. The Rights Issue price of 350 pence per New Ordinary Share represents a 36.3 per cent. discount to the closing middle market price of DS Smith of 550 pence per Ordinary Share on 1 June 2018, being the latest practicable date prior to the release of the DS Smith Announcement, and a 30.9 per cent. discount to the theoretical ex-rights price of 507 pence per share to be issued under the Rights Issue, calculated by reference to the closing middle market price on the same basis.

Subject to the fulfilment of, *inter alia*, the conditions set out below, the Company will offer 293,064,829 New Ordinary Shares to qualifying Shareholders at a price of 350 pence per New Ordinary Share, payable in full on acceptance. The Rights Issue will be offered on the basis of:

3 New Ordinary Shares for every 11 existing Ordinary Shares

held on the Record Date, and so in proportion to any other number of existing Ordinary Shares then held and otherwise on the terms and conditions set out in this document.

Qualifying Non-CREST Shareholders with registered addresses in any of the Excluded Territories will not be sent provisional allotment letters and will not have their CREST stock accounts credited with nil paid rights, except where the Company and the Joint Underwriters are satisfied that such action would not result in the contravention of any registration or other legal or regulatory requirement in such jurisdiction.

Fractions of New Ordinary Shares will not be allotted to any qualifying Shareholders, but will be aggregated and sold in the market for the benefit of DS Smith.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing Ordinary Shares.

The Rights Issue is conditional, among other things, upon:

(a) the Company having applied to Euroclear for admission of the nil paid rights and fully paid rights to CREST as participating securities, and no notification having been received from Euroclear on or before

Admission of the New Ordinary Shares that such admission or facility for holding and settlement has been or is to be refused;

(b) Admission of the New Ordinary Shares becoming effective by not later than 8.00 a.m. on 10 July 2018 (or such later time and/or date as the Joint Underwriters and the Company may agree in advance in writing); and

(c) the Underwriting Agreement becoming unconditional in all respects (save for the condition relating to Admission of the New Ordinary Shares, nil paid, to the Official List and to trading on the London Stock Exchange's main market for listed securities) and not having been rescinded or terminated in accordance with its terms prior to such admission of the New Ordinary Shares.

Application will be made for the New Ordinary Shares to be admitted to listing on the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission of the New Ordinary Shares will become effective and dealings in the New Ordinary Shares will commence at 8.00 a.m. on 10 July 2018.

The Rights Issue is not conditional on Completion. The Rights Issue may therefore complete while the combination does not. In the event that Admission of the New Ordinary Shares is effected but Completion does not occur, the DS Smith Directors' current intention is that the proceeds of the Rights Issue will be applied to reducing the Company's net indebtedness on a short-term basis while the DS Smith Directors evaluate alternative uses of the funds. If no such uses can be found, the DS Smith Directors will consider how best to return surplus capital to Shareholders. Such a return could carry fiscal costs for certain Shareholders, will have costs for DS Smith and would be subject to applicable securities laws.

The DS Smith Directors, who as at the Latest Practicable Date hold in aggregate 2,140,325 Ordinary Shares, representing 0.21 per cent. of the Company's existing issued ordinary share capital, each intend to take up their rights in full or in part in respect of the New Ordinary Shares to which they are entitled or, where their Ordinary Shares are held in trust or with nominees, such DS Smith Directors intend to recommend that such rights be taken up in full or in part.

New Debt Facility Agreement

On 4 June 2018, DS Smith entered into a €740 million bridge facility agreement (c.£645 million) (the "**New Debt Facility Agreement**") with Goldman Sachs and J.P. Morgan Securities plc as mandated lead arrangers (the "**Arrangers**"), Goldman Sachs International Bank and JPMorgan Chase Bank, N.A., London Branch as original lenders (the "**Original Lenders**"), Goldman Sachs international Bank and J.P. Morgan Securities plc as the CNMV guarantee issuing banks (the "**Debt CNMV Guarantee Issuing Banks**") and J.P. Morgan Europe Limited as agent (the "**Facility Agent**").

The New Debt Facility Agreement provides for DS Smith to receive one loan (the "**Loan**") from the Original Lenders, which may be used to finance the Acquisition, pay related costs and expenses and for refinancing any existing indebtedness of the Target Group. The Loan is available to be drawn until the earlier of: (i) 31 March 2019; (ii) the date on which the Offer lapses or is withdrawn, annulled or declared ineffective; and (iii) the Offer Settlement Date (the "**Availability Period**"). Drawing the Loan is subject to the satisfaction of customary conditions precedent.

DS Smith is initially required to repay the Loan within one year, although it has four extension options allowing it to extend this repayment date by six months at a time (meaning that the final repayment date could be extended to fall three years after the original date of the date of the New Debt Facility Agreement). The four extension options may be unilaterally exercised by DS Smith except in circumstances where a default has occurred and is continuing under the New Debt Facility Agreement. To the extent that the maturity date of the Loan under the New Debt Facility Agreement could not be extended by DS Smith, DS Smith would look to alternative means to fund the loan repayment, for example, by way of a refinancing.

Pursuant to the New Debt Facility Agreement, the Debt CNMV Guarantee Issuing Banks will, subject to the satisfaction of certain conditions precedent by DS Smith, issue guarantees in favour of the CNMV in a maximum amount equal to the consideration for the Acquisition less the Rights Issue Proceeds (the "**Debt CNMV Guarantee**"). The CNMV will only be entitled to call upon the Debt CNMV Guarantee where DS Smith fails to fund the consideration for the Acquisition. Where the CNMV calls upon the Debt CNMV Guarantee Issuing Banks would make a payment under a Debt CNMV Guarantee (and in certain other

circumstances), DS Smith will be deemed to have drawn down an equivalent amount under the New Debt Facility Agreement.

The New Debt Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations, and provided that prepayment would not be required until after closing of the Offer); (C) receipt of certain disposal proceeds; and (D) where DS Smith receives proceeds pursuant to a debt financing (subject to certain exceptions) or the Rights Issue (unless the Rights Issue Proceeds have been used towards payment of the Offer Price). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000 and provided that no CNMV Guarantee is outstanding. The New Debt Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period, and that DS Smith can cancel the commitment of a lender which has defaulted (subject to certain exceptions).

The Loan is unsecured. The New Debt Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The New Debt Facility Agreement contains various customary representations and undertakings (including a financial covenant).

The New Debt Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

Equity CNMV Guarantee Agreement

On 4 June 2018, DS Smith entered into an equity CNMV guarantee agreement (the "**Equity CNMV Guarantee Agreement**") with Citibank Europe plc, UK Branch, Goldman Sachs International and J.P. Morgan Securities plc as the equity CNMV guarantee issuing banks (the "**Equity CNMV Guarantee Issuing Banks**").

Pursuant to the Equity CNMV Guarantee Agreement, the Equity CNMV Guarantee Issuing Banks will, subject to the satisfaction of certain conditions precedent by DS Smith, issue guarantees in favour of the CNMV in a maximum amount equal to the Rights Issue Proceeds (the "**Equity CNMV Guarantees**"). The CNMV will only be entitled to call upon the Equity CNMV Guarantees where DS Smith fails to fund the consideration for the Acquisition. The Company shall be required to place the Rights Issue Proceeds in an account which is subject to certain conditions such that, where the CNMV calls upon the Equity CNMV Guarantee Issuing Banks to make a payment under an Equity CNMV Guarantee (and in certain other circumstances), the Equity CNMV Guarantee Issuing Banks shall have access to such funds.

8. Irrevocable Undertakings and Treasury Shares Commitment

Irrevocable Undertakings

DS Smith has received Irrevocable Undertakings which are binding in all circumstances from certain members of the Isidro family, including the Executive Chairman, the Executive Vice Chairman and two further Board members of Europac, and two further key shareholders, to accept the Acquisition, in aggregate covering a total of 52,430,671 Europac shares and representing approximately 52.83 per cent. of the entire share capital of Europac on the Latest Practicable Date. In particular, the Irrevocable Undertakings commit all the relevant shareholders to accept the Acquisition in respect of such Europac shares as are held by each of them within the first five stock exchange trading days of the term for acceptance of the Proposed Offer (even in the event of competing takeover bids which offer a consideration higher than the Offer Price). The Irrevocable Undertakings also commit the Isidro family shareholders and other key shareholders to, *inter alia*, exercise (or, where applicable, procure the exercise of) all rights attaching to their holdings of the Europac shares (or where such shareholders are directors of the Europac Board, to exercise all of their rights and powers in relation to Europac) to support the success of the Acquisition. The Irrevocable Undertakings also contain customary provisions in respect of the shareholders who are also members of the Europac Board, relating to conduct of Europac's business prior to completion, assistance with provision of information and satisfaction of the conditions of the Acquisition.

The terms of the Irrevocable Undertakings are more fully described at page 45 (*Irrevocable Undertakings*), below.

Treasury Shares Commitment

The Board of Europac has committed that it will not cancel, and will procure acceptance of the Proposed Offer, in respect of all treasury shares held by Europac, which currently number 6,090,000 representing 6.14 per cent. of the entire share capital of Europac, subject to further assessment of the Proposed Offer on the basis of the documentation to be prepared by DS Smith and to be approved by the CNMV, as well as taking into account any advice received from its legal or financial advisers. Such acceptance must be procured by the date on which the Europac board publishes its formal report on the Acquisition, providing that such report expresses a favourable opinion on the Acquisition, there is no higher competing offer and that circumstances have not materially negatively changed by that date.

9. Break Fee Agreement

On 4 June 2018, DS Smith and Europac entered into a break fee agreement ("**Break Fee Agreement**") pursuant to which:

(i) DS Smith agrees to pay to Europac a fee of EUR 69.357 million, payable in the event that the shareholders do not approve the Resolution at the General Meeting, however, in no event shall such fee be payable where:

  (a) a competing proposal: (i) completes, becomes effective, or is declared or becomes unconditional in all respects; and (ii) is supported or agreed to by the Europac Board by means of an Europac board resolution, decision or proposal, or reported on favourably in any report on the competing proposal that is produced by the Europac Board; or

  (b) a competing proposal announcement is made and after that competing proposal announcement DS Smith makes a formal announcement with the consent of the CNMV (to the extent such consent is required) that the Acquisition will not be made, or that the Acquisition will be withdrawn or not otherwise settled.

(ii) Europac agrees to pay to DS Smith a fee of EUR 15.649 million, payable in the event that a competing higher offer is made and proceeds to settlement.

The Break Fee Agreement contains customary provisions relating to conduct of business prior to completion, assistance with provision of information and satisfaction of the conditions of the Proposed Offer, including agreement by Europac not to modify the share capital of Europac in any way, including by increasing or decreasing the number of issued shares by way of bonus issue or cancellation of treasury stock (subject to fiduciary duties).

The Break Fee Agreement also includes an obligation on Europac to tender all the Europac Shares that Europac holds in treasury by not later than the date when the Europac Board publishes its report on the Proposed Offer, and not to revoke such acceptance, all the above subject to fiduciary duties and to further assessment of the Proposed Offer on the basis of the Prospectus, as well as taking into account any advice received from Europac's legal or financial advisers, and providing that: (i) the report referred to above contains a favourable opinion of the Proposed Offer, (ii) there is no competing offer; and (iii) circumstances have not materially negatively changed.

The Break Fee Agreement has been executed by Mr. Enrique Isidro Rincón in the name and on behalf of Europac, further to the resolutions passed by the Europac Board at a meeting held on 30 May 2018, and by Mr. José Miguel Isidro Rincón, Mr. Enrique Isidro Rincón and Mr. Fernando Isidro Rincón in their capacity as Europac Shareholders.

10. Dividend policy

The Board considers the dividend to be an important component of shareholder returns and, as such, has a policy to deliver a progressive dividend, where dividend cover is between 2.0 and 2.5 times, through the cycle.

The New Ordinary Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive dividends, which includes the final dividend for the financial year ended 30 April 2018.

Further details on DS Smith's dividend policy can be found in paragraph 10 of Part VI (*Additional Information*) of this Circular.

11. Current trading, prospects and trend information

DS Smith

As announced at the pre-close trading update provided on 1 May 2018, DS Smith delivered a strong performance in its financial year to 30 April 2018 with continuing box volume growth, successful ongoing input cost recovery and good momentum in all regions. Since the start of the current financial year, DS Smith Group's performance has continued to be in line with management expectations.

Since the completion of the acquisition of Interstate Resources in August 2017, financial performance of the business has been materially better than the prior year with integration ahead of plan. As a result, DS Smith management have raised cost synergy expectations to an annualised rate of USD 35 million by the third full year of ownership, as previously communicated.

Europac

On 9 May 2018, Europac published its consolidated financial statements for the quarter ended 31 March 2018. On a consolidated basis and relative to performance in the first quarter of 2017, Europac's revenues grew 12 per cent. to €235 million, Consolidated EBITDA grew 59 per cent., to €49 million, and Consolidated EBITDA margins improved by 620bps to 21 per cent.

Since 31 March 2018, Europac has continued to trade in line with the expectations of Europac's management.

12. Management and employees

No changes will be made to the DS Smith Board as a result of the Acquisition, and the DS Smith Board will continue to comprise the Chairman, two Executive Directors (the Group Chief Executive and the Group Finance Director) and an expected six independent Non-Executive Directors. The Board will continue to adhere to the UK Corporate Governance Code.

A side letter has been entered into between DS Smith and Mr. José Miguel Isidro Rincón, Mr. Enrique Isidro Rincón and Mr. Fernando Isidro Rincón, the executive directors of Europac. Subject to the terms of the side letter, the service agreements of the executive directors shall be terminated on completion of the Acquisition.

It is expected that all of the directors of Europac will resign from their offices on completion of the Acquisition.

The Europac Group has high-quality employees and an experienced management team which is expected to contribute further to the success of the Enlarged Group following Completion. The Board intends to respect the existing rights of Europac Group employees.

The organisational structure of the Enlarged Group will be established with the intention of maximising available cost synergies and benefits.

13. Financial effects of the Acquisition on DS Smith

The Directors believe that the Acquisition will:

- be accretive to EPS in the first full financial year following Completion[3], excluding any benefit other than cost synergies; and
- offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital in the first full financial year following Completion, using only cost synergies and before adjusting items, and anticipate further EPS and pre-tax return on invested capital accretion over the medium-term.

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[3] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

The Directors also believe that, following the Acquisition, performance will be consistent with DS Smith's stated medium-term targets.

14. General Meeting and Resolution

The Proposed Offer is conditional upon, among other things, the Shareholders' approval of the Resolution being obtained at the General Meeting. Accordingly, you will find set out at the end of this Circular a Notice of General Meeting convening a General Meeting to be held at 11.00 a.m. on 10 July 2018 at Melia White House, Albany Street, London NW1 3UP.

At the General Meeting, the Resolution will be proposed to approve the Acquisition.

A summary of the Resolution is set out below. The full text of the Resolution is included in the Notice of General Meeting, which is set out in Part VIII of this Circular.

Resolution

The Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

The Resolution proposes that the Acquisition, pursuant to the terms and subject to the conditions contained in the offer document to be approved by the CNMV, be approved and the DS Smith Directors be authorised to take all steps and enter into all agreements and arrangements necessary or desirable to implement the Acquisition.

If the Resolution is not passed, the Acquisition will not complete.

Your attention is again drawn to the fact that the Acquisition is conditional and dependent upon the Resolution being passed. There are also additional conditions which must be satisfied before the Acquisition can be completed.

Shareholders should be aware that it is possible that the Acquisition could fail to complete. The possibility of the Acquisition failing to complete is explained further in Part III (*Principal terms and conditions of the Proposed Offer*) of this Circular.

15. Risk Factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Resolution, please refer to Part II (*Risk Factors*) of this Circular.

16. Employee Share Plans

Outstanding options and awards granted under the Employee Share Plans may be adjusted in accordance with the rules of the relevant Employee Share Plan for any effect the Rights Issue may have on those options and awards. Participants in the Employee Share Plans will be contacted separately with further information on their rights and how their options and awards will be affected by the Rights Issue.

17. Action to be taken

You will find enclosed with this Circular a Form of Proxy for use at the General Meeting. **Whether or not you intend to be present at the General Meeting in person, it is important that you complete and return the Form of Proxy in accordance with the instructions printed on it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to arrive no later than at 9.00 a.m. on 6 July 2018.** Completion and return of the Form of Proxy will not preclude you from attending the General Meeting in person, if you so wish and are entitled.

You may also submit your proxies electronically using your investor code detailed on the Form of Proxy. If you hold shares in CREST, in order for a proxy appointment by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specification and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Registrar (ID RA19) by

9.00 a.m. on 6 July 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

Shareholders wishing to appoint a proxy online can do so by visiting www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the enclosed Form of Proxy. Members who have already registered with the Registrar's online portfolio service Shareview can appoint a proxy by logging into their profile at www.shareview.co.uk using their usual user ID and password. Once logged in, members should click "View" on the "My Investments" page, click on the link to vote and then follow the on-screen instructions.

18. Further information

Your attention is drawn to the further information set out in Part VI (*Additional Information*) of this Circular. **Shareholders should read the whole of this Circular and not just rely on the summarised information set out in this letter.**

19. Recommendation

The Board considers that the Acquisition and the Resolution are in the best interests of DS Smith and the Shareholders as a whole. Accordingly, the DS Smith Board unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the General Meeting, as all Directors intend to do (or procure to be done, as the case may be) in respect of their own beneficial shareholdings, which in aggregate amount to 2,140,325 Ordinary Shares, representing approximately 0.21 per cent. of the total number of voting rights in the Company as at the Latest Practicable Date.

Yours faithfully,
for and on behalf of DS Smith Plc

Gareth Davis
Chairman

PART II

RISK FACTORS

*A number of factors affect the operating results, financial condition and prospects of the DS Smith Group and, if the Acquisition is completed, will affect the Enlarged Group. This Part II (*Risk Factors*) addresses the risks known to DS Smith and the DS Smith Directors which are material risk factors to the Acquisition, will be material new risk factors to the DS Smith Group as a result of the Acquisition, or are existing material risk factors to the DS Smith Group which will be impacted by the Acquisition. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties currently unknown to DS Smith and the DS Smith Directors, or which DS Smith and the DS Smith Directors currently deem immaterial or deem material to DS Smith but which will not result from or be impacted by the Acquisition, may also have a material adverse effect on the business, financial condition, operating results or prospects of the DS Smith Group and the Enlarged Group. If any or a combination of the following risks materialise, there may be a material adverse effect on the Enlarged Group's business, financial condition, operating results and prospects. In such circumstances, the market price of the Company's Ordinary Shares could decline and Shareholders may lose all or part of their investment. The information given is as of the date of this Circular and, except as required by the FCA, the London Stock Exchange, or any other applicable law, will not be updated. Shareholders should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular.*

You should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular (including any information incorporated into this Circular by reference) before deciding whether or how to vote in respect of the Resolution. The risks described below are not set out in any order of priority.

*References in this Part II (*Risk Factors*) to: (i) the acquisition of a company or a business, or an acquired company or business, shall include references to the acquisition of an interest in such business or company; and (ii) the Enlarged Group shall be construed as the DS Smith Group and the Europac Group together if the Acquisition is completed or the DS Smith Group if the Acquisition is not completed, as applicable.*

1. RISKS RELATING TO THE ACQUISITION

1.1 *Completion is subject to conditions which may not be satisfied*

Completion is conditional upon the satisfaction of certain conditions, being: (i) approval of the Acquisition by the Shareholders at a general meeting of the Company; (ii) clearance of the Acquisition under applicable EU competition laws (or to the extent that the EU Commission refers the Acquisition to the competent authorities of one or more Member States, the competition laws of those competent authorities' jurisdictions); and (iii) the tendering in acceptance of the Proposed Offer Europac Shares representing more than 50 per cent. of Europac's entire issued share capital. There can be no assurance that these conditions will be satisfied or waived, if applicable. To the extent that the Acquisition is cleared by the EU Commission (or following referral to the competent authorities of one or more Member States, such competent authorities), there can be no assurance that if a remedy is required in support of that clearance, any such remedy would not have a material adverse effect on the Enlarged Group. Even if all of the conditions to Completion are satisfied, the CNMV authorisation process in relation to the Proposed Offer may take a lengthy period to complete, which could delay the making of the Proposed Offer.

If these conditions are not satisfied or waived, the Acquisition will not take effect, either at all or in the manner currently envisaged. If Completion does not occur, DS Smith would nonetheless be required to pay significant fees and other costs incurred in connection with the Acquisition (which would include financing, financial advisory, legal and accounting fees and expenses). If Completion fails to occur as a result of the Shareholders not approving the Resolution at the General Meeting, DS Smith will be required to pay a fee of EUR 69.357 million under the terms of the Break Fee Agreement (except in certain limited circumstances).

1.2 ***The DS Smith Group has incurred and will incur substantial transaction and offer-related costs in connection with the Acquisition***

The DS Smith Group has incurred and will incur significant transaction fees and other costs associated with completing the Acquisition, combining operations and seeking to achieve desired synergies. These fees and costs are substantial and include financing, financial advisory, legal and accounting fees and expenses. Additional unanticipated costs may be incurred in the integration of Europac into the Enlarged Group. Although the DS Smith Directors believe that the realisation of efficiencies related to the Acquisition will offset the integration and transaction costs over time, this net benefit may not be achieved in the near term, or at all.

1.3 ***The Enlarged Group may not realise the targeted cost synergies and other benefits from the Acquisition***

The DS Smith Group is targeting annual run-rate pre-tax cost synergies of approximately EUR 50 million to be achieved by 30 April 2021 from procurement and operational efficiencies resulting from the Acquisition, and the Enlarged Group's financial planning and funding strategies are based in part on realising these synergies. Achieving the advantages of the Acquisition will depend partly on the rapid and efficient management and co-ordination of the activities of the DS Smith Group and the Europac Group, two businesses of considerable size that have functioned independently, with geographically dispersed operations, and with different business cultures and compensation structures. In addition, following the Acquisition, the loss of, or reduction in orders from, any of the Europac Group's largest customer accounts or other significant customer accounts or significant customer disputes regarding shipments, price, quality, or other matters may have a material adverse effect on the expected advantages and other benefits of the Acquisition.

Furthermore, the Acquisition and any uncertainty regarding the effect of the Acquisition could cause disruptions to the businesses of the Enlarged Group. These uncertainties may have a material adverse effect on the Enlarged Group's business and its operations and could cause customers, distributors, other business partners and other parties that have business relationships with the Enlarged Group to defer the consummation of other transactions or other decisions concerning the Enlarged Group's business, or to seek to change existing business relationships with these companies. Any of these factors could prevent the synergy benefits from the Acquisition from materialising, or they may be materially lower than estimated, or may materialise over a longer timeframe. In addition, the costs of funding these synergies may exceed expectations. Such eventualities may have a material adverse effect on the financial position of the Enlarged Group, and, ultimately, the trading price of the Enlarged Group's Ordinary Shares.

1.4 ***The Europac Group may not perform in line with expectations and may result in a write-down or impairment***

Upon Completion, a significant portion of the difference between the purchase price, Europac's net assets at that date and the allocation of costs of the combination to the assets acquired and the liabilities assumed, will be recorded as goodwill. In addition, other intangible assets will be recorded as a result of the purchase price allocation. While the DS Smith Group believes the combination of Europac with DS Smith is strategically and financially compelling, economic, regulatory, competitive, contractual or other factors may result in the Enlarged Group meeting with unexpected difficulties. Furthermore, the business of the Enlarged Group or the synergies expected from the Acquisition may not develop as expected. If any of these factors result in the value of Europac proving to be less than the consideration paid by DS Smith, accounting rules would require that the DS Smith Group reduce the carrying value of that investment and recognise an impairment charge, which would reduce the DS Smith Group's reported assets and statutory earnings, possibly materially, in the year that the impairment charge is recognised.

1.5 ***The Enlarged Group may need to rely on certain key management for the successful operation of the Enlarged Group***

The future success of the Enlarged Group will in part be dependent upon the successful retention and motivation of key members of the Europac Group's management and staff. Prior to Completion there will be no contractual relationship between DS Smith and Europac management in their role as management. Failure to retain certain individuals may affect the Enlarged Group's ability successfully to manage the Enlarged Group. Any failure to retain certain individuals may have a detrimental effect on the future performance of the Enlarged Group.

1.6 ***DS Smith will have foreign exchange risk related to the purchase price for the Acquisition***

The Acquisition will be funded by a combination of the net proceeds of the Rights Issue, the utilisation of the New Debt Facility and existing cash resources. The proceeds of the Rights Issue are denominated in pounds sterling. However, the DS Smith Group may decide to enter into currency hedges in order to limit its total exposure in respect of the Acquisition to adverse currency movements. There could be a period of several months between the date of the Offer and DS Smith's obligation to acquire shares in Europac for which the payment will be made in Euro. During this time, the DS Smith Group will be exposed to foreign exchange risk.

1.7 ***Management attention may be diverted from the DS Smith Group's existing business by the Acquisition and the process of integrating the Europac Group following Completion***

The Acquisition has required, and will continue to require, substantial amounts of both time and focus from the DS Smith Group's management teams, which could divert the attention of those teams from maintaining standards of operation in their respective businesses in the existing DS Smith Group. If the Acquisition is approved, following the Acquisition, the Enlarged Group's management team will also be required to devote significant attention and resources to integrating the Europac Group. There is a risk that the challenges associated with managing the Acquisition will result in the attention of the management teams of the Enlarged Group being diverted to deal with those challenges and that consequently the underlying businesses will not perform in line with expectations.

1.8 ***The financial results of the Enlarged Group will, as a result of the Acquisition and the resulting increased portion of assets, liabilities and earnings denominated in Euros, be more exposed to fluctuations in the exchange rate between the pound sterling and the Euro***

The Enlarged Group will present its financial statements in pounds sterling and will have a significant portion of Euro-denominated assets, liabilities and earnings as a result of the significant assets and revenues and activities of the Europac Group in the EU. The operational and financial results, as well as the equity of the Enlarged Group, will therefore be more sensitive to fluctuations in the exchange rate of the pound sterling against the Euro than they are currently. There has been a high degree of volatility in exchange rates with the pound sterling since June 2016 when there was a vote to leave the EU in a national referendum, with continued volatility following the UK general election in June 2017. A depreciation of the Euro relative to the pound sterling could have an adverse impact on the consolidated financial condition and results of operations of the Enlarged Group.

2. RISKS RELATING TO THE ENLARGED GROUP WHICH RESULT FROM OR ARE IMPACTED BY THE ACQUISITION

2.1 ***The Enlarged Group will be dependent on economic and political conditions in the markets in which it operates***

The DS Smith Group's and the Europac Group's packaging products are generally sold to manufacturers and other intermediaries in both the consumer goods and industrial sectors. Since the markets for packaging products in many industrialised countries are generally mature, there is a significant degree of correlation between economic growth and demand for packaging products, especially with respect to customers outside the FMCG sector. As a result, the DS Smith Group's and the Europac Group's performance depends to a significant extent on a number of macroeconomic factors which impact consumer and commercial spending, all of which are outside their control and difficult to predict. Factors which impact on disposable consumer income and the level of industrial activity include, among other things, GDP growth, unemployment rates, consumer and business confidence, political, social and industrial unrest, the availability and cost of credit, interest rates, taxation, regulatory changes, commodity (including oil and gas) and utility prices and terrorist attacks. These factors could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

The economic and political environment in the EU has contributed to on-going market uncertainty and a sustained period of low economic growth in Europe, with real GDP growth within the EU staying below 2.5 per cent. since 2008. The economic conditions in the Enlarged Group's markets are difficult to predict and there can be no assurance as to the level of future economic growth, which is a factor affecting the demand for certain of the DS Smith Group's and the Europac Group's products. Accordingly, the demand for certain of the Enlarged Group's products is likely to be adversely affected

by a period of slow economic growth, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

Uncertainties and instability in global market conditions have also been further affected by the UK's intended departure from the EU. On 29 March 2017, the UK triggered Article 50 of the Lisbon Treaty, formally beginning the negotiations between the UK and the EU with respect to the UK's exit from the EU, currently expected to occur by 29 March 2019. Until these negotiations have concluded however, and possibly for some time after, the impact of the UK's exit from the EU on the UK and the rest of the EU will be unclear. Political and economic uncertainty in the UK and the EU has and may continue to impact the Enlarged Group's operations. The DS Smith Group has significant operations in the UK and throughout the EU. For the 2018 Financial Year, the DS Smith Group's corrugated packaging activities in the UK and in the rest of Europe represented approximately 19 per cent. and 69 per cent., respectively, of the DS Smith Group's revenue. The majority of the Europac Group's activities are in Europe and its functional accounting currency is the Euro, as a majority of its revenue is denominated in Euros. The Enlarged Group's operations may be negatively impacted in the event that the UK's exit from the EU does not maintain parity rights for the UK and EU companies or the current regulatory framework in one or both of those markets is modified. The referendum in the UK has also given rise to calls for the governments of other EU member states to consider withdrawal, which creates further uncertainty as to the regulatory framework existing between European markets.

Recent social and political movements calling for the secession of Catalonia from Spain have impacted, and may continue to impact, the DS Smith Group's and the Enlarged Group's operations. The DS Smith Group has a significant presence within Spain, including six locations within Catalonia. The Europac Group is headquartered in Madrid, with six facilities, being over a quarter of the Europac Group's facilities, being situated in Spain. In particular, Europac operates a packaging factory in Torrelavit, Catalonia. As a result, following the Acquisition, the Enlarged Group would be more exposed to continued economic and political disturbance in the region. Considerable uncertainty exists regarding the outcome of the secession movement in Catalonia, which could result in changes to legislation, policies, and other factors, and such uncertainty remains following the results of the regional elections that took place in Catalonia on December 21, 2017. Continued political uncertainty relating to the secession movement could also affect economic growth in Catalonia, or across Spain more broadly, and this could have a material adverse effect on the Enlarged Group's profitability.

There is continuing uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of a number of the world's economies, including those of the UK and of the EU. Certain developments may occur from this policy, such as businesses becoming over-leveraged due to the availability of cheaper financing, or the perception that these developments could occur, which may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets.

2.2 ***Fluctuations in cost and availability of raw materials could have a material adverse effect on the Enlarged Group's profitability***

In the 2018 Financial Year, the DS Smith Group's cost of sales amounted to £2,992 million, the largest component of which was paper, plastics and other raw materials. During the financial year ended 31 December 2017, the Europac Group consumed €427.8 million of raw materials and consumables recognised as cost of goods sold. The Enlarged Group's raw material costs will be subject to variations in supply and demand which result in volatility in their pricing.

The Enlarged Group will continue to be exposed to fluctuations in the cost and availability of raw materials despite their expanded paper manufacturing operations (including those acquired in the Acquisition), since the Enlarged Group will remain a net purchaser of CCM from third-party suppliers. An important driver of recovered paper prices, a raw material used to produce CCM, is the balance of supply and demand for paper products in general. The price of recovered paper is also influenced by overseas demand, principally from China, which is largely driven by economic growth in China, as well as the relative strength of the Euro and the US dollar (which impacts demand from continental Europe and the United States, respectively). This exposure could be increased if there was disruption to the Enlarged Group's recycling operations, which collect and trade waste paper to supply certain of its paper mills. The DS Smith Group achieves this through contracts with major suppliers of waste paper and the collection of waste paper from smaller suppliers through its network of collection depots. Any

significant increase in costs or disruption to the Enlarged Group's recycling operations could have a material adverse effect on the operation of the Enlarged Group's paper mills and lead to a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

In 2017, the Chinese government banned the import of certain recovered paper qualities, as well as limiting import licences for paper manufacturers. As a result, recovered paper supplies across Europe have increased, leading to a corresponding drop in prices within Europe. The impact of this change, which amounts to a structural change in the raw material market, continues to be felt throughout 2018.

A proportion of the DS Smith Group's customer contracts contain price adjustment clauses allowing the DS Smith Group to pass increased raw material costs on to its customers. However, not all of the DS Smith Group's agreements contain these clauses and these clauses may not in all cases be effective in offsetting the DS Smith Group's increased costs. In addition, where the DS Smith Group is able to raise prices there is generally a lag between the time the DS Smith Group's raw material costs increase and the time it realises increased pricing from customers. As a result, margins may be reduced for a period of time until price increases are achieved to recover input cost increases. Any inability to recover input cost increases could have a material adverse effect on the Enlarged Group's business, financial condition, future growth prospects and results of operations.

2.3 ***Price fluctuations in energy costs could adversely affect the Enlarged Group's manufacturing costs***

Each of the DS Smith Group and the Europac Group has significant exposure to the cost of energy. The DS Smith Group's total energy costs were approximately £207 million in the 2018 Financial Year, or approximately 4 per cent. of the DS Smith Group's total operating costs for the period. The Europac Group's energy costs are a component of the Europac Group's other operating expenses for the financial year ended 31 December 2017 which rose 10.1 per cent. against the financial year ended 31 December 2016. The DS Smith Group's and the Europac Group's transportation costs are also impacted by energy costs since a key component of transportation costs relates to the cost of petrol.

The Enlarged Group's energy costs could increase as a result of regulatory changes relating to its compliance with the EU Emission Trading Scheme Directive (the ETS). The DS Smith Group and the Europac Group's European paper mills are subject to the ETS. The paper industry has been granted status as a so-called "carbon leakage" sector, and the DS Smith Group's European mills therefore receive a portion of CO2 emission certificates for free. Even with these certificates, there is considerable risk that in the future the Enlarged Group's costs will significantly increase and will not be recovered through higher prices for the Enlarged Group's end products.

The DS Smith Group seeks to manage the risk of increasing energy costs through its energy procurement group, which aims to reduce the volatility of energy costs and to provide the DS Smith Group with a degree of certainty over future energy costs by hedging energy costs with suppliers and financial institutions. If the Acquisition is completed, the DS Smith Group intends to procure the hedging of energy costs for the Europac Group. However, there can be no certainty that the Enlarged Group's energy cost hedging strategy will continue to manage the impact of energy prices in the future. Volatile and increasing energy prices or a failure in its hedging approach could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.4 ***The Enlarged Group is exposed to intense competition in the packaging industry, as well as downward pressure on pricing due to the commoditisation of CCM***

The packaging industry is characterised by commoditisation of products, a high level of price competition and cyclicality, as well as other competitive factors including innovation, design, quality and service. In addition, the packaging industry is also highly fragmented. To the extent that any of the Enlarged Group's competitors are more successful with respect to any key competitive factor either generally or in a particular region, the Enlarged Group's business, results of operations and financial position could be adversely affected. Furthermore, the Group has recently seen competitors in both Europe and the United States convert graphic and newsprint machines into CCM machines, which can reduce the lead time it may take the Group's competitors to increase their production capacity. Such increases in production capacity can also lead to downward pricing pressure. Pricing pressure could also arise from, among other things, limited demand growth and existing overcapacity in a market, price reductions by competitors, the ability of competitors to capitalise on their existing

economies of scale and create excess product supply, the consolidation of competitors or customers, the ability of competitors to operate or successfully relocate or open production facilities in countries where production costs are lower than those in which the Enlarged Group operates and the access of competitors to new technology which the Enlarged Group does not possess.

Competition could be intensified due to a major development or breakthrough in packaging technology or materials which would create a substitute for one or more of the Enlarged Group's key product lines, due to companies developing new cost structures (including through consolidation or relocation to countries with lower material and processing costs), due to competitors establishing co-operative relationships or alliances among themselves or with third parties to increase the competitiveness of their products, or through advances in existing fibre technologies or the development of new fibre technologies. To the extent the Enlarged Group's competitors patent any such technologies, the Enlarged Group may be less able to effectively compete with them. With respect to fibre technologies, the packaging and paper industries have traditionally used wood and recycled fibres in its products, but these industries are increasingly exploring alternative fibres to use in packaging and paper products. The Enlarged Group may be unable to anticipate new fibre technology trends or develop improvements to its current fibre technologies and/or offer new fibre technology substitutes to support changes to customer products and services. Furthermore, the success of the Enlarged Group's ability to keep up with fibre technology developments may be affected by the development efforts of its competitors, which may have more financial and other resources to better ascertain technology trends, customer preferences, and changing business expectations or models. These and other competitive pressures may prevent the Enlarged Group from competing successfully against current or future competitors. Such competitive pressures could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

Furthermore, CCM cannot generally be differentiated by producer, and this standardisation has led to intense price competition resulting in the cyclicality historically observed in the market for CCM. This could in turn lead to a reduction in the Enlarged Group's market share as well as lower product prices for its packaging products for which CCM is the principal production input, both of which could reduce the Enlarged Group's revenue and have a material adverse effect on the Enlarged Group. Although the DS Smith Group and the Europac Group have sought to differentiate a number of their products, the DS Smith Group and the Europac Group still face significant pressure to reduce its per unit cost to achieve commercially acceptable returns, including through achieving economies of scale, lower input costs (including raw materials, energy, transport and labour) and increasing efficiency. In circumstances where the Enlarged Group is unable to adjust its cost base comparable to its competition in these markets or sufficiently differentiate its products, pricing pressure could have a material adverse effect on the Enlarged Group's margins and the profitability of the relevant business and its market share.

2.5 ***The cyclical nature of the paper industry could result in overcapacity and have a material adverse impact on the Enlarged Group's pricing structure***

The paper industry has historically been characterised by a cyclical pattern with periodic overcapacity and resulting pressure on the pricing of packaging products. This cyclicality arises, in part, from the capital intensity of facilities such as paper mills (which generally results in continued production by paper mills as long as paper prices are sufficient to cover their marginal costs), the long lead time between the planning and completion of a new mill and the fact that additions of CCM manufacturing capacity, either by manufacturing sites located within CCM markets or imported into CCM markets by competitors, can be large relative to the overall demand for the product. Consequently, the paper industry has from time to time experienced periods of substantial overcapacity and there can be no assurance that this will not recur. In the absence of sufficient economic growth to generate increased demand or the closure of facilities (either temporarily or permanently) to mitigate the effect, new capacity can cause a period of regional overcapacity which may lead to downward pricing pressure. In periods of overcapacity, industry participants may stop operating certain of their production facilities periodically to reduce inventory levels. The Europac Group's business model is based on vertical integration across each of its businesses – including its paper business. The Enlarged Group would be more sensitive to overcapacity within the paper industry as a result, and in the event that the Enlarged Group reduces or stops production at its mills for any significant length of time whilst its competitors continue production at high levels, the Enlarged Group's sales volumes could be adversely affected without any significant offsetting benefit of improved prices in the market.

These adverse effects could be further exacerbated in the event that producers in certain markets experience overcapacity within their own local and regional markets and seek to increase their level of exports or sales into those markets within which the Enlarged Group operates and do so at pricing levels which are uneconomical for the Enlarged Group. Any of the foregoing could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.6 ***The Enlarged Group may be unable to implement its growth strategy successfully***

The DS Smith Group's vision is to be the leading supplier of sustainable packaging solutions on a broader geographic basis. The Enlarged Group may not be able to implement its growth strategy if its acquisition plans are unsuccessful and it fails to support its Pan-European and multi-national FMCG customers as these companies seek to expand and become more global in their supply chain. Furthermore, the DS Smith Group's Pan-European and multi-national FMCG customers may not increase their purchase of the DS Smith Group's products as the DS Smith Group expands into new geographic markets. A key element of the DS Smith Group's growth strategy is to integrate acquired operations, and the Enlarged Group's ability to realise the expected benefits from future acquisitions depends in large part on its ability to integrate the new operations in a timely and effective manner. There can be no assurance that the Enlarged Group will be successful in implementing its growth strategy, including integrating newly acquired businesses, including the Europac Group.

Furthermore, the Enlarged Group's strategy depends on its ability to identify and acquire suitable assets at desirable prices and in suitable locations. Furthermore, consolidation in certain geographic markets targeted by the Enlarged Group could hinder further growth through acquisitions due to anti-trust or other regulatory restrictions. There can be no assurance that it will be successful in identifying or purchasing suitable assets in the future. If the Enlarged Group fails to make further acquisitions, it may not be able to continue to grow in the long term at the same pace as its Pan-European and multi-national FMCG customers or adequately support those customer's needs if they do seek to integrate, expand and become more global in their supply chain. There can be no assurance that it will successfully manage its strategy to grow both organically and by acquisition if there is a sustained material reduction in the demand for the Enlarged Group's products. Additionally, acquisitions and similar arrangements involve a number of risks, including potential disruptions to the DS Smith Group's on-going business and internal environment, potential customer overlap or loss of customers, additional financial costs associated with financing such transactions, potential assumption of liabilities of the acquired business, potential difficulties in recovering any sums from debtors and unexpected tax or litigation liabilities or regulatory requirements. Any difficulties or delays in achieving successful integration of new acquisitions could prevent the Enlarged Group from successfully implementing its growth strategy and could have a material adverse effect on its business, financial condition, results of operations or prospects.

General economic or industry-wide conditions may adversely affect both FMCG and industrial sector growth rates and productive capacities resulting in an increase in raw material and production costs or a decline in volumes or prices. Operational difficulties, key personnel turnover, competition and delays in implementing initiatives or inadequacy of management forecasts in guiding initiatives could also have a materially adverse effect on the Enlarged Group's ability to implement its growth strategy. Underpinning the Enlarged Group's growth strategy is its focus on service and product innovation to capture market share. The Enlarged Group's growth potential depends in large part on its ability to identify and develop new products or new services or uses for existing products that address its customers' unmet needs. However, balancing current growth and investment for the future remains a challenge given the markets in which the DS Smith Group operates. The Enlarged Group's on-going investments in new product introductions and innovations may also exceed corresponding revenue growth. Additionally, the Enlarged Group's research and development investment plans and resources may not be correctly matched between the consumer preferences of its Pan-European and multi-national FMCG customers and the markets in which it operates. Failure to invest in the right platforms, product ranges, geographic markets or licensing opportunities to deliver robust innovation and a service pipeline could have a material adverse effect on the Enlarged Group's innovation growth strategy. It is not possible to predict the timing or impact of the introduction of products and innovations from competitors or their possible effect on the Enlarged Group's growth plans.

The inability of the Enlarged Group to implement its growth strategy successfully could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.7 ***The DS Smith Group's estimates, assumptions and judgments underlying its medium-term targets and the assumptions upon which these medium-term targets are based may prove inaccurate, and as a result the DS Smith Group may be unable to successfully meet its objectives or achieve desired financial results***

The DS Smith Group has established certain medium-term targets relating to its consolidated results of operations in the next few years. These medium-term targets relate to the DS Smith Group's organic corrugated box volume growth, return on sales, return on average capital employed, ratio of net debt to EBITDA and cash conversion. See section 2 of Part I (*Letter from the Chairman*) of this Circular. These targets assume, among other things, resilience and sustainability in the DS Smith Group's business model and the DS Smith Group winning market share in its existing markets and expanding into new markets. The DS Smith Group's ability to achieve its targets will depend upon whether these assumptions are accurate, as well as upon a number of factors outside of its control. These include significant business, economic and competitive uncertainties and contingencies, as well as actions taken by counterparties. These targets have been developed based upon assumptions with respect to future business decisions and conditions that are subject to change, including the DS Smith Group's ability to successfully execute its strategy and product development plan, as well as growth in the markets in which the DS Smith Group operates. As a result, the DS Smith Group's actual results may vary significantly from the targets set out in this Circular, and those variations may have a material adverse effect on the DS Smith Group's business, results of operations, financial condition and prospects.

2.8 ***The Enlarged Group is exposed to the risk of changes in customer preferences, customer demand and product substitution***

Changes in customer preferences affect the demand for packaging and paper products in general, and in particular demand for specific grades of packaging and paper products. Some of the most significant changes in customer preferences relating to paper usage have included interest in environmentally friendly products such as recycled packaging. An inability to continue to offer innovative and environmentally friendly products to meet customer needs and a failure to anticipate and satisfy new customer preferences, including those that may develop as a result of advances in fibre technologies, may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

In recent years, online shopping and e-commerce have been a significant growth opportunity for the DS Smith Group's business. Online shopping and e-commerce have increased the demand for packaging due to the requirement for packaging that suitably protects the product through the supply chain and can be re-used for returns, and at the same time markets the product or brand. To the extent that demand in this area decreases or the Enlarged Group does not identify or effectively respond to consumers' trends or preferences in this area, this could have a material adverse effect on the Enlarged Group's investments and/or initiatives aimed at developing the range of packaging products and services that it offers customers to support sales through the full retail spectrum. Any delay or failure of the Enlarged Group to adequately or effectively respond to changing demand, consumer tastes, preferences and shopping patterns could negatively affect the Enlarged Group's relationship with its customers, the demand for the products it sells and the Enlarged Group's market share and overall growth.

The DS Smith Group's main products, including corrugated containers and solid board packaging, and the Europac Group's products compete with other forms of packaging. There can be no assurance that further substitution will not occur in this sector, other sectors or other regions in which the Enlarged Group operates, nor can there be any assurance that future packaging developments and trends will not drive further substitution. Any significant substitution away from paper-based packaging products may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.9 ***The Enlarged Group is subject to risk resulting from movements in foreign exchange rates***

The Enlarged Group will continue to be exposed to the translation of the results of overseas subsidiaries into its reporting currency, pounds sterling, as well as the impact of currency fluctuations on its commercial transactions denominated in foreign currencies. For the 2018 Financial Year, the impact of foreign exchange translation increased reported revenue by £143 million or 3 per cent. over the year as a whole due to the weakening of the pound sterling against the Euro. Similarly, for the 2017 Financial

Year, the impact of foreign exchange translation was £432 million, or 11 per cent. over the year as a whole. The Europac Group's reporting currency is the Euros and its commercial transactions are also primarily in Euros. As a result, if the Acquisition is completed, the Enlarged Group will face increased translation exposure as well as a significant increase in its exposure to the EUR as a result of commercial transactions. Adverse movements in foreign exchange rates relating to foreign currency-denominated assets and liabilities and transactions could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.10 ***The Enlarged Group may not be able to recruit or retain management, key personnel or suitably qualified employees***

The success of the DS Smith Group depends, and of the Enlarged Group will continue to depend, on the efforts, abilities, experience and expertise of its executive leadership and senior management teams, and on recruiting, retaining, motivating, effectively communicating with and developing highly skilled and competent people at all levels of the organisation. This includes retaining certain key employees of the Europac Group following the Acquisition (see also "*The Enlarged Group may need to rely on certain key management for the successful operation of the Enlarged Group*"). There can be strong competition for personnel from other companies and organisations and there may at any time be shortages in the availability of appropriately skilled people at all levels within the Enlarged Group. While the DS Smith Group has employment or service contracts with its key executives and technical personnel, and has in place schemes which provide for share grants (or equivalent cash-based awards) to incentivise key executives and technical personnel and intends to enter into suitable arrangements with key employees of the Europac Group in connection with the Acquisition, it cannot guarantee the retention of such key executives and technical personnel. The failure to retain or recruit additional or substitute senior managers or other key employees for the Enlarged Group could hurt the Enlarged Group's business, financial conditions, operating results or prospects.

Certain parts of the DS Smith Group's and the Europac Group's business are dependent on the availability of skilled and semi-skilled employees. A shortage of labour owing to the Enlarged Group's inability to attract and retain such employees could have a material adverse effect on the Enlarged Group's business, financial condition, operating results or prospects.

2.11 ***The Enlarged Group's level of indebtedness could subject the Enlarged Group to restrictions on its operations and limit its ability to pursue business opportunities and activities***

As at 30 April 2018, as adjusted to give effect to the Acquisition, the Enlarged Group would have had net debt of approximately £2.31 billion as per Part V (*Unaudited pro forma financial information relating to the Enlarged Group*) of this Circular.

The Enlarged Group's debt service obligations could have a material adverse effect on the Enlarged Group's operations, including for example:

- requiring the Enlarged Group to dedicate a substantial portion of its cash flow from operations to payments on its debt;
- increasing the Enlarged Group's vulnerability to both general and industry-specific adverse economic conditions; and
- limiting the Enlarged Group's ability to borrow additional funds.

The Enlarged Group's financing arrangements contain financial and other restrictive covenants that limit the way in which the DS Smith Group operates its business, including, for example, restrictions on, among other things, the DS Smith Group's ability to:

- borrow money;
- create certain liens or grant certain types of security;
- make certain asset dispositions;
- issue certain guarantees;
- enter into transactions with affiliates; and
- in the case of the Company, enter into any amalgamations, demergers, mergers or corporate reorganisations.

Any of the above may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.12 ***The occurrence of major operational problems or natural disasters at certain of the DS Smith Group's or the Europac Group's facilities could have a material adverse effect on the Enlarged Group***

The revenues of the DS Smith Group and the Europac Group are dependent on the continued operation of its various manufacturing facilities. Operational risks include fire, floods or other natural disasters, equipment failure (including any failure of the DS Smith Group's information technology systems), failure to comply with applicable regulations and industry standards, raw material supply disruptions, labour force shortages or work stoppages, and events impeding, or increasing the cost of, transporting the DS Smith Group's products.

If the DS Smith Group or the Europac Group is unable to obtain timely replacements for damaged inventory or equipment, or if it is unable to find an acceptable third-party manufacturer as a substitute for the DS Smith Group's or the Europac Group's production facilities damaged by a catastrophic event, then major disruptions to production could result which would have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects. If certain equipment were to fail, the Enlarged Group may need to rely on sourcing products or materials from the open market that it would typically produce, which could increase costs significantly if the repair or replacements took some time to address. The DS Smith Group and the Europac Group carry both property insurance and business interruption insurance, but these may not be sufficient to cover certain damages or lost profits as a result of the disruption to production.

Whilst the manufacturing of certain products can be transferred to other sites or replaced with open market purchases, any disruption of the manufacturing processes could result in delivery delays, interrupt the production or even lead to a full cessation of production. The resulting loss of revenue and the impact on the Enlarged Group's relationships with its customers could be significant and may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.13 ***Capital investment projects may not be implemented on time or to budget and carry risks which might have a material adverse effect on the Enlarged Group***

The DS Smith Group's and the Europac Group's businesses require on-going capital investment to expand, maintain and upgrade existing facilities, to develop new facilities and to ensure compliance with new regulatory requirements. For the 2018 Financial Year, the DS Smith Group's gross capital expenditure was £347 million and the DS Smith Group had commitments to incur £56 million of capital expenditures. For the financial year ended 31 December 2017, the Europac Group's capital expenditure was €61.2 million and the Europac Group had commitments to incur €25.5 million of capital expenditures. Capital investment projects carry risks including: failure to complete a project within the prescribed project timetable; failure to complete a project to budget, failure of the project to perform according to prescribed operating specifications following its completion; and unforeseen changes in input costs may mean the business case for any such project is no longer justifiable. The DS Smith Group takes into account and will continue to take into account its working capital requirements in the planning of its current and future capital investment projects and the DS Smith Group is of the opinion that the working capital available to the DS Smith Group, the New Debt Facility, is sufficient for the short-term. If project challenges arise that could impact the availability of funds for capital investment projects, the DS Smith Group's medium-term capital investment projects could be delayed or postponed in order for the DS Smith Group to manage sufficient working capital for its requirements. Such delays or postponement could decrease the growth capital investments undertaken by the DS Smith Group in the medium-term, including to projects aimed at enhancing operational efficiencies, any of which could have a material adverse effect on the Enlarged Group's growth and on its business, financial condition, results of operations or prospects.

2.14 ***The DS Smith Group and the Europac Group are subject to a number of environmental, health and safety and tax laws and regulations, and the cost of compliance with, and any liabilities under, current and future laws and regulations may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects***

The DS Smith Group and the Europac Group are, and the Enlarged Group is expected to continue to be, subject to a wide range of environmental, tax and health and safety laws and regulations in all the jurisdictions in which it operates, including international, national, state and local laws and regulations. These requirements are complex, subject to frequent changes and have tended to become more stringent over time. There can be no assurance that the requirements of such laws and regulations will not change in the future or that the associated cost of compliance will not increase. Such cost increases could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

The DS Smith Group and the Europac Group use, handle, store and dispose of hazardous materials in the course of their operations and production processes and may be subject to fines or clean-up liabilities for contamination at past and present operating sites under statutory regimes. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for the clean-up of contamination at, or arising from, such facilities, without regard to causation or knowledge of contamination. Investigations in the future may lead to discoveries of contamination that the Enlarged Group is required to remedy or damage that may subject the Enlarged Group to claims. Closure of facilities may trigger compliance requirements that are not applicable to facilities that are operating.

Managing health and safety compliance are key priorities of the DS Smith Group and the Europac Group. In particular, due to the nature of the paper manufacturing process, paper mills tend to be inherently hazardous relative to the other types of facilities that the DS Smith Group and the Europac Group operates. The DS Smith Group currently operates 12 paper mills and if the Acquisition is completed, the Enlarged Group will operate 17 paper mills. The increase in the number of paper mills that the Enlarged Group operates as a result of the Acquisition could increase the degree of health and safety risk.

While the DS Smith Group has procedures to comply with applicable environmental and health and safety requirements, there can be no assurance that the Enlarged Group will be at all times in compliance with such requirements, that the Enlarged Group will not incur material costs or liabilities in connection with such requirements in the future (which costs and liabilities could increase as a result of the Acquisition) or that the Enlarged Group will be able to obtain and maintain all licences, consents or other permits necessary to operate the Enlarged Group's business. Similarly, there can be no assurance that the Enlarged Group will not experience an environmental spill or accident or discover or otherwise become liable for environmental contamination in the future (including such liability for contamination resulting from historical activities relating to properties or businesses that they have sold). Depending on the nature of the spill or accident, its location and the period during which it occurred, such incidents may not be covered by the Enlarged Group's insurance policies, since certain contaminants are typically excluded from insurance coverage available to the Enlarged Group in most of its markets and the Enlarged Group's insurance is subject to certain time limits. The Enlarged Group may incur significant expenditure in connection with the required remediation of past environmental conditions at both facilities that are currently owned and formerly owned including at the additional facilities of the Europac Group to be acquired under the Acquisition, and facilities previously owned by the Europac Group or its predecessors. The Enlarged Group's control mechanisms, on-going programmes and systems, and special initiatives in place for monitoring health and safety compliance may not always be successful in achieving their objectives of requiring all employees to comply with all relevant laws and regulations in the countries in which they operate. The Enlarged Group cannot be certain that employees always adhere to such policies and values. Furthermore, the Enlarged Group cannot completely prevent injury to employees or others, or other harms related to the use, handling, storage and disposal of hazardous material. In the event of future incidents, the Enlarged Group could be liable for any damages that may result, including potentially significant monetary damages for any civil litigation or government proceedings related to a personal injury claim. Failure to comply with environmental or health and safety laws may also damage the Enlarged Group's reputation.

Tax laws and tax rates in the markets in which the DS Smith Group or the Europac Group operates are subject to frequent changes and the Enlarged Group is exposed to the risk of changes in tax legislation and its interpretation, and increases in the rate of corporate and other taxes in the jurisdictions in which the Enlarged Group operates. The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations or changes to existing laws and regulations (including the imposition of higher taxes) could require the Enlarged Group to incur additional expenses or capital expenditures or result in restrictions on or suspensions of the Enlarged Group's operations. Any such cost increases could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

The cost of compliance with, and any liabilities under, current and future laws and regulations relating to the environment, health and safety or tax laws could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.15 ***The Enlarged Group is subject to risk resulting from movements in interest rates and credit rating downgrades***

Interest rate risk is the risk that the Enlarged Group will sustain losses from adverse movements in interest bearing assets and liabilities. As at 30 April 2018, the DS Smith Group had £1.97 billion in interest bearing loans and borrowings of which £106 million of such borrowings had floating-rates, representing 5 per cent. of total interest bearing loans and borrowings. As a result, the DS Smith Group is subject to the effects of interest rate fluctuations on certain of their financing arrangements. Such fluctuations could lead to an increase in the Enlarged Group's cost of funding.

Additionally, certain of the DS Smith Group's debt agreements provide for an interest rate increase in case of a credit rating downgrade. Maintaining an investment grade credit rating is an important element of the DS Smith Group's financial strategy, and a downgrade of the DS Smith Group's rating below investment grade could adversely affect its cost of borrowing, limit its access to the capital markets or result in more restrictive covenants in agreements governing the terms of any future indebtedness that the DS Smith Group may incur. There is a risk that an increase in the DS Smith Group's indebtedness or working capital requirements could result in the DS Smith Group's credit rating being downgraded.

2.16 ***The Enlarged Group's operations will be subject to anti-corruption laws and regulations and economic sanctions programmes***

The DS Smith Group and the Europac Group sell and market their products in a number of different jurisdictions. Doing business worldwide requires the DS Smith Group and the Europac Group to comply with the laws and regulations of various jurisdictions, including, without limitation, the United States and the UK. The DS Smith Group's and the Europac Group's international operations are subject to, and the Enlarged Group's international operations will be subject to, anti-corruption laws and regulations and to economic sanctions programmes, including those administered by the United Nations, the EU, the UK and the United States. Anti-bribery laws such as the UK Bribery Act 2010 and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to public officials for the purpose of obtaining or retaining business. The DS Smith Group's recent expansion, including in developing countries and emerging markets, could increase the risk of such violations in the future. The DS Smith Group relies on its management structure, regulatory and legal resources and effective operation of its compliance programme to direct, manage and monitor the activities of these employees. Despite the DS Smith Group's oversight and compliance programmes, there is a risk that its internal control policies and procedures will not always protect it from deliberate, reckless or inadvertent acts of the Enlarged Group's employees or agents that contravene its compliance policies or violate applicable laws. Violations of anti-corruption laws and regulations or economic sanctions programmes, or allegations of such violations, could disrupt the Enlarged Group's business and result in a material adverse effect on its results of operations or financial condition. Violations of such regulations or programmes or allegations of such violations could also cause reputational harm to the Enlarged Group.

2.17 ***The Enlarged Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates***

The DS Smith Group and the Europac Group are subject to a variety of anti-trust and similar legislation in the jurisdictions in which they operate. The DS Smith Group may have market positions which may make future significant acquisitions more difficult and may limit their ability to expand by acquisition or merger, if the Enlarged Group wished to do so. See also "*The Enlarged Group may be unable to implement its growth strategy successfully*".

In addition, the DS Smith Group and the Europac Group are subject to legislation in many of the jurisdictions in which they operate relating to unfair competitive practices and similar behaviour. The Enlarged Group is and may in the future be subject to allegations of, or regulatory investigations or proceedings into, such practices. In the event that such allegations are made or investigations or proceedings initiated (irrespective of merit), the Enlarged Group may be required to devote significant management resources to defend itself against such allegations. In the event that such allegations are proved, the Enlarged Group may be subject to significant fines, any relevant agreements being declared unenforceable, damages awards and other expenses, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.18 ***Uninsured losses or losses in excess of the Enlarged Group's insurance coverage for various risks could adversely affect the Enlarged Group***

The DS Smith Group and the Europac Group maintain business insurance that they consider to be adequate and appropriate for their business and activities. Certain types of risks, such as losses due to natural disasters, riots, acts of war or terrorism are, however, either uninsurable or not economically insurable. In addition, even if a loss is insured, the Enlarged Group may be required to pay a significant deductible on any claim for recovery of such loss prior to the insurer being obliged to reimburse the Enlarged Group for the loss, or the amount of the loss may exceed the Enlarged Group's coverage for the loss. Any uninsured losses could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.19 ***Failure to maintain product quality controls leading to the production of defective goods could lead to an increase in product liability claims against the Enlarged Group or damage to the Enlarged Group's reputation***

The DS Smith Group's and the Europac Group's packaging products, many of which are supplied to the food and beverage industries, may give rise to potentially substantial product liability claims in the event of a failure of the packaging to perform its function when in use or from contamination of the product by its packaging. Further, if any of its products are defective as a result of a failure in the Enlarged Group's quality controls, the Enlarged Group may be subject to product liability claims or may have to engage in a product recall. Any significant damage to the Enlarged Group's reputation and any material claims that arise in these areas could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.20 ***The DS Smith Group is and, following the Acquisition will be, subject to liabilities relating to its pension arrangements***

The DS Smith Group operates a number of defined benefit pension plans for its employees around the world. The total net deficit of these plans valued under International Accounting Standard 19 was £106 million as at 30 April 2018. As at 30 April 2017 approximately 87 per cent. of the Group's post-retirement obligations related to plans in the UK.

The DS Smith Group operates a defined benefit scheme in the UK (the "**DS Smith Group Pension Scheme**"). The DS Smith Group Pension Scheme was closed to future accrual with effect from 30 April 2011. The most recent actuarial funding valuation was carried out as at 30 April 2016, showing a deficit on the "technical provisions" basis (as defined in the applicable UK legislation) of £184 million. A deficit recovery plan was agreed with the Trustee Board on 28 April 2017. The deficit recovery plan takes into account subsequent experience of the DS Smith Group Pension Scheme's technical provisions against its assets based on updated calculations as at 31 January 2017 which estimated that the shortfall had increased to £205 million. Under the deficit recovery plan the DS Smith Group has agreed to make a contribution of £19.9 million to the DS Smith Group Pension Scheme in the financial year ended 30 April 2018, £18.7 million in the year ended 30 April 2019, £19 million in the year ended 30 April 2020, £19.4 million in the year ended 30 April 2021, £19.8 million in the year ended 30 April 2022, £20.2 million in the year ended 30 April 2023, £20.6 million in the year ended 30 April 2024, £21 million in the year ended 30 April 2025 and £12.5 million in the year ended 30 April 2026 (in respect of May to November 2025).

The deficit of the DS Smith Group Pension Scheme is dependent on the market value of the assets of that plan and on the value placed on its liabilities. If the market value of the assets declines or the value of the liabilities increases, as at the date of an actuarial funding valuation of the DS Smith Group Pension Scheme, the DS Smith Group may be required to increase its contributions to the DS Smith Group

Pension Scheme. A variety of factors, including factors outside the DS Smith Group's control, may adversely affect the value of the DS Smith Group Pension Scheme's assets or liabilities, including interest rates, inflation rates, investment performance, exchange rates, life expectancy assumptions, actuarial data and adjustments and regulatory changes. If these or other internal and external factors were to become unfavourable, or more unfavourable than they currently are, the DS Smith Group's required contributions to the DS Smith Group Pension Scheme and the costs and net liabilities associated with the DS Smith Group Pension Scheme could increase substantially. This may have an adverse effect on the DS Smith Group's operational results and cash flow.

The DS Smith Group also operates various local post-retirement and other employee benefit arrangements for overseas operations, as well as a small UK unfunded scheme. The countries where the DS Smith Group operates the most significant defined benefit post-retirement arrangements are France, Belgium, Switzerland, Italy and Germany.

The Europac Group operates defined benefit pension funds in Portugal and defined benefit retirement and long-service bonus schemes in France. As at 31 December 2017, the Portuguese defined benefit pension funds had a total deficit of c.€6.16 million on an International Accounting Standard 19 basis. The French defined benefit retirement and long-service bonus schemes are unfunded and, as at 31 December 2017, represented a total liability of c.€8.85 million.

Overseas defined benefit schemes expose the Enlarged Group to risks such as currency risk, inflation risk, interest rate risk, investment risk and life expectancy risk. Actions taken by the local regulator (where relevant powers exist), or changes to legislation, could result in stronger local funding requirements for pension schemes, which could have a material adverse effect on the Enlarged Group's future cash flow.

2.21 ***The Pensions Regulator in the UK has the power to intervene in scheme valuations and to issue contribution notices or financial support directions which, if issued, could result in the Group being subject to significant liabilities***

If certain statutory requirements are met, the Pensions Regulator has the power to issue contribution notices or financial support directions to the DS Smith Group and/or any associated company. This could potentially extend to any major Shareholders of the DS Smith Group (and, following the Acquisition, the Enlarged Group), subject to the size of their shareholdings and the satisfaction of reasonableness requirements. The Pensions Regulator may require additional contributions to be paid into a pension scheme or additional financial support to be made available in respect of such scheme.

Pensions Regulator enforcement action could have a material adverse impact on the operating results, business prospects or financial condition of the DS Smith Group (and, following the Acquisition, the Enlarged Group). The Pensions Regulator also has powers to set assumptions and contribution levels if the DS Smith Group and the Pension Trustees cannot agree the deficit or contributions following the triennial funding valuation (although this is extremely rare in practice). In cases where the deficit and funding levels are agreed, the Pensions Regulator can still intervene, should it disagree.

2.22 ***The Enlarged Group may be adversely affected by increasing costs in maintaining its required level of workforce***

As at 30 April 2018, the DS Smith Group had approximately 28,500 employees, and if the Acquisition occurs, the Enlarged Group is expected to have approximately 30,500 employees. Inflationary pressures, changes in applicable laws and regulations or other factors resulting in increased labour costs could have a material adverse effect on the Enlarged Group's business, operating results or financial condition, or prospects.

2.23 ***Failure to maintain good employee relations may affect the Enlarged Group's operations***

Future developments in relation to the Enlarged Group's business could adversely affect relations with employees. The DS Smith Group and the Europac Group both have collective agreements in place with national works councils and trade unions. The DS Smith Group also has a collective agreement in place with a European Works Council. If the terms of any collective bargaining agreements entered into change substantially or an acceptable agreement to the Enlarged Group cannot be reached at all when the collective agreements are renewed, the Enlarged Group could face increased labour costs or disruptions as a result of labour union activity in the future. Labour disputes or other problems could

lead to a substantial interruption to the Enlarged Group's business and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.24 ***Operating internationally subjects the Enlarged Group to the risk that business or market disruptions will result in delays and/or increased costs in the production or delivery of its products and services or disrupt demand for its products***

The DS Smith Group operates and will continue to operate in many different countries. As a result, the Enlarged Group will be vulnerable to risks related to its international operations, including:

(a) imposition of tariffs, quotas, import duties, additional taxes or other market barriers;

(b) increased difficulty in the collection of accounts receivable, including longer collection periods;

(c) inconsistent regulations and unexpected changes in legislation or regulatory requirements and increased difficulty and expense in hiring and dismissing employees;

(d) imposition of quotas relating to the composition of the employee base or the local sourcing of raw materials or other similar quotas;

(e) political and economic instability (including financial crises, civil unrest, wars, international conflicts, greater and tighter government regulation on cross-border trading, production, pricing and the environment), disruptions and government intervention in national economies and social structures, including the threat of terrorism;

(f) work stoppages, transport interruptions and difficulties in managing international operations;

(g) government expropriation of private sector assets;

(h) adverse tax consequences and inability to repatriate cash; and

(i) adverse currency fluctuations.

The occurrence of any of the foregoing could have a material adverse effect on the Enlarged Group's earnings as a result of the related delays and/or increased costs in the production and delivery of products.

2.25 ***The Enlarged Group may not be able to adequately secure and protect its intellectual property rights, which could harm its competitive advantage***

The DS Smith Group and the Europac Group rely on intellectual property laws to protect their rights to certain aspects of their systems, products and processes including product designs, proprietary technologies, research and concepts. In particular, the DS Smith Group's packaging and plastic business owns hundreds of patents covering the DS Smith Group's designs and products. Furthermore, trademarks and licences and their effective management also play an important role in protecting the DS Smith Group's intellectual property rights. The actions that the Enlarged Group takes to protect its intellectual property and proprietary rights may be inadequate to prevent imitation or unauthorised use. The laws of various countries offer different levels of protection for the DS Smith Group's and the Europac Group's intellectual proprietary rights and there can be no assurance that the Enlarged Group's intellectual property rights will not be challenged, invalidated, misappropriated or circumvented by third parties. Any of these possibilities could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.26 ***The DS Smith Group and the Europac Group face cyber-security threats that could result in operational disruptions or data breaches to critical IT infrastructure or third-party IT infrastructure which could have a material adverse effect on the Enlarged Group's operations, supply cycle or reputation***

The DS Smith Group's and the Europac Group's operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite continuing investment in the DS Smith Group's and the Europac Group's information technology ("**IT**") security efforts and on-going controls, there can be no assurance that the Enlarged Group's IT systems and the systems of its third-party providers will not be subject to cyber-attacks due to the increasing sophistication of cyber-crime, the continuing development of the technology environment and the difficulties in detecting and defending against cyber-attacks in a timely fashion. Network, system, application and data breaches may result in operational disruptions or information misuse including, but not limited to, interruption to systems availability, denial of access and the compromise or failure of applications that are required by

the Enlarged Group to conduct its business with both suppliers and customers. Access to internal applications required to plan the Enlarged Group's operations, source materials, manufacture and transport goods and account for orders could be denied or stolen. Theft of intellectual property or trade secrets, and inappropriate disclosure of confidential company, employee, customer or supplier information, could arise from such incidents. Any such disruptions or failure to maintain the integrity of information may result in lost sales, business delays, product development delays or compromised confidential or technical business information, which may harm the Enlarged Group's competitive position and cause reputational damage. This could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

2.27 ***Changes to accounting standards or to the Enlarged Group's accounting policies could have a material adverse effect on the Enlarged Group's financial condition, results of operations and cash flows***

The International Accounting Standards Board and the EU may change the accounting standards that govern the preparation of the Enlarged Group's financial statements. This could materially affect how the Enlarged Group reports its financial condition, results of operations and cash flows. A revised accounting standard may be required to apply retrospectively, resulting in the restatement of prior financial results.

2.28 ***The Enlarged Group will enter into arrangements with third parties in the normal course of its business, and failure by such parties to meet their obligations or continue to participate in such arrangements could have a material adverse effect on its financial condition, results of operations and cash flows***

The DS Smith Group and the Europac Group enter into arrangements with third parties, including outsourcing contracts, distribution arrangements and joint ventures with third parties in the normal course of its business and are reliant upon those third parties performing their obligations in accordance with the terms and conditions of the contracts and continuing to participate in such arrangements. These third parties may not fulfil the Enlarged Group's expectations and any failure by such a third party to fulfil these expectations, including as a result of fraud or withdrawal of the relevant service, could cause disruption and result in significant costs associated with sourcing alternative arrangements, among other things, which could have a material adverse effect on the Enlarged Group's financial condition, results of operations and cash flows.

PART III

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSED OFFER

The following is a summary of the principal terms of the Proposed Offer. The information in this Circular in respect of the Proposed Offer is subject to the actual terms and conditions of the Proposed Offer to be set out in the Offer Document. The content of the Offer Document is subject to the prior approval of the relevant Spanish regulator, the CNMV.

1. Overview

The Proposed Offer will be to acquire the entire share capital of Europac for EUR 16.80 in cash per Europac Share.

As at the Latest Practicable Date, Europac had an issued share capital of 99,237,837 ordinary shares (including 6,090,000 treasury shares) of €2.00 each, being 100 per cent. of the entire issued share capital of Europac. These ordinary shares are represented by book entries and are listed on the stock exchanges of Madrid and Barcelona.

2. Indicative timetable of the Proposed Offer

The Offer Document must be filed with the CNMV no later than 5 July 2018. If the DS Smith Board consider it is in the best interests of the Shareholders, the offer contained in the Offer Document may be amended, in particular, in the event of an offer document relating to a competing offer for Europac being filed with the CNMV by a third party. Under Spanish law, the Offer Document must be approved before the Proposed Offer can be made and therefore before the acceptance period can begin.

Once the CNMV has approved the Offer Document, DS Smith has an obligation to publish a detailed advertisement announcing that the CNMV has authorised the Proposed Offer within five business days of the approval. The acceptance period for the Proposed Offer will commence on the date which this advertisement is published.

Under current Spanish takeover rules, the acceptance period (subject to certain limited exceptions) may not be less than one month and, in the absence of a competing offer, may not be greater than two months. In circumstances where there is a competing offer, the acceptance period of any preceding offers will automatically be extended so as to expire as the same time as the acceptance period of the competing offer.

3. Conditions to the Proposed Offer

Approval of the Shareholders at the General Meeting

The Proposed Offer is conditional on the approval of the Resolution by the Shareholders.

Minimum number of acceptances

The Proposed Offer will be conditional on at least 49,618,920 Europac Shares being tendered in acceptance of the Proposed Offer (including the treasury shares currently held by Europac), representing greater than 50 per cent. of Europac's entire share capital. DS Smith has received Acceptance Undertakings, in aggregate covering a total of 58,520,671 Europac Shares, representing 58.97 per cent. of the entire share capital of Europac as at the Latest Practicable Date.

Merger control clearances

Insofar as the Proposed Offer falls within the scope of the EU Merger Regulation, the Proposed Offer will be conditional on:

(a) the EU Commission taking a decision (or being deemed to have taken a decision) that it shall not initiate proceedings under Article 6(1)(c) of the EU Merger Regulation in relation to the Proposed Offer or any matter arising from it; and

(b) if the EU Commission makes a referral under Article 9(1) of the EU Merger Regulation to the competent authorities of one or more Member States which operate suspensory merger control regimes of the Proposed Offer or any matter arising from it, it being established that the Proposed Offer has been granted substantive approval (or has been deemed to have been granted such approval) in each such Member State (provided that each such approval has an equivalent effect to the decision at a) above.

If the acceptance condition relating to the tendering of acceptances of the Acquisition is fulfilled during the acceptance period for the Proposed Offer, DS Smith intends to delist Europac's shares from their listings on the Madrid and Barcelona stock markets.

If the acceptance condition relating to the tendering of acceptances of the Proposed Offer is not fulfilled during the acceptance period for the Proposed Offer, DS Smith may waive the condition in accordance with Spanish law. As at the Latest Practicable Date, DS Smith's current intention in such an event would be to not waive this condition. DS Smith will undertake in the Offer Document that following the CNMV notifying it of the outcome of the Proposed Offer, DS Smith shall, if applicable, notify the CNMV within one day whether or not it intends to waive this condition.

4. Consideration

The Proposed Offer is for the acquisition of the entire issued share capital of Europac for EUR 16.80 in cash per Europac Share, equating to a total of EUR 1,667 million for all of the Europac Shares (the "**Offer Price**"). Subject to applicable law and regulation, the Proposed Offer will be extended to all Europac Shareholders.

As at the Latest Practicable Date, Europac had a total issued share capital of 99,237,837 ordinary shares (including 6,090,000 treasury shares) of EUR 2.00 each. These ordinary shares are represented by book entries and are listed on the stock exchanges of Madrid and Barcelona.

5. Financing of the Proposed Offer

New Debt Facility Agreement

On 4 June 2018, DS Smith entered into a €740 million bridge facility agreement (the "**New Debt Facility Agreement**") with Goldman Sachs and J.P. Morgan Securities plc as mandated lead arrangers (the "**Arrangers**"), Goldman Sachs International Bank and JPMorgan Chase Bank, N.A., London Branch as original lenders (the "**Original Lenders**"), Goldman Sachs, International Bank and J.P. Morgan Securities plc as the CNMV guarantee issuing banks (the "**Debt CNMV Guarantee Issuing Banks**") and J.P. Morgan Europe Limited as agent (the "**Facility Agent**").

The New Debt Facility Agreement provides for DS Smith to receive one loan (the "**Loan**") from the Original Lenders, which may be used to finance the Acquisition pay related costs and expenses and for refinancing any existing indebtedness of the Target Group. The Loan is available to be drawn until the earlier of: (i) 31 March 2019; (ii) the date on which the Offer lapses or is withdrawn, annulled or declared ineffective; and (iii) the Offer Settlement Date (the "**Availability Period**"). Drawing the Loan is subject to the satisfaction of customary conditions precedent.

DS Smith is initially required to repay the Loan within one year, although it has four extension options allowing it to extend this repayment date by six months at a time (meaning that the final repayment date could be extended to fall three years after the original date of the date of the New Debt Facility Agreement). The four extension options may be unilaterally exercised by DS Smith except in circumstances where a default has occurred and is continuing under the New Debt Facility Agreement. To the extent that the maturity date of the Loan under the New Debt Facility Agreement could not be extended by DS Smith, DS Smith would look to alternative means to fund the loan repayment, for example, by way of a refinancing.

Pursuant to the New Debt Facility Agreement, the Debt CNMV Guarantee Issuing Banks will, subject to the satisfaction of certain conditions precedent by DS Smith, issue guarantees in favour of the CNMV in a maximum amount equal to the consideration for the Acquisition less the Rights Issue Proceeds (the "**Debt CNMV Guarantee**"). The CNMV will only be entitled to call upon the Debt CNMV Guarantee where DS Smith fails to fund the consideration for the Acquisition. Where the CNMV calls upon the Debt CNMV Guarantee Issuing Banks to make a payment under a Debt CNMV Guarantee (and in certain other

circumstances), DS Smith will be deemed to have drawn down an equivalent amount under the New Debt Facility Agreement.

The New Debt Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations, and provided that prepayment would not be required until after closing of the Offer); (C) receipt of certain disposal proceeds; and (D) where DS Smith receives proceeds pursuant to a debt financing (subject to certain exceptions) or the Rights Issue (unless the Rights Issue Proceeds have been used towards payment of the Offer Price). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000 and provided that no CNMV Guarantee is outstanding. The New Debt Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period, and that DS Smith can cancel the commitment of a lender which has defaulted (subject to certain exceptions).

The Loan is unsecured. The New Debt Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The New Debt Facility Agreement contains various customary representations and undertakings (including a financial covenant).

The New Debt Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

Equity CNMV Guarantee Agreement

On 4 June 2018, DS Smith entered into an equity CNMV guarantee agreement (the "**Equity CNMV Guarantee Agreement**") with Citibank Europe plc, UK Branch, Goldman Sachs, International and J.P. Morgan Securities plc as the equity CNMV guarantee issuing banks (the "**Equity CNMV Guarantee Issuing Banks**").

Pursuant to the Equity CNMV Guarantee Agreement, the Equity CNMV Guarantee Issuing Banks will, subject to the satisfaction of certain conditions precedent by DS Smith, issue guarantees in favour of the CNMV in a maximum amount equal to the Rights Issue Proceeds (the "**Equity CNMV Guarantees**"). The CNMV will only be entitled to call upon the Equity CNMV Guarantees where DS Smith fails to fund the consideration for the Acquisition. The Company shall be required to place the Rights Issue Proceeds in an account which is subject to certain conditions such that, where the CNMV calls upon the Equity CNMV Guarantee Issuing Banks to make a payment under an Equity CNMV Guarantee (and in certain other circumstances), the Equity CNMV Guarantee Issuing Banks shall have access to such funds.

Rights Issue

The terms of the Rights Issue are more fully described at page 19 of Part I (*Letter from the Chairman*), above.

6. Proposed Offer-related Arrangements

6.1 *Irrevocable Undertakings*

On 4 June 2018, DS Smith and certain Europac Shareholders, who are members of the Isidro family, entered into irrevocable undertakings, which are binding in all circumstances, regarding the sale and purchase of the direct and indirect interest of those Europac Shareholders, having agreed to sell their direct and indirect interests in the Proposed Offer (the "**Family Irrevocable Undertakings**").

The complete list of Family Irrevocable Undertakings signed and the shareholders who undertook the commitment to sell their direct and indirect shares in the Proposed Offer (the "**Family Shareholders**"), including the Executive Chairman (Mr. José Miguel Isidro Rincón), the Executive Vice Chairman (Mr. Enrique Isidro Rincón) and two further Board members of Europac (Mr. Fernando Isidro Rincón and Aguasal, S.A.U., represented by Ms. María Amelia Ángela Isidro Rincón), is as laid out in the below table:

Europac Shareholder	*Number of Europac Shares*	*% of total issued Europac Shares*
Jose Miguel Isidro Rincón	5,083,840	5.12
Corporación Oudaloi, S.L.	629,513	0.63
Enrique Isidro Rincón	3,804,360	3.83
Manuel Isidro Martín	191,129	0.19
Cristina Isidro Martín	191,129	0.19
Fernando Isidro Rincón	3,137,289	3.16
Ana Carmen Pinedo Calvo	17,246	0.02
Equipamiento e Instalaciones Industriales, S.A.	499,106	0.50
Diego Isidro Rincón	4,090,167	4.12
Gonzalo Isidro Navarro	4,960	0.00
Alejandra Isidro Navarro	4,960	0.00
Mª de los Ángeles Isidro Rincón	3,955,956	3.99
Pilar Isidro Rincón	3,910,315	3.94
Beatriz Isidro Rincón	3,883,000	3.91
Marta Isidro Rincón	3,762,286	3.79
Fernando José Sánchez-Girón González	21,840	0.02
María Amelia Ángela Isidro Rincón	3,079,873	3.10
Aguasal, S.A.U.	208,551	0.21
Manuel Isidro Rincón	3,231,073	3.26
Total	39,706,593	40.01

Also on 4 June 2018, DS Smith and certain other Europac Shareholders entered into irrevocable undertakings, which are binding even in the event of a higher competing offer for Europac being formally announced, regarding the sale and purchase of the direct and indirect interest of those Europac Shareholders, having agreed to sell their direct and indirect interests in the Proposed Offer (the "**Other Irrevocable Undertakings**" and, together with the Family Irrevocable Undertakings, the "**Irrevocable Undertakings**").

The complete list of Other Irrevocable Undertakings signed and the shareholders who undertook the commitment to sell their direct shares in the Proposed Offer (together with the Family Shareholders, the "**Selling Shareholders**") is the following:

Europac Shareholder	*Number of Europac Shares*	*% of total issued Europac Shares*
Mr Ángel Fernández González. and Ms. Concepción Herrero Cuadrado	6,770,025	6.82
Onchena, S.L.	5,954,053	6.00

Certain terms and conditions of the Irrevocable Undertakings to tender the shares are identical, and include the following:

(a) the Selling Shareholders commit to accept the Proposed Offer even if a higher competing offer is authorised by the CNMV;

(b) DS Smith undertakes to launch the Proposed Offer in accordance with the terms included in the DS Smith Announcement and not to withdraw the Proposed Offer even if the relevant antitrust authorities impose remedies;

(c) the Selling Shareholders undertake to accept the Proposed Offer in connection with all of their direct and indirect interest in Europac Shares;

(d) the Selling Shareholders will exercise their corresponding voting rights with the purpose of promoting and allowing the implementation of the Proposed Offer.

(e) the Selling Shareholders undertake not to transfer, sell nor maintain conversations or negotiations for the transfer or sale of their direct or indirect stake in Europac. Likewise, the Selling Shareholders shall not negotiate other transactions which could compromise the viability and acceptance of the Proposed Offer.

As an exception to the above, Mr. Ángel Fernández González and Ms. Concepción Herrero Cuadrado have expressly not undertaken the obligations referred in paragraphs (d) and (e) above, having undertaken only to accept the Proposed Offer, even in the case that the CNMV were to authorise a competing offer.

Further terms of the Family Irrevocable Undertakings to tender the shares are identical between such Family Irrevocable Undertakings, and include the following:

(f) those Family Shareholders who are directors of Europac: (a) shall, in connection with the report to be issued by the Europac Board regarding the Proposed Offer, present the Proposed Offer in a favourable manner and vote in favour of it; and (b) shall exercise all their rights in connection with Europac to procure that Europac accepts the Proposed Offer with regard to the Europac Shares that Europac holds in treasury, not later than the date when the Europac Board issues the report referred to in (a) above, and does not revoke the acceptance, all of the above in full compliance with fiduciary duties (in particular regarding any conflicts of interest to which they may be subject).

6.2 *Break Fee Agreement*

On 4 June 2018, DS Smith and Europac entered into a break fee agreement (the "**Break Fee Agreement**") pursuant to which:

(i) DS Smith agrees to pay to Europac a fee of EUR 69.357 million, payable in the event that the shareholders do not approve the Resolution at the General Meeting, however, in no event shall such fee be payable where:

    (a) a competing proposal: (i) completes, becomes effective, or is declared or becomes unconditional in all respects; and (ii) is supported or agreed to by the Europac Board by means of an Europac board resolution, decision or proposal, or reported on favourably in any report on the competing proposal that is produced by the Europac Board; or

    (b) a competing proposal announcement is made and after that competing proposal announcement DS Smith makes a formal announcement with the consent of the CNMV (to the extent such consent is required) that the Acquisition will not be made, or that the Acquisition will be withdrawn or not otherwise settled.

(ii) Europac agrees to pay to DS Smith a fee of EUR 15.649 million, payable in the event that a higher competing offer is authorised by the CNMV and completes.

The Break Fee Agreement contains customary provisions relating to conduct of business prior to completion, assistance with provision of information and satisfaction of the conditions of the Proposed Offer, including agreement by Europac not to modify the share capital of Europac in any way, including by increasing or decreasing the number of issued shares by way of bonus issue or cancellation of treasury stock (subject to fiduciary duties).

The Break Fee Agreement also includes an obligation on Europac to tender all the Europac Shares that Europac holds in treasury by not later than the date when the Europac Board publishes its report on the Proposed Offer, and not to revoke such acceptance, all the above subject to fiduciary duties and to further assessment of the Proposed Offer on the basis of the Prospectus, as well as taking into account any advice received from Europac's legal or financial advisers, and providing that: (i) the report referred to above contains a favourable opinion of the Proposed Offer; (ii) there is no competing offer; and (iii) circumstances have not materially negatively changed.

The Break Fee Agreement has been executed by Mr. Enrique Isidro Rincón in the name and on behalf of Europac, further to the resolutions passed by the Europac Board in a meeting held on 30 May 2018, and by Mr. José Miguel Isidro Rincón, Mr. Enrique Isidro Rincón and Mr. Fernando Isidro Rincón in their capacity as Europac Shareholders.

6.3 *Non-disclosure Agreement*

DS Smith and Europac entered into a non-disclosure agreement on 16 May 2018 (the "**NDA**") pursuant to which DS Smith has undertaken to keep information relating to Europac and its subsidiaries, their businesses and the Europac Shareholders confidential and not to disclose it to third parties except: (a) to its professional advisers, officers, employees and subsidiaries and the officers, employees and

professional advisers of each of those subsidiaries on a need-to-know basis; and (b) if required by law, rule, regulation or written or verbal instruction by any judicial, governmental or competent supervisory or regulatory body.

Non-solicitation

Pursuant to the NDA, DS Smith has also undertaken, for a period of one year from 16 May 2018, not to:

(a) solicit or endeavour to entice away any person who is at any time during the negotiation of the Potential Offer a member of the senior management of the Europac Group, without Europac's prior consent; or

(b) procure that members of the DS Smith Group do not solicit or make contact (whether direct or indirect) with any existing customer or supplier of the Europac Group which is not an existing customer or supplier of the DS Smith Group, other than in the ordinary course of its business, and not to use information procured through discussions or dealings relating to the Proposed Offer with such customers or suppliers.

Standstill

Until the earlier of: (i) a period of one year from 16 May 2018; or (ii) the date on which the Proposed Offer is announced or DS Smith otherwise assumes a binding obligation to make the Proposed Offer, or until the date on which a *bona fide* third party makes or announces an intention to make, a general offer to acquire the shares in Europac, DS Smith will not, and will ensure that each member of the DS Smith Group does not, directly or indirectly, alone or together with another person, acquire, or cause another person to acquire, other than through or in the context of the Proposed Offer, shares or an interest in the shares or in any debt instruments of Europac, or enter into an agreement or arrangement as a result of which DS Smith or a member of the DS Smith Group may acquire such shares, interests or debt instruments.

Save as referred to above, or as otherwise described within the NDA, the obligations of DS Smith pursuant to the NDA will remain in force until the earlier of Completion or the elapsing of a period of two years from 16 May 2018.

7. Future intentions for Europac

Future intentions in relation to employees

Other than as indicated at paragraph 12 of Part I *(Letter from the Chairman)* of this Circular, at this point DS Smith has no proposals in respect of Europac's employees. In connection with the Proposed Offer, DS Smith intends to comply with any requirements imposed by local law to inform and consult Europac's works' councils and/or employee representatives.

Dividend Policy

There is no commitment to maintain the dividend policy of Europac after Completion. The dividend policy of Europac will be determined by its board of directors and will depend on future cash flow levels as well as future financing and investment needs, amongst other things.

Europac's bye-laws

DS Smith has no current intention to amends Europac's bye-laws following Completion other than to amend the accounting reference date of Europac to bring the financial year in line with the other companies in the DS Smith Group.

Europac's management bodies

It is DS Smith's current intention to nominate representatives to be appointed to the Europac Board. As a result, certain directors of Europac at the date of this Circular may leave the Europac Board in order for these appointments to be made. Equally, DS Smith's representatives may be appointed to other Europac management bodies. A final decision will only be taken at the relevant time in this regard.

While Europac remains a listed company, DS Smith will continue to observe the Spanish recommendations on good corporate governance required under Spanish law. It is DS Smith's current intention to maintain independent directors (*consejeros independientes*) on the Europac Board while Europac remains a listed company, although as a result of the appointment of DS Smith's representatives as directors (*consejeros dominicales*), the number of independent directors could be significantly reduced.

If Europac is delisted, the structure of the Europac Board would change. The independent directors would be substituted with executive directors and directors related to the majority shareholder (*consejeros ejecutivos o dominicales*). In addition, Europac would no longer be required to observe the Spanish recommendations on good corporate governance for listed companies.

Delisting of Europac Shares in Spain

DS Smith currently intends to seek the delisting of the Europac Shares as soon as practicable following Completion.

DS Smith intends to call such a meeting to be held within three months of Completion to vote in favour of the delisting of the Europac Shares, and to make an application for delisting to the CNMV as soon as practicable following that shareholders' meeting, and, in any event, within six months of Completion.

The delisting will be carried out in compliance with all applicable legal requirements.

If the Proposed Offer is accepted by a high number of shareholders, it is currently intended that DS Smith and Europac will apply to the CNMV for the authorisation to delist Europac Shares without making a delisting tender offer.

If the CNMV does not require a delisting tender offer, DS Smith currently intends to adopt all measures that may be necessary to facilitate the acquisition of any remaining Europac Shares held by minority shareholders, placing a standing purchase order in the market at the same price offered under the Proposed Offer, until the effective delisting of Europac.

Attaining full ownership of Europac

It is DS Smith's current intention to make use of any and all legal procedures available to itself or to Europac (whether immediately following Completion or in the future) in order to seek to attain full ownership of Europac.

PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO THE EUROPAC GROUP

Shareholders should read the whole of this Circular and not rely solely on the financial information contained in this Part IV (*Historical Financial Information relating to the Europac Group*).

SECTION A

HISTORICAL FINANCIAL INFORMATION RELATING TO THE EUROPAC GROUP

The historical financial information relating to the Europac Group for the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015 set out below has been extracted without material adjustment from the consolidated financial statements of the Europac Group for the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The statutory financial statements of the Europac Group for each of the relevant years have been audited by Ernst & Young, S.L., and their reports are unqualified. There are no material differences between the accounting policies of the Europac Group and those adopted by the Company in its latest annual accounts.

Consolidated Income Statement for the years ended 31 December 2017, 2016 and 2015

	Note	*2017* *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Continuing operations				
Revenue	4	868,219	801,150	805,660
Change in inventories of finished products and work in progress		4,408	(2,743)	(367)
Own work capitalised		4,818	2,833	5,182
Raw materials and consumables used		(427,796)	(396,844)	(407,336)
Other operating revenue		22,065	13,161	3,390
Employee benefits expense	7	(117,252)	(113,878)	(109,825)
Other operating expenses	5	(198,159)	(179,939)	(192,349)
Depreciation and amortisation	10, 12 & 13	(51,789)	(48,912)	(48,667)
Grants related to non-financial non-current assets	21	2,311	2,492	4,597
Impairment and (loss)/gain on disposal of non-current assets	12	(361)	338	2,170
Operating profit		106,464	77,658	62,455
Finance income	6	621	3,365	399
Finance costs	6	(9,293)	(13,155)	(17,261)
Change in fair value of financial instruments		698	(1,186)	116
Exchange differences		(1,659)	425	18
Impairment and gain on disposal of financial instruments	15	4,106	–	–
Net finance costs		(5,527)	(10,552)	(16,728)
Share of profit of equity-accounted investees	14	369	115	131
Profit before tax		101,306	67,222	45,858
Corporate income tax expense	8	(23,343)	(18,321)	(13,410)
Profit for the year		77,963	48,901	32,449
Profit for the year attributable to:				
Owners of the parent		77,963	48,884	32,449
Non-controlling interests		–	17	–
		77,963	48,901	32,449
		Euros	*Euros*	*Euros*
Earnings Per Share				
Basic	9	0.847	0.547	0.371
Diluted	9	0.847	0.547	0.371

Consolidated Statement of Comprehensive Income for the years ended 31 December 2017, 2016 and 2015

	Note	*2017* *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Profit for the year		77,963	48,901	32,449
Other comprehensive income from measurement of available for sale financial assets	15	1,887	2,219	–
Cash flow hedges	23	79	2,914	1,827
Translation differences		(135)	(5)	141
Actuarial gains and losses and other adjustments	26	1,016	(2,124)	876
Expense for capital increase		–	(10)	(29)
Gains from transactions with treasury stock	25	3	2	232
Tax effect		(786)	(719)	(749)
Other comprehensive income/(expense) for the year		2,064	2,277	2,298
Transfers to profit or loss from measurement of available for sale financial assets	15	(4,106)	–	–
Cash flow hedges		–	–	(2)
Tax effect		1,027	–	1
Transfers to Profit or Loss		(3,080)	–	(2)
Total comprehensive income/(expense) for the year		76,948	51,178	34,745
Total comprehensive income/(expense) attributable to:				
Owners of the parent		76,948	51,161	34,745
Non-controlling interests		–	17	–

Consolidated Statement of Financial Position for the years ended 31 December 2017, 2016 and 2015

Assets	Note	*2017* *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Non-current assets				
Intangible assets	10	98,537	95,632	95,644
Property, plant and equipment	12	678,062	685,466	681,257
Investment property	13	2,016	2,028	2,508
Investments accounted for using the equity method	14	2,045	1,693	1,639
Non-current financial assets	15	3,584	14,765	1,820
Deferred tax assets	24	45,782	48,281	49,139
Biological assets	11	6,710	6,990	6,280
Total non-current assets		836,736	854,854	838,286
Current assets				
Inventories	16	88,110	79,152	79,798
Trade receivables	17	56,302	50,139	59,355
Other receivables	17	18,061	37,385	20,646
Current tax assets		3,026	693	200
Other current financial assets	15	877	2,284	1,566
Cash and cash equivalents	18	85,500	94,768	89,820
Total current assets		251,876	264,422	251,384
Total assets		1,088,612	1,119,276	1,089,670
Liabilities				
Non-current liabilities				
Grants	21	5,924	6,562	6,591
Non-current provisions	20	15,554	16,838	14,821
Bank borrowings and bonds or other negotiable securities	22	301,999	329,821	308,105
Other financial liabilities	23	13,887	47,163	58,897
Deferred tax liabilities	24	60,015	61,750	61,205
Total non-current liabilities		397,379	462,134	449,618
Current liabilities				
Current provisions	20	3,367	3,670	5,056
Bank borrowings and bonds or other negotiable securities	22	16,473	32,221	48,639
Other financial liabilities	23	25,900	28,271	18,833
Trade payables		192,097	175,068	163,973
Other payables	19	33,555	45,256	44,683
Current tax liabilities		7,875	3,108	2,417
Total current liabilities		279,267	287,594	283,601
Total liabilities		676,646	749,728	733,219
Net assets		411,966	369,548	356,450
Equity				
Share capital	25	198,476	194,737	187,247
Reserves	25	241,887	209,011	185,376
Treasury stock		(34,370)	(38,013)	(13,728)
Adjustments for changes in value in available for sale financial assets		–	1,664	–
Adjustments for changes in value in hedging transactions		(336)	(399)	(2,584)
Adjustments for changes in value – translation differences		–	135	141
Other equity adjustments		6,221	2,321	–
Total equity attributable to owners of the parent		411,878	369,456	356,450
Non-controlling interest		88	92	–
Total equity		411,966	369,548	356,450

Consolidated Statement of Changes in Equity for the years ended 31 December 2017, 2016 and 2015

	Note	Share capital €'000s	Reserves €'000s	Treasury stock and own equity instru-ments €'000s	Other equity instru-ments €'000s	Valuation adjust-ments €'000s	Non-controlling interest €'000s	Total equity €'000s
At 1 January 2015		180,045	171,834	(10,821)	–	(3,953)	–	337,105
Total comprehensive income		–	33,236	–	–	1,509	–	34,745
Capital increases/(reductions)		7,202	(7,202)	–	–	–	–	–
Payment of dividends		–	(12,390)	–	–	–	–	(12,390)
Transactions with treasury stock or own equity instruments (net)		–	–	(2,907)	–	–	–	(2,907)
Other changes		–	(104)	–	–	–	–	(104)
At 31 December 2015		187,247	185,376	(13,728)	–	(2,444)	–	356,450
Total comprehensive income		–	47,300	–	–	3,845	17	51,161
Capital increases/(reductions)		7,490	(7,490)	–	–	–	–	–
Payment of dividends		–	(16,224)	–	–	–	–	(16,224)
Transactions with treasury stock or own equity instruments (net)		–	–	(24,285)	–	–	–	(24,285)
Share-based payment transactions		–	–	–	2,321	–	–	2,321
Other changes		–	49	–	–	–	75	124
At 31 December 2016		194,737	209,011	(38,013)	2,321	1,401	92	369,548
Total comprehensive income		–	78,684	–	–	(1,736)	–	76,948
Capital increases/(reductions)		3,739	(16,169)	12,430	–	–	–	–
Payment of dividends		–	(28,897)	–	–	–	–	(28,897)
Transactions with treasury stock or own equity instruments (net)		–	–	(8,787)	–	–	–	(8,787)
Share-based payment transactions		–	–	–	3,900	–	–	3,900
Other changes		–	(743)	–	–	–	(4)	(747)
At 31 December 2017		198,476	241,887	(34,370)	6,221	(336)	88	411,966

Consolidated Statement of Cash Flows for the years ended 31 December 2017, 2016 and 2015

Continuing operations	*Note*	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Operating activities				
Profit before tax		101,306	67,222	45,858
Adjustments to profit before tax:				
– Depreciation and amortisation	10, 12 & 13	51,789	48,912	48,667
– Other adjustments to profit (net)		(6,004)	7,685	9,111
Changes in working capital		6,387	8,367	(13,453)
Dividends received		162	119	9
Receipts (payments) for corporate income tax		(19,637)	(10,872)	(6,587)
Other receipts/(payments) for operating activities		(1,335)	(341)	(963)
Cash flows from operating activities		132,668	121,094	82,642
Investing activities				
Acquisition of group companies, associates and business units		(9,923)	(602)	–
Payments for PP&E, intangible assets and investment property		(61,205)	(53,131)	(59,325)
Payments for other financial assets		–	(323)	(1,061)
Payments for other assets		–	(334)	(1,588)
Proceeds from sale of Group companies, associates and business units		34,270	–	–
Proceeds from sale of PP&E, intangible assets and investment property		1,213	1,715	3,910
Proceeds from sale of other financial assets		14,298	293	–
Proceeds from sale of other assets		–	–	231
Interest received		456	206	390
Cash flows used in investing activities		(20,891)	(52,176)	(57,443)
Financing activities				
Payments for equity instruments – acquisitions		(8,784)	(3,834)	(2,675)
Issue of financial liability instruments		90,000	40,000	41,516
Repayment of financial liability instruments and amortisation		(165,600)	(72,217)	(59,400)
Dividends and returns on equity instruments paid	25	(28,897)	(16,224)	(12,390)
Interest paid		(8,984)	(11,553)	(19,350)
Other financing activities		337	–	8,167
Cash flows from/(used in) financing activities		(121,928)	(63,828)	(44,133)
Effect of movements in foreign exchange rates		883	(143)	(57)
Increase/(decrease) in cash and cash equivalents		(9,268)	4,947	(18,990)
Net cash and cash equivalents at 1 January		94,768	89,820	108,810
Net cash and cash equivalents at 31 December	18	85,500	94,767	89,820
Cash at banks and on hand		56,206	50,627	79,655
Other financial assets		29,294	44,141	10,166
Net cash and cash equivalents at 31 December	18	85,500	94,767	89,820

Notes:

1. General Information

1.1 *Introduction*

Papeles y Cartones Europa, S.A. (hereinafter, Europac or the parent company) was incorporated on 31 December, 1995 and is the head of a group (hereinafter, the Group or Europac Group) whose core business is the manufacture and sale of paper and corrugated board for packaging, and the manufacture of corrugated board packaging.

The Group has its head office in Alcobendas (Madrid) and has production centres in the following locations:

Spain:

- Waste management: Valladolid and Madrid
- Paper: Dueñas (Palencia), Alcolea del Cinca (Huesca)
- Corrugated board: Dueñas (Palencia), Torrelavit (Barcelona), Lucena (Cordoba)

Portugal:

- Waste management: Sintra (Lisbon), Gondomar (Porto) and Figueira da Foz
- Paper: Viana do Castelo
- Corrugated board: Guilhabreu (Vila do Conde), Albarraque (Sintra), Leiria, Ovar and Madeira

France:

- Paper: Saint-Étienne-du-Rouvray (Rouen)
- Corrugated board: Saint-Étienne-du-Rouvray (Rouen), Durtal, La Rochette, Gasny and Caradec

The company's registered address is in Dueñas (Palencia), at Carretera de Burgos a Portugal, Km. 96.

Europac is currently listed on the Madrid and Barcelona stock exchanges.

In 2017, the Group carried out the following corporate operations, including the following:

- In 2017, 100 per cent. of the shares in the company MedPackaging, S.A.R.L.A.U – owner of the corrugated board factory in Tangier (Morocco) were sold.
- On 31 March 2017, the parent company acquired 100 per cent. of the Spanish companies Ondulados Andaluces S.A. and Industrias Cartones Ondulados Andaluces, S.L., which mainly manufacture corrugated board. Subsequently, these two companies were merged to create the new company Europac Packaging Lucena S.L.
- In April 2017, 100 per cent. of the shares of the companies Europac Logistica, SA and Vianaport LDA were sold.
- On 8 May 2017, the subsidiary Europac Recicla S.A. acquired 100 per cent. of the Spanish company Transcon Valladolid S.A. which is mainly engaged in waste management. On 7 November 2017, these two companies were merged by takeover, whereby Europac Recicla S.A. took over Transcon Valladolid S.A.

In 2016, the Group carried out other corporate operations, including the following:

- On 3 August 2016, the Group recorded the merger of Harpalus, S.L. in the Companies Registry, with effect from 1 July 2016 (Note 10).

Please refer to Note 33 for further detail in relation to changes in group structure between the comparative periods.

2. Accounting Principles

2.1 *Basis of preparation*

This historical financial information has been prepared to present the financial condition, results of operations and cash flows of the Papeles y Cartones Europa, S.A. group (hereinafter **the Group** or **Europac Group**).

The financial information of the Europac Group for each of the previous three financial years has been prepared by Europac and presented in their audited Consolidated Financial Statements on a consistent basis, being International Reporting Standards as adopted by the EU ("IFRS"). This financial information has been accurately translated into English for the purposes of inclusion in this Circular and has been prepared in accordance with the requirements of the Prospective Directive regulation and the UK Listing Rules. As part of these procedures, the DS Smith Group have re-presented the translated financial information in order to align to DS Smith's presentational format.

All notes to the financial information include amounts for continuing operations, unless otherwise mentioned.

The amounts contained in these consolidated Financial Statements are expressed in thousands of euros, unless otherwise indicated. The Group's presentation currency is the Euro.

These Financial Statements give a true and fair view of the Group's consolidated equity and financial position at 31 December 2017, 2016 and 2015, the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flow.

The consolidated Financial Statements have been prepared on a historical cost basis, except for biological assets and derivative financial instruments, which have been recorded at fair value.

2.2 *Changes in accounting policies*

The accounting policies used in preparing these consolidated Financial Statements are the same for each of the financial years ended 31 December 2017, 2016 and 2015, as none of the amendments to the standards that became applicable for the first time in 2017 or 2016, which are indicated below, had a material impact for the Group:

Standard, interpretation or amendment	*Date of application in the EU*
Amendments to IAS 7 – Statement of cash flows: Disclosure initiative	01 January 2017
Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses	01 January 2017
Annual Improvements to IFRSs 2010–2012 Cycle	15 February 2015
Annual Improvements to IFRSs 2012-2014 Cycle	01 January 2016
Amendments to IAS 1 – Disclosure Initiative	01 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation	01 January 2016
Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants	01 January 2016
Amendments to IAS 19 – Defined benefit plans: Employee Contributions	15 February 2015
Amendments to IAS 27 – Equity method in separate financial statements	01 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Applying the consolidation exception	01 January 2016
Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations	01 January 2016

Please refer to note 2.28 for details of standards and interpretations issued by the IASB and applied for the first time in this financial year, and 2.29 for those not applicable in this financial year.

2.3 *Consolidation principles*

The consolidated Financial Statements comprise the Financial Statements of the parent company and its subsidiaries at 31 December 2017, 31 December 2016 and 31 December 2015.

Subsidiaries are fully consolidated from the acquisition date, which is the date on which the Group acquires control, and continue to be fully consolidated until the date on which said control ceases. The Financial Statements of subsidiaries have the same reporting date as the parent company and are prepared using the same accounting policies in a consistent and uniform manner. All balances and inter-company transactions, including unrealised gains and losses from transactions between group companies and dividends, are eliminated.

A change in the percentage of the holding in a subsidiary, which does not involve the loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary:

- It de-registers the assets (including goodwill) and the liabilities of said subsidiary
- It de-registers the carrying amount of non-controlling interests
- It de-registers the accumulated translation differences recorded in equity
- It recognises the fair value of the consideration received as a result of the transaction
- It recognises the fair value of any retained investment
- It recognises any surplus or deficit in the consolidated income statement
- It reclassifies to profit or loss or to reserves, as appropriate, the interest of the parent company in the items previously recognised in equity

2.4 *Business combinations*

Business combinations are accounted for using the acquisition method. The acquisition cost is the sum of the consideration transferred, measured at the fair value on the acquisition date, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group chooses whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets. Acquisition costs incurred are expensed and recorded in the separate consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification in accordance with the contractual terms, economic circumstances and

pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in the host contracts entered into by the acquiree.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the equity is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognised in consolidated profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with International Accounting Standard 39 either in profit or loss. A contingent consideration that is classified as equity is not re-measured. Any subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of International Accounting Standard 39, it is measured in accordance with the appropriate IFRS. If the contingent consideration is classified as equity, it is not measured, and any subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, which is the excess of the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired exceeds the value of the consideration transferred, the difference is recognised directly in the income statement, unless, as was the case in the merger carried out in 2016, it underlies a transaction with own equity instruments, in which case the difference is recorded directly against reserves. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, from the acquisition date goodwill acquired in a business combination is allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill forms part of the cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

2.5 *Interests in joint ventures*

The Group has an interest in a joint venture, which is a jointly controlled company, whereby the venturers have a contractual arrangement which establishes joint control over the economic activities of the company. The contract requires unanimous agreement among the venturers for financial and operating decisions. In 2017, 2016 and 2015, the Group recorded this interest using the equity method in accordance with IFRS 11.

2.6 *Investments in associates*

The Group's investments in associates are accounted for using the equity method. Associates are entities over which the Group has significant influence.

Under the equity method, the investment in an associate is initially recognised at cost in the consolidated balance sheet, and the carrying amount is increased or decreased depending on changes in the Group's share of the associate's net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group's share of the associate's profit or loss is recognised in the income statement. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of the change and discloses it, where applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of the profit of associates is recorded directly in the consolidated income statement. This is the profit attributable to equity holders of the associate and hence, corresponds to profit after tax and non-controlling interests in the subsidiaries of the associate.

The Financial Statements of the associates are prepared for the same reporting period as those of the Group and the necessary adjustments are made so as to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "Share of profit/(loss) of associates" in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon the loss of significant influence and the fair value of the retained investment plus proceeds from disposal is recognised in the consolidated income statement.

2.7 *Foreign currency transactions*

The Group's consolidated financial statements are presented in Euros, which is also the parent company's functional currency. Each group company determines its own functional currency, and the items included in each company's financial statements are measured using that functional currency. The Group uses the direct method of consolidation and has chosen to recycle gains or losses arising when translating these items using this method.

2.8 *Property, plant and equipment*

Property, plant and equipment is stated at acquisition or production cost, net of accumulated depreciation and, as the case may be, accumulated impairment losses. The cost of plant and equipment built by the Group is determined using the same principles as the acquired assets, additionally taking into account inventory production cost criteria. Production costs are capitalised by crediting the cost attributable to the asset to "Own work capitalised" in the consolidated income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over the estimated useful lives, as follows:

Buildings:	40-50 years
Machinery, fixtures and tools:	6-20 years
Other PPE:	6-10 years

Interest costs directly attributable to the acquisition, construction or production of an asset that necessarily require a substantial period of time for start-up or sale are capitalised as part of the cost of the asset. Other interest costs are expensed in the period in which they occur. Finance costs include interest and other costs the Group incurs in connection with the financing obtained.

Maintenance and repair costs are charged to the income statement in the period when they occur.

After initial recognition of the asset, the only costs capitalised are those expected to generate future economic benefits, to the extent that these costs can be reliably measured.

The replacement of items of property, plant and equipment which may be capitalised reduces the carrying amount of the replaced items. If the cost of the replaced items has not been depreciated independently and it is not practical to determine the carrying amount, the replacement cost is used as a proxy for the cost of the items at the time of acquisition or construction.

The cost of own work capitalised is measured at the cost of warehouse materials consumed at the cost of the staff performing the work on the internally-constructed assets.

2.9 *Investment property*

Investment property is measured using the same criteria described for property, plant and equipment.

Investment property is depreciated on a straight-line basis over the estimated useful life of 50 years.

2.10 *Other intangible assets*

(a) *Computer software*

Computer software is measured at the acquisition cost or, as the case may be, production cost. Maintenance costs and annual use expenses are charged directly to the income statement as incurred.

Computer software is amortised over its estimated useful life, which ranges between three and seven years.

(b) *Development costs*

Research costs are recorded as an expense in the income statement as incurred.

The costs associated with software development and the design and testing of new products have been capitalised to the extent that:

- The Group has technical studies which provide evidence of their viability.
- There is a commitment from the Group to complete production of the asset so that it is in condition for internal use.
- The asset is expected to generate sufficient economic benefits.

The Group has the necessary technical and financial resources to complete development of the asset (or to use it internally) and has developed budgetary and analytical accounting control systems which make it possible to monitor the budgeted costs, modifications introduced and the costs actually allocated to the different projects.

The cost of assets generated internally by the Group is determined using the same principles as those used to determine the cost of inventory production. Production costs are capitalised by crediting the cost attributable to the asset to "Own work capitalised" in the consolidated income statement.

(c) *Greenhouse gas emission allowance (CO2)*

Greenhouse gas emission allowances are measured at the acquisition price or production cost. When these allowances are acquired free of charge, their acquisition cost is deemed to be the fair value of the allowances at the acquisition date based on trading prices in secondary markets and they are recognised with a credit to "Government grants" (Note 21 below). Emission allowances are not amortised and are measured at historical cost. Provisions for impairment are recorded for allowances which are to be sold and not consumed by the company when their carrying amount is greater than the market value. Allowances are eventually de-registered from the balance sheet on their transfer to third parties, certification of their consumption by the Government or when they expire. The estimate of the expense for the use of emission allowances, which is generally certified by the Government in the year following their consumption, is recognised under "Current Provisions" (Note 20) according to the historical cost of the allowances held by the company using the weighted average cost criterion.

Non-repayable grants associated with the greenhouse gas emission allowances allocated to the group companies free of charge under the EU Emissions Trading System 2013-2020 are taken to profit or loss as "Grants related to non-financial non-current assets" when the subsidised emission allowances are disposed of, deemed impaired or consumed.

2.11 *Impairment of non-financial assets*

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using

a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover a period of between three and five years. For longer periods, a long-term growth rate is calculated and applied to estimate future cash flows after the last year.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the consolidated income statement under expense headings consistent with the function of the impaired asset, except for previously re-valued property, for which the revaluation is recorded directly in equity. In this case, the impairment loss is also recognised in equity until the amount of the previous revaluation is offset.

2.12 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets within the scope of International Accounting Standard 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular-way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- Financial assets at fair value through profit or loss

  This category includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale or repurchase in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by International Accounting Standard 39.

  Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in "Finance costs" in the consolidated income statement.

  Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under International Accounting Standard 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still firm. When, in exceptional circumstances, the Group is unable to trade these financial assets due to inactive markets and the management's intention to sell them in the foreseeable future changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale assets or held-to-maturity assets depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at initial recognition; these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their characteristics and risks are not related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

- Loans and other receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The interest accrued in accordance with this effective interest rate is included under "Finance income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Finance costs" for loans and "Other operating expenses" for receivables.

- Held-to-maturity investments

  Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The interest accrued in accordance with this effective interest rate is included under "Finance income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Finance costs".

- Available-for-sale financial assets

  Available-for-sale financial assets include investments in equity instruments and debt securities. Equity instruments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

  After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised as income and expense recorded directly in equity under "Valuation adjustments – Available-for-sale financial assets" until the investment is derecognised, at which time the cumulative gain or loss is recognised in "Other operating revenue", or the investment is deemed to be impaired, when the cumulative loss is reclassified to "Finance costs" in the consolidated income statement. Interest earned while holding available-for-sale financial assets is registered as interest income using the effective interest rate method.

  The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still firm. When, in rare circumstances, the Group is unable to trade

these financial assets due to inactive markets and management's intention to do so in the foreseeable future changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is only permitted when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is reclassified to profit or loss over the remaining life of the investment using the effective interest-rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(b) *Impairment of financial assets*

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Financial assets carried at amortised cost

  For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset,

whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance for impairment account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated income statement.

- Available-for-sale financial assets

  For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

  In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement) is removed from the consolidated statement of recognised income and expense and recognised in the consolidated income statement.

  Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

  In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

  Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest employed to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(c) *Financial liabilities*

Initial recognition and measurement

Financial liabilities within the scope of International Accounting Standard 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives

designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

<u>Subsequent measurement</u>

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The interest accrued in accordance with this effective interest rate is included under "Finance costs" in the consolidated income statement.

<u>De-recognition</u>

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

(d) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts, and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(e) *Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- Discounted cash flow analysis or other valuation models

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

(f) *Derivative financial instruments and hedge accounting*

<u>Initial recognition and subsequent measurement</u>

Where appropriate, the Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency

risks, interest rate risks and commodity price risks, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised within income and expense recognised directly in equity.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. No hedges of this type were used in 2017, 2016 or 2015.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation. No hedges of this type were used in 2017, 2016 or 2015.

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity in "Valuation adjustments – hedging transactions", while any ineffective portion is recognised immediately in the consolidated income statement in "Changes in fair value of financial instruments".

Amounts recognised as income and expenses recognised directly in equity are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as income and expenses recognised directly in equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in income and expenses recognised directly in equity remains in equity until the forecast transaction or firm commitment affects profit or loss.

The Group uses financial derivative instruments to mitigate its exposure to volatility in interest payments on financial liabilities carrying variable interest rates (Note 23).

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (e.g. the underlying contracted cash flows):

- When the Group holds a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified in line with the cash flows of the host contract.
- Derivative instruments that are designated as, and are, effective hedging instruments, are classified in line with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

2.13 *Biological assets*

The Group recognises a biological asset when, and only when:

- The Group controls the asset as a result of past events,
- It is likely that future economic benefits associated with the asset will flow to the Group, and
- The fair value or cost of the asset can be reliably measured.

Biological assets should be measured, both on initial recognition and as of each reporting date, according to their fair value less estimated point-of-sale costs, except in the event that the fair value cannot be measured reliably (Note 11).

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.

2.14 *Inventories*

Inventories are valued at the lower of cost and net realisable value, applying the following criteria:

- Raw materials, auxiliary materials, inventories for resale and other consumables: purchase cost, determined using the weighted average purchase cost method.
- Finished goods and work in progress: at industrial cost, which does not differ substantially from cost on a first in, first out basis. The industrial cost of finished goods and work in progress includes the costs directly attributable to the units produced (raw materials, direct labour and other direct costs) and a systematically-calculated proportion of indirect variable and fixed costs incurred during the transformation process, and is based on normal working conditions for the means of production.

Cost is written down to the inventories' net realisable value as required. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand, short-term deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. To this end, cash equivalents include investments maturing within three months.

2.16 *Share capital*

The company's ordinary shares are classified as equity. The Group has not issued any preference shares. Costs directly attributable to the issuance of new shares are deducted from equity net of the corresponding tax effect.

2.17 ***Treasury shares***

Own equity instruments that are reacquired by the Group are recognised separately at cost and deducted from equity on the balance sheet, regardless of why they were bought back. Any gain or loss on the sale of own equity instruments is recognised directly in equity.

2.18 ***Income tax***

Tax expense (income) includes current and deferred tax expenses (income).

Current tax is the amount of income tax payable (recoverable) in respect of consolidated taxable profit (tax loss) for the year. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax liabilities are the amounts of income tax payable in future periods in respect of taxable temporary differences, while deferred tax assets are the amounts of income tax recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits.

For these purposes, temporary differences are differences between the carrying amount of an asset or liability and its tax base.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all taxable temporary differences, except:

- If it is probable that the taxable profit will be available against which the assets can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor the taxable profit or loss.
- In respect of deductible temporary differences arising from investments in subsidiaries and interests in joint ventures, as long as it is probable that the temporary differences will reverse in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are also reviewed at each reporting date, and are recorded to the extent that it is probable that a taxable profit will be available against which the deferred tax asset can be applied.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the consolidated income statement is registered outside the consolidated income statement. Deferred tax items are recognised in correlation to the underlying transaction either in the income statement or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, may be subsequently recognised if certain facts and circumstances have changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or else in the consolidated income statement.

2.19 *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognised as part of the acquisition cost of the asset or as part of the expense item, as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated balance sheet.

2.20 *Employee benefits*

(a) *Pensions and other post-employment benefits*

Some Group companies have committed to top up their employees' pension plans as follows:

- Defined contribution commitments: these are recognised in the consolidated income statement as the contributions are made.
- Defined benefit commitments: pursuant to International Accounting Standard 19, the Group recognises all actuarial gains and losses on an accrual basis as other comprehensive income.

(b) *Seniority awards*

These liabilities are treated as other long-term employee benefits. The amount recognised as a liability is the estimated present value of the obligation, less, as the case may be, the market value of the assets of the corresponding funds. The current service cost plus interest cost less the expected return on any plan assets is recognised as an expense or income for the year. Actuarial gains and losses and past service costs are recognised immediately in the income statement for the year.

(c) *Termination benefits*

Except in cases of justified dismissal, companies are required to pay compensation to employees when their employment is terminated. As there is no foreseeable need for the irregular termination of employment, termination benefits, when they arise, are charged to the consolidated income statement at the time the dismissal decision is announced.

2.21 *Share-based payment transactions*

Certain members of the Group's management team receive share-based remuneration, under which members provide services in consideration for equity instruments. The cost of share-based payment transactions settled via equity instruments is recorded, together with the corresponding increase under the heading "Other equity instruments" in the period in which the service and/or performance conditions are met. The accumulated cost recognised for equity instruments at each closing date and until the vesting date reflects the part of the vesting period accrued and the Group's best estimate of the equity instruments that are finally granted (See Note 25). The expense recorded in the consolidated income statement is included under the heading "Employee benefits expense".

Expenses for rights that are not consolidated are not recorded, except those transactions with share-based payments which are awarded subject to a market condition, which are treated as granted regardless of whether the market condition is satisfied or not, provided that the rest of the service or performance conditions are met.

When the terms of the plan are modified, the minimum expense recorded is the expense that would have been incurred if said terms had not been modified and, furthermore, an expense is recorded for

any modification that increases the fair value of the share-based payment transaction or which, valued at the date of modification, is beneficial for the employees.

Upon cancellation of the plan, this is treated as if the rights had been consolidated at the date of cancellation, and any unrecognised expense for these rights is immediately recognised. This includes any right where the non-decisive conditions for consolidation under the control of the company or the employee have not been met. However, if new rights replace those cancelled, and these are designated as replacement rights on the date they are granted, the cancelled rights and the new rights will be treated as if they were modifications of the original rights, as described in the previous paragraph.

2.22 *Provisions and contingent liabilities*

Provisions are recognised when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amounts recognised in the consolidated balance sheet reflect the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, after taking into consideration the risks and uncertainties relating to the provision and, where the effect is material, the impact of the time value of money, so long as the annual outflows can be reliably determined. When discounting is used, the time value of money is recognised as a finance cost in the consolidated income statement.

Provisions do not reflect related tax effects or gains on the expected disposal or abandonment of assets.

Provisions are reversed against profit or loss when it is no longer probable that an outflow of resources will be required to meet the obligation. The reversal is recognised in the consolidated separate income statement heading in which the corresponding expense was recognised. Any surplus over the corresponding expense is recognised within “Other operating revenue” in the consolidated income statement.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed by the occurrence or non-concurrence of uncertain future events not wholly within the control of the Group, as well as present obligations that arise from past events for which it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised, but disclosed in the notes unless the possibility of an outflow of resources is remote.

2.23 *Recognition of ordinary revenue and expenses*

Income and expenses are recognised when they arise on an accrual basis, regardless of when actual payment or collection occurs.

Ordinary revenue from the sale of goods and the rendering of services is recognised at the fair value of the consideration received or receivable. Discounts likely to be granted for prompt payment, volume purchases or other factors at the time of revenue recognition are deducted from the amount of revenue recognised.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, regardless of when legal title is passed.

Revenue from the rendering of services is recognised in the financial year in which they are provided, as no stages of service contracts are pending completion.

Interest income is recognised using the effective interest rate method.

Revenue for dividends is recognised at the moment the Group’s right to receive the payment is established.

2.24 *Leases*

Leases in which the all the risks and rewards of ownership of an asset are substantially transferred to the Group are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the leased asset. The minimum lease payments are apportioned between the finance charge and the reduction in the outstanding liability. The finance charge is distributed over the term of the lease so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The payment obligation, net of finance charges, is recorded under payables, and the finance charge is recorded in the consolidated income statement as it accrues. Leased assets are classified within property, plant and equipment or intangible assets by nature and are depreciated/amortised over their useful lives.

Payments made under operating leases are recognised as an expense in a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

2.25 *Government grants*

Government grants are recognised when there is reasonable assurance that the grant will be received and that the group will comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to offset. When the grant relates to an asset, it is recognised as deferred income and credited to income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded at their nominal amounts and credited to the consolidated income statement on a straight-line basis over the expected useful life of the corresponding asset. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as an additional government grant.

2.26 *Classification of assets and liabilities between current and non-current*

The Group classifies its assets and liabilities as current and non-current in the consolidated balance sheet. To this end, current assets and current liabilities are those that meet the following criteria:

Assets are classified as current when the Group:

- Expects to realise the asset, or intends to sell or consume it, in its normal operating cycle,
- Holds the asset primarily for the purpose of trading, and
- Expects to realise the asset within 12 months after the reporting period or the asset is cash or a cash equivalent.

Liabilities are classified as current when the Group:

- Expects to settle the liability in its normal operating cycle,
- Holds the liability primarily for the purpose of trading or the liability is due to be settled within twelve months after the reporting period, or
- Does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date.

2.27 *Environment*

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations. Expenses incurred in connection with these environmental activities are recognised as other operating expenses in the year in which they are incurred.

Property, plant and equipment acquired for the purpose of sustained use in its business operations whose main purpose is to minimise environmental damage and/or enhance environmental protection, including those intended to reduce or eliminate pollution by the Group in the future, are recognised in the corresponding asset heading following the asset measurement, presentation and disclosure criteria outlined in Note 2.8 above.

2.28 *Standards and interpretations approved by the European Union applied for the first time in this financial year*

The Group intends to adopt the standards, interpretations and amendments to standards issued by the IASB which are not mandatory in the European Union as at the reporting date when they enter into force, where applicable. Although the Group is currently analysing their impact, based on the analyses performed to date, the Group estimates that their initial application will not have a material impact on its consolidated financial statements, except with regard to the following standards, interpretations and amendments to standards that have been issued:

2.29 *IFRS 7 Cash Flow Statement*

The disclosure of changes in liabilities arising from financing activities during financial year 2017 is as follows:

Changes in liabilities arising from financing activities

			€'000s		
	1 Jan 2017	*Cash flow*	*Changes in cons. scope*	*Translation differences*	*31 Dec 2017*
Deferred tax assets	32,221	(9,239)	(6,496)	(13)	16,473
Non-current debt with financial entities	329,821	(27,822)	–	–	301,999
Total debt with financial entities	362,042	(37,061)	(6,496)	(13)	318,472

2.30 *Standards and interpretations issued by the IASB, but which are not applicable in this financial year*

The Group intends to adopt the standards, interpretations and amendments to standards issued by the IASB which are not mandatory in the European Union as at the reporting date when they enter into force, where applicable. Although the Group is currently analysing their impact, based on the analyses performed to date, the Group estimates that their initial application will not have a material impact on its consolidated financial statements, except with regard to the following standards, interpretations and amendments to standards that have been issued:

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which replaces International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" and all the previous versions of IFRS 9. This standard brings together the three phases of the project for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted. Except for hedge accounting, it requires retroactive application, but amendment of comparative information is not required. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required application date and not restate comparative information. In 2017, the Group conducted a high-level assessment of the impacts of the three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes as a result of additional information that becomes available in 2018 when the Group adopts IFRS 9. In general, the Group does not expect major changes in the balance sheet and in the net worth, except as a result of the effect of application of the requirements in IFRS 9 for restructuring financial liabilities made in the past.

(a) *Classification and measurement*

The Group does not expect major changes in its balance sheet or net worth as a result of application of the classification and measurement requirements in IFRS 9. It expects to continue measuring at fair value all the financial assets which are currently recognised at fair value.

Shares of unlisted entities are expected to be held in the foreseeable future. No losses for impairment have been recognised in the consolidate income statement for these investments for previous years. The Group expects to apply the option to present the changes in fair value in other comprehensive income and, therefore, it believes that the application of IFRS 9 will not have a material impact.

Loans, as well as trade receivables, are held in order to receive the contractual cash flows and it is expected that they will involve cash flows that only represent payments of principal and interest. The Group analysed the characteristics of the contractual cash flows of these instruments and concluded that the instruments complied with the criteria to be measured at amortised cost in accordance with IFRS 9. Consequently, these instruments do not need to be reclassified.

(b) *Impairment*

IFRS 9 requires the Group to recognise expected credit losses on all its debt instruments, loans and trade receivables, whether over 12 months or a full lifetime. The group analysed the application of IRFS 9 and concluded that the impact is not significant, as a result of the strict credit risk management policies followed by the Group.

(c) *Hedge accounting*

The Group determined that all existing hedge relations, which are currently considered effective hedges, can continue to be classified as hedges pursuant to IFRS 9. The group has opted to the prospective application of hedge accounting. Since IRFS 9 does not change the general principles on how effective hedges should be recorded, the Group does not expect any significant impact as a result of the application of this standard.

(d) *Restructuring of financial liabilities*

IFRS 9 requires that when financial liabilities are restructured, the income statement in the year in which the restructuring takes place recognised the difference between:

(i) the present value of the expected future cash flows of the refinanced debt using the original Effective Interest Rate,

(ii) the carrying amount of the debt before refinancing, recognising in future periods the finance cost of the restructured liability in accordance with the Effective Interest Rate of the debt prior to refinancing.

Bearing in mind that over recent years, the Group has restructured its syndicated loan several times, it has recalculated the impact of the new terms in accordance with IFRS 9. The estimated impact at 1 January 2018 is a reduction in the financial liability of €3.2m, an increase in Deferred tax liabilities of €0.8m, and the consequent increase in Equity of €2.4m. IFRS 9 considers that a financial liability is restructured when the discounted present value of the remaining cash flow of the refinanced debt, using the original effective interest rate, it is at least 10 per cent. different from the carrying amount of the debt.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published in May 2014 and amended in April 2016, and establishes a new five-step model that applies to the recording of revenue from contracts with customers. According to IFRS 15, revenue is recognised in an amount that reflects the consideration to which the company expects to be entitled in exchange for the transfer of goods or services to a customer. This new standard repeals all the previous standards relating to revenue recognition. It requires full or partial retroactive application for annual periods beginning on or after 1 January 2018. In 2017, the Group performed a preliminary assessment of IFRS 15. The Group's business is to manufacture and supply paper reels to corrugated board manufacturers, as well as to manufacture and supply boxes to end customers. The Group also sells electric power that it generates at its co-generation plants, as well as recovered paper that it collects in different recovery points. In general, the paper reels, corrugated board boxes and recovered

corrugated board are sold by means of sales orders from customers that are subject to general sales conditions. Discounts for prompt payment or sales volume are agreed with certain customers.

This standard is not expected to have an impact on the Group's profit for sale orders. The Group expects that the recognition of revenue will take place when control of the asset is transferred to the customer, generally upon delivery of the goods.

In the analysis performed to adopt IRFS 15, the Group considers the following in relation to the sale of our products:

(a) *Variable consideration*

Some contracts with customers provide rights of return, trade discounts and volume discounts. The Group currently recognises revenue from the sale of goods at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. If the revenue cannot be reliably measured, the Group defers recognition of the revenue until the uncertainty is resolved. Such provisions lead to variable consideration in accordance with IFRS 15 and this will need to be estimated at the start of the contract and subsequently updated.

IFRS 15 requires entities to consider that there will be no significant revenue reversals when estimating variable consideration. The Group expects application of the restriction in recognition of variable consideration to lead to the deferral of more revenue than is the case with the current standard.

Rights of return

When an order with a customer provides a right of return of the good in a specific period, the Group currently recognises that right of return when it is claimed by the customer and the Group accepts the claim.

Therefore, according to the current accounting policy, the amount of the correction of revenue relating to expected returns is not recognised, and these are only recognised when the returned good is received at the Group's warehouse and the corresponding entry and correction to the cost of sales is recorded.

In accordance with IFRS 15, given that the orders allow customers to return the products when the specifications thereof or their physical state upon receipt are not as agreed, the consideration received is variable. The Group has decided to use the expected value method to estimate the goods that will be returned.

The Group's Management believes that the impact of the adjustments and reclassifications to be carried out is not material.

Volume discounts

The Group provides, on an annual basis, retroactive volume discounts for certain products purchased by its customers once the annual volume of products sold in a period exceeds a certain volume stipulated in the agreement. In accordance with the current accounting policy, the Group estimates the expected volume discounts, deducting from the start of the period the revenue of each sale with 100 per cent. of the agreed volume discount. At the end of the year, the Group assesses compliance with the volume discount customer by customer and adjusts sales accordingly.

In accordance with IFRS 15, volume discounts give rise to variable consideration. In order to estimate the variable consideration, the Group considers that the most likely amount method better predicts the amount of the variable consideration for contracts that have one single discount when they exceed the agreed volume, while for contracts with more than one discount, depending on volume, the expected value method or the most likely amount method would be applied depending on which of them better predicts the amount of the variable consideration for that type of contract. The Group has applied the requirements of IFRS 15 to the significant reversals of variable consideration and has concluded that effect would not be material.

(b) *Advances received from customers*

In general, the Group receives short-term advances from its customers, which are presented as part of "Trade payables". In its operations of manufacturing and supplying Paper and Corrugated

Board, the Group does not receive long-term advances from its customers. According to IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group has decided to use the practical solution provided in IFRS 15, and will not adjust the amount of the consideration for the effects of the significant financing component of the contracts when the Group expects, at the start of the contract, that the period between transfer of the good or service to the customer and the corresponding collection date will be one year or less. Therefore, for short-term advances, the Group will not record a financing component, even if it is significant.

(c) *Presentation and disclosure requirements*

IFRS 15 includes presentation and disclosure requirements that are more detailed than in current standards. The presentation requirements represent a significant change with regard to current practice and significantly increase the volume of disclosures required in the Group's financial statements.

Many of the disclosure requirements in IFRS 15 are completely new and the Group has assessed whether the impact of some of these requirements will be material. In general, the group does not expect to see a major increase in the volume of disclosures. In particular, the Group expects that the Notes to the financial statements will be extended as a result of the disclosures corresponding to the judgements made: on determining the transaction price of those contracts that include variable consideration, how the transaction price has been assigned to the different performance obligations and the assumptions used to estimate the independent sales prices of each performance obligation. In addition, in accordance with the requirements of IFRS 15, the Group will disaggregate, as the case may be, the revenue recognised in customer contracts in categories that describe how the nature, amount, schedule and uncertainty of the revenue and cash flows are affected by economic factors. It will also disclose information on the relationship between the revenue disclosed and the information on the revenue disclosed for each reportable segment. In 2017, the Group assessed the systems, internal controls, policies and procedures necessary to gather and disclose the required information.

(d) *Other adjustments*

In addition to the main adjustments described above, upon adoption of IFRS 15, other items in the financial statements will be adjusted, such as deferred taxes, assets held for sale and their associated liabilities, the profit or loss after tax of discontinued operations, as well as investments in associates and joint ventures. In addition, exchange differences for the translation of foreign operations will also be adjusted.

The recognition and measurement requirements of IFRS 15 are also applicable to the recognition and measurement of any gain or loss on deregistration of non-financial assets (such as property, plant and equipment and intangible assets) when such deregistration is not in the ordinary course of business. However, the effect of these changes is not expected to be material for the Group in the transition.

In summary, the impact of adoption of IFRS 15 on the Statement of Financial Position is expected no to be material.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives, and SIC-27 Evaluating the substance of transactions in the legal form of a lease.

IFRS 16 establishes the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to record all leases under one single lessee accounting model similar to the current accounting model applied to finance leases in accordance with IAS 17. The standard includes two exemptions whereby lessees are not required to recognise assets and liabilities for leases of low-value assets (for example, personal computers) and also short-term leases (i.e. leases for 12 months or less). On lease commencement, the lessee will recognise a liability for the present value of the lease payments (i.e. the lease liability) and an asset that represents the right to use the underlying asset during the

lease term (i.e. the right-of-use asset). Lessees are required to recognise interest on lease liabilities separately from depreciation of the lease right-of-use asset.

Lessees will also be required to reassess lease liabilities on the occurrence of certain events (for example, a change in the lease term or a change in future lease payments as a result of a change in the reference index or rate). The lessee will generally recognise the amount of the reassessment of the lease liability as an adjustment to the right-of-use asset.

Accounting by lessors according to IFRS 16 is not amended substantially with regard to the current accounting pursuant to International Accounting Standard 17. Lessors will continue classifying leases with the same classification principles as in International Accounting Standard 17 and will record two types of lease: operating leases and finance leases.

IFRS 16 also requires lessees and lessors to include more extensive disclosures than those required under International Accounting Standard 17.

IFRS 16 is effective for those periods beginning on or after 1 January 2019. Early application is permitted but not prior to an entity applying IFRS 15. A lessee may either apply the standard with full retrospective effect or by means of a modified retroactive transition. The provisions for transition to the standard allow certain exemptions.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

The other standards and interpretations issued by the IASB, but which are not applicable in this period and which are not expected to have a material impact on the Group are:

Standard, interpretation or amendment	*Date of adoption by the EU*	*Date of application in the EU*	*Date of application of IASB*
IFRS 17 – Insurance contracts	Pending	Pending	1 January 2021
CINIIF 22 – Foreign currency transactions and advance consideration	Pending	Pending	1 January 2018
CINIIF 23 – Uncertainty over income tax treatments	Pending	Pending	1 January 2019
Annual improvements to IFRS – 2014-2016 cycle	Pending	Pending	1 January 2017 and 1 January 2018
Annual improvements to IFRS – 2015-2017 cycle	Pending	Pending	1 January 2019
Amendments to IAS 28 – Long-term investments in associated and joint ventures	Pending	Pending	1 January 2019
Amendments to IAS 40 – Transfers of investment property	Pending	Pending	1 January 2018
Amendments to IFRS 2 – Classification and measurement of share-based payments transactions	Pending	Pending	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 financial instruments with IFRS4 insurance contracts	November 2017	1 January 2018	1 January 2018
Amendments to IFRS 9 – Prepayment features with negative compensation	Pending	Pending	1 January 2019
Amendments to IFRS 10 and IAS 28 – Sale or contributions of assets between an investor and its associate or joint venture	Pending	Pending	Indefinitely postponed
Amendments to IFRS 15 – Clarifications on standard	October 2017	1 January 2018	1 January 2018

3. Critical accounting estimates and judgements

The preparation of the Group's consolidated Financial Statements requires management to use estimates and judgements to estimate certain assets, liabilities, revenue, expenses and commitments recorded therein.

The management judgements, key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of consolidated assets and liabilities within the next financial year are described in this section. The Group based its assumptions and estimates on parameters available when the consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Measuring assets and liabilities in business combinations

The Group, which regularly acquires businesses, allocates the acquisition price paid to the fair value of the assets and liabilities acquired. The Group hires independent experts to determine the acquisition date fair value of the identifiable assets and liabilities acquired (mainly properties, equipment and employment-related obligations). The valuation techniques used are based on comparable transaction multiples, the amortised replacement cost (whenever no comparable market existed) and certain actuarial calculations in respect of employment-related obligations. The fair value of the properties acquired is sensitive to changes in supply and demand in the property and forestry markets (Notes 10 and 11).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the coming years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used to estimate terminal value. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 10.

Taxes

Uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded. The Group records provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Notes 8 and 24.

Pension benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the

discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Due to the complexity of the valuation work required, the Group uses an independent expert to perform the necessary assumptions and estimates.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least an investment grade rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in Note 26.

Fair value of derivative financial instruments

When the fair value of the derivative financial instruments recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details about the Group's derivatives are provided in Note 23.

Contingent liabilities

The Group is a defendant in several ongoing lawsuits. The directors, counselled by the Group's legal advisors, have made judgments about the outcome of these lawsuits. A different outcome to that initially estimated in respect of these lawsuits could affect the amounts recognised in the Group's consolidated Financial Statements. Further details about the Group's contingent liabilities are given in Note 28.

Return on investment

The parameters used in calculating return on investment and on operations provided for in the Electricity Sector Act and the Royal Decree regulating renewable energies are subject to annual modification or for each regulatory part-period or period which may affect the balances of assets, liabilities, revenue and expenses related to the Electricity System sector activity.

The interpretation of the existing legislation or new legislation related to the regulation of the Electricity Sector with definitive economic effects that will finally be determined by the resolutions of those bodies competent for their liquidation remains pending at the date of preparation of these Financial Statements.

Hierarchy of fair value measurement of assets and liabilities

The breakdown of the level of measurement of assets and liabilities recorded at their fair value in the Group's Financial Statements is as follows:

Hierarchy of fair value measurement 2017

€'000s	Measurement date	Total	Fair value measurement used		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Biological assets (Note 11)	31/12/2017	6,710	–	6,710	–
Securities portfolio (available-for-sale assets) (Note 15)	31/12/2017	784	784	–	–
Liabilities measured at fair value:					
Derivatives (Note 23)	31/12/2017	761	–	761	–

Hierarchy of fair value measurement 2016

€'000s	Measurement date	Total	Fair value measurement used		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Biological assets (Note 11)	31/12/2016	6,990	–	6,990	–
Securities portfolio (available-for-sale assets) (Note 15)	31/12/2016	13,123	13,123	–	–
Derivatives (Note 15)	31/12/2016	1,641	–	1,641	–
Liabilities measured at fair value:					
Derivatives (Note 23)	31/12/2016	1,882	–	1,882	–

Hierarchy of fair value measurement 2015

€'000s	Measurement date	Total	Fair value measurement used		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Biological assets (Note 11)	31/12/2015	6,280	–	6,280	–
Securities portfolio (available-for-sale assets) (Note 15)	31/12/2015	687	687	–	–
Derivatives (Note 15)	31/12/2015	461	–	461	–
Liabilities measured at fair value:					
Derivatives (Note 23)	31/12/2015	3,922	–	3,922	–

4. Segment reporting

The criteria used to identify the Group's operating segments are based on the management information reported to the chief operating decision-maker, which is in turn based on the Group's organisational structure, which comprises two business segments (Paper and Board), each of which determines its individual business policies, and a non-operating Corporate division that provides services to the operating units. Transfer prices between operating segments are on an arm's length basis. The Group does not perform any other significant activities. The Group's reportable operating segments and their main revenue-generating products and services are as follows:

- Paper (manufacture and sale of kraftliner and recycled paper for use in packaging, production of electric and thermal power, integral waste management and forestry management)
- Corrugated board (manufacture and sale of corrugated board sheets and boxes)

The financial information from the consolidated separate income statement reported regularly to the chief decision-maker for each operating segment is the following:

- Income statement: EBITDA
- Balance sheet: Property, plant and equipment, goodwill and other intangible assets, and capital expenditure for the year

The rest of the consolidated separate income statement and statement of financial position headings are compiled and reported to the chief decision-maker on an aggregate basis.

The Group also discloses financial information for the following geographic segments:

- Spain
- Portugal
- France
- Rest of EU
- Other

Segment and geographical information

Year Ended 31 December 2017	*Paper* *€'000s*	*Corrugated Board* *€'000s*	*Eliminations* *€'000s*	*Consolidated* *€'000s*
Net segment revenue				
external customers	484,783	383,436	–	868,219
other segments	104,356	9,540	(113,895)	–
Total	589,138	392,976	(113,895)	868,219
Operating profit before depreciation/ amortisation for the segment	148,531	(1,950)	–	146,581
Unassigned profit or loss				11,672
Consolidated EBITDA				158,253
Depreciation and amortisation				(51,789)
Operating profit (loss)				106,464
Net financial income (expense)				(5,527)
Share of profit of equity-accounted investees				369
Profit (loss) before tax from continuing operations				101,306
Intangible Assets, Property, Plant and Equipment and Investment Property	581,152	197,463	–	778,615
Unallocated assets (*)				309,997
Total Assets				1,088,612
Investment properties	48,065	19,923	–	67,988

Year Ended 31 December 2016	*Paper €'000s*	*Corrugated Board €'000s*	*Eliminations €'000s*	*Consolidated €'000s*
Net segment revenue				
external customers	441,057	360,093	–	801,150
other segments	77,770	7,924	(85,694)	–
Total	518,828	368,017	(85,694)	801,150
Operating profit before depreciation/ amortisation for the segment	104,741	18,095	–	122,836
Unassigned profit or loss				3,735
Consolidated EBITDA				126,571
Depreciation and amortisation				(48,912)
Operating profit (loss)				77,659
Net financial income (expense)				(10,552)
Share of profit of equity-accounted investees				115
Profit (loss) before tax from continuing operations				67,222
Intangible Assets, Property, Plant and Equipment and Investment Property	542,448	240,678	–	783,126
Unallocated assets (*)				336,150
Total Assets				1,119,276
Investment properties	45,071	11,901	–	56,972

Year Ended 31 December 2015	*Paper €'000s*	*Corrugated Board €'000s*	*Eliminations €'000s*	*Consolidated €'000s*
Net segment revenue				
external customers	448,240	357,420	–	805,660
other segments	86,451	7,254	(93,704)	–
Total	534,691	364,674	(93,704)	805,660
Operating profit before depreciation/ amortisation for the segment	106,822	9,683	–	116,505
unassigned profit or loss				(5,383)
Consolidated EBITDA				111,122
Depreciation and amortisation				(48,667)
Operating profit (loss)				62,455
Net financial income (expense)				(16,728)
Share of profit of equity-accounted investees				131
Profit (loss) before tax from continuing operations				45,858
Intangible Assets, Property, Plant and Equipment and Investment Property	552,586	225,229	–	777,815
Unallocated assets (*)				311,855
Total Assets				1,089,670
Investment properties	28,329	36,853	–	65,182

(*) Other non-current assets and all current assets of the group: these assets are shared by both businesses and a reasonable allocation to each business is not possible.

Geographical areas

Year ended 31 December 2017	*Spain €'000s*	*Portugal €'000s*	*France €'000s*	*EU €'000s*	*Other €'000s*	*Consolidated €'000s*
Net revenue from external customers	280,402	179,652	298,250	84,635	25,279	868,219
Intangible Assets, Property, Plant and Equipment and Investment Property	253,225	328,332	197,058	–	–	778,615

Year ended 31 December 2016	*Spain €'000s*	*Portugal €'000s*	*France €'000s*	*EU €'000s*	*Other €'000s*	*Consolidated €'000s*
Net revenue from external customers	231,012	172,182	285,224	75,295	37,436	801,150
Intangible Assets, Property, Plant and Equipment and Investment Property	231,863	320,354	195,874	–	33,007	781,098

Year ended 31 December 2015	*Spain €'000s*	*Portugal €'000s*	*France €'000s*	*EU €'000s*	*Other €'000s*	*Consolidated €'000s*
Net revenue from external customers	228,015	180,756	276,002	86,995	33,891	805,660
Intangible Assets, Property, Plant and Equipment and Investment Property	227,931	323,630	195,443	–	29,897	776,901

5. Operating expenses

The breakdown of "Other operating expenses" is as follows:

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Impairment losses on receivables (Note 17)	(418)	571	(2,147)
Losses on defaulting trade receivables	–	16	1,648
Provisions	–	(253)	71
Leases	6,323	6,488	6,148
Upkeep and repairs	15,526	13,579	19,130
Independent professional services	8,403	7,040	5,788
Transport	53,156	50,402	52,734
Insurance premiums	2,527	2,795	3,562
Supplies	57,997	52,599	58,235
Other external services	39,295	34,693	33,620
Emission allowance usage expense (Note 10)	3,338	3,395	3,877
Taxes	9,336	7,485	8,741
Other expenses	2,676	1,129	942
	198,159	179,939	192,349

Fees paid during the year for the services provided by Ernst & Young are as follows:

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Audit services	313	303	309
Other accounting review and verification services	42	20	51
Other services	105	100	113
Finance income	460	423	473

6. Finance income and costs

These items include interest income and expenses relating to financial assets and liabilities not recognised at fair value through profit or loss.

The breakdown of finance income and costs to the year ended 31 December is as follows:

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Interest from loans	90	85	177
Other finance income	531	3,280	222
Finance income	621	3,365	399

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Interest on bank borrowings and bonds and other negotiable securities	7,704	12,230	15,133
Interest and commission on factoring contracts	1,002	1,005	1,594
Other financial expenses	587	(80)	534
Finance costs	9,293	13,155	17,261

7. Personnel expenses

The breakdown of employee remuneration in 2017, 2016 and 2015 is as follows:

	2017 *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Continuing operations			
Wages and salaries	82,938	79,438	77,290
Social security costs	24,514	23,965	24,132
Contributions to supplementary pension system (Note 26)	784	1,003	1,518
Termination benefits	1,264	2,931	3,580
Share-based payment expense	3,900	2,321	–
Other employee welfare expenses	3,852	4,220	3,305
Personnel expenses	117,252	113,878	109,825

The breakdown of the Group's staff, together with the averages, at each reporting date is as follows:

	Headcount at year end								
	2017			*2016*			*2015*		
Europac Group staff	*Men*	*Women*	*Total*	*Men*	*Women*	*Total*	*Men*	*Women*	*Total*
Senior executives and directors	4	2	6	4	2	6	4	1	5
Directors	44	12	56	71	18	89	97	28	125
Graduates (five-year degrees)	96	44	140	144	52	196	139	44	183
Graduates (three-year degrees)	89	61	150	258	65	323	248	88	336
Administrative Staff	66	86	152	69	123	192	60	128	188
Sales representatives	89	96	185	67	47	114	46	40	86
Machine operators	1,489	100	1,589	1,268	78	1,346	1,286	77	1,363
Total	1,877	401	2,278	1,881	385	2,266	1,880	406	2,286

	Average headcount								
	2017			*2016*			*2015*		
Europac Group staff	*Men*	*Women*	*Total*	*Men*	*Women*	*Total*	*Men*	*Women*	*Total*
Senior executives and directors	4	2	6	4	2	6	6	1	7
Directors	44	13	57	84	23	107	92	30	122
Graduates (five-year degrees)	102	42	144	142	48	190	143	43	186
Graduates (three-year degrees)	87	58	145	253	77	330	258	88	346
Administrative Staff	64	85	149	65	126	190	56	126	182
Sales representatives	89	91	180	56	44	100	46	39	85
Machine operators	1,506	104	1,611	1,279	78	1,357	1,287	75	1,361
Total	1,895	397	2,292	1,882	396	2,278	1,887	402	2,289

During financial year 2017 there were 11 employees with disability greater than 33 per cent. (2016:13).

8. Income tax expense

Europac Group companies file annual corporate income tax returns. The profits of the companies resident in Spain, as determined under tax law, are taxable at a rate of 25 per cent. in 2017. The tax rates applicable to companies resident in Portugal range between 22.5 per cent. and 29.5 per cent., while the rate applicable in France stands at 33.3 per cent. Certain deductions, including those for environmental investment, training expenses, job creation and research and development expenses, can be deducted from the tax charge.

A breakdown of the corporate income tax expense is given below:

	2017 €'000s	2016 €'000s	2015 €'000s
Continuing operations			
Current tax expense			
For the year	22,290	14,083	11,083
Adjusted from prior years	(427)	(2,896)	(1,373)
	21,863	11,187	9,710
Deferred tax charge			
Origin and reversal of temporary differences in the year	1,043	5,018	3,690
Adjustments from prior years	437	2,117	–
Change in tax rate	–	–	10
	1,480	7,134	3,699
Total income tax expense in the income statement	23,343	18,321	13,410

The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	2017 €'000s	2016 €'000s	2015 €'000s
Profit before income tax	100,937	67,107	45,727
Share of profit of equity accounted investments, net of tax	369	115	131
Profit before tax and share of profit of equity accounted investments, net of tax	101,306	67,222	45,858
Permanent differences			
– From individual companies	(12,537)	(1,525)	(2,573)
– From consolidation adjustments	(11,004)	(115)	–
– Deductions and bonuses applied, not recognised in prior years	(5,615)	(3,260)	–
– Unrecognised/off-balance-sheet tax credits	17,049	10,716	11,759
Total permanent differences	(12,107)	5,816	9,054
Adjusted profit	89,199	73,038	54,912
Income tax at the domestic corporation tax rate of 25% (2016: 25%, 2015: 28%)	22,300	18,260	15,375
Notional tax rate differences at foreign companies	1,034	841	(603)
Deferred tax rate difference owing to change of rate	–	–	10
Adjustments from prior years and other items	9	(780)	(1,373)
Income tax expense – total Europac Group	23,343	18,321	13,410

The permanent differences for the financial year 2017 correspond mainly to the difference between the tax and accounting value of the capital gains generated for the sale of the subsidiary companies (Note 33) and listed shares (Note 14).

The fiscal credits generated and no activated correspond to the tax losses generated for the French subsidiary companies, as well as the Moroccan subsidiary company until its date of exclusion from the consolidation scope.

The breakdown of the current income tax liabilities is as follows:

	2017 €'000s	2016 €'000s	2015 €'000s
Current tax assets/(liabilities)			
Current tax year	(22,290)	(14,083)	(11,083)
Payments on account and withholdings	17,441	11,668	8,865
Current tax liabilities	(4,849)	(2,415)	(2,218)

9. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the company's ordinary shareholders by the average weighted number of outstanding ordinary shares during the period, excluding Treasury stock. The breakdown of the calculation of basic earnings per share, as well as the average number of outstanding ordinary shares is as follows:

	2017 €'000s	2016 €'000s	2015 €'000s
Basic earnings per share			
Profit for the year attributable to equity holders of the parent company	77,963	48,901	32,449
Weighted average number of outstanding ordinary shares	91,994,093	89,448,549	87,553,038
Basic earnings per share (€/share)	0.847	0.547	0.371

	Number of shares		
	2017	2016	2015
Average number of outstanding ordinary shares			
Outstanding ordinary shares at the start of the period	97,368,366	93,623,429	90,022,528
Average effect of treasury shares	(6,074,898)	(4,636,585)	(2,913,437)
Average effect of issued shares	700,625	461,705	443,947
Weighted average number of outstanding ordinary shares	91,994,093	89,448,549	87,553,038

Diluted earnings per share

Diluted earnings per share amounts are calculated by adjusting the profit attributable to equity holders of the parent company by the weighted average common stock outstanding in respect of all dilutive effects of potential ordinary shares, i.e. as if all potentially dilutive ordinary shares had been converted. The parent company does not have different classes of potentially diluting ordinary shares at a material level.

10. Intangible assets

	Goodwill €'000s	Computer software €'000s	Contracts and customer portfolio €'000s	Industrial property and other rights €'000s	CO2 Emission Allowances €'000s	Work in Progress €'000s	Total €'000s
Cost							
At 1 January 2017	89,422	21,695	1,336	264	2,314	1,567	116,598
Increases	5,026	–	–	–	2,664	681	8,371
De-registrations	–	–	–	–	(3,940)	–	(3,940)
Transfers	–	201	–	–	–	(201)	–
Changes in consolidated scope	–	14	–	(41)	–	–	(27)
Translation differences	–	–	–	(2)	–	–	(2)
At 31 December 2017	94,448	21,910	1,336	221	1,038	2,047	121,000
Amortisation and impairment							
At 1 January 2017	–	(19,529)	(1,201)	(236)	–	–	(20,871)
Amortisation	–	(1,362)	(136)	(7)	–	–	(1,505)
Changes in consolidated scope	–	(14)	–	21	–	–	7
Translation differences	–	–	–	1	–	–	1
At 31 December 2017	–	(20,905)	(1,336)	(221)	–	–	(22,368)
Carrying amount At 1 January 2017	89,422	2,166	135	28	2,314	1,567	95,632
At 31 December 2017	94,448	1,005	–	–	1,038	2,047	98,537

	Goodwill €'000s	Computer software €'000s	Contracts and customer portfolio €'000s	Industrial property and other rights €'000s	CO2 Emission Allowances €'000s	Work in Progress €'000s	Total €'000s
Cost							
At 1 January 2016	89,422	21,439	1,336	264	1,760	971	115,192
Increases	–	92	–	–	4,894	760	5,746
De-registrations	–	–	–	–	(4,340)	–	(4,340)
Transfers	–	164	–	–	–	(164)	–
At 31 December 2016	89,422	21,695	1,336	264	2,314	1,567	116,598
Amortisation and impairment							
At 1 January 2016	–	(17,822)	(1,201)	(525)	–	–	(19,453)
Amortisation	–	(1,707)	–	289	–	–	(1,418)
At 31 December 2016	–	(19,529)	(1,201)	(236)	–	–	(20,871)
Carrying amount At 1 January 2016	89,422	3,617	135	(261)	1,760	971	95,739
At 31 December 2016	89,422	2,166	135	28	2,314	1,567	95,632

	Goodwill €'000s	Computer software €'000s	Contracts and customer portfolio €'000s	Industrial property and other rights €'000s	CO2 Emission Allowances €'000s	Work in Progress €'000s	Total €'000s
Cost							
At 1 January 2015	89,422	18,959	1,336	221	1,945	2,217	114,100
Increases	–	290	–	91	2,345	918	3,644
De-registrations	–	(6)	–	(48)	(2,530)	–	(2,584)
Transfers	–	2,196	–	–	–	(2,164)	32
At 31 December 2015	89,422	21,439	1,336	264	1,760	971	115,192
Amortisation and impairment							
At 1 January 2015	–	(15,734)	(1,201)	(215)	–	–	(17,150)
Amortisation	–	(2,094)	–	(278)	–	–	(2,372)
De-registrations	–	6	–	–	–	–	6
Transfers	–	–	–	(32)	–	–	(32)
At 31 December 2015	–	(17,822)	(1,201)	(525)	–	–	(19,548)
Carrying amount							
At 1 January 2015	89,422	3,225	135	6	1,945	2,217	95,644
At 31 December 2015	89,422	3,617	135	(261)	1,760	971	95,739

Goodwill

The breakdown of goodwill is as follows:

Changes in Goodwill	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Company			
Trasloga, S.L.	1,529	1,529	1,529
Torrespack 2000, S.A.	392	392	392
Imocapital, SGPS, S.A.	281	281	281
Cartova, S.A.	1,463	1,463	1,463
Europac Portugal, SGPS, S.A.	61,812	61,812	61,812
Cartonajes Esteve y Nadal, S.L.	1,456	1,456	1,456
Europac Energia Viana, S.A.	1,381	1,381	1,381
Europac Recicla Lisboa, S.A.	1,634	1,634	1,634
Europac Cartão Ovar, S.A.	1,754	1,754	1,754
Europac Recicla Porto, S.A.	4,218	4,218	4,218
Europac Papeterie de Rouen	6,653	6,653	6,653
Europac Cartonnerie Atlantique y Savoie	5,070	5,070	5,070
Europac Cartonnerie de Rouen	1,779	1,779	1,779
Europac Packaging Lucena, SL	3,924	–	–
Europac Recicla Duero (Transcon, S.A.)	1,102	–	–
Total	94,448	89,422	89,422

Please refer to Note 29 for business combinations generating goodwill in 2017.

Goodwill, which is an intangible asset with an unlimited useful life, was apportioned to the Group's cash generating units (CGUs) for the purpose of appropriate impairment testing pursuant to International Accounting Standard 36.

The apportionment of goodwill to each generating unit in the Group at 31 December 2017 and 2016 is summarised below:

Apportionment of goodwill to CGUs

	2017 *€'000s*	2016 *€'000s*	2015 *€'000s*
CGU			
Paper Spain	1,102	–	–
Paper Portugal	55,865	55,865	55,865
Paper France	6,653	6,653	6,653
Corrugated Board Spain	8,753	4,829	4,829
Corrugated Board Portugal	15,224	15,224	15,224
Corrugated Board France	6,848	6,848	6,848
Other	3	3	3
Total	94,448	89,422	89,422

The recoverable amount of a CGU is the higher of fair value less the cost to sell and value in use. Value in use is calculated using projected cash flows based on financial budgets adopted by Group management for a three to five year period.

The Group's management prepares financial projections principally based on key assumptions that take into account the changes experienced since its preparation together with the general macro-economic situation, specific expectations by geographic region, the economic situation in the sector of operation, the economic situation of the Group and the CGUs and their ability to generate revenue, together with the expectations relating to the development of the business.

The key assumptions used reflect past experience. To prepare them, external sources of information are used, with a temporary scope, extended through internal information sources. The key assumptions are consistent with the sources of external information.

The specific period used by the Group to project cash flows at all its CGUs is four years.

The breakdown of assets attributed to each CGU with significant goodwill is as follows:

CGUs with significant goodwill

Description	*Corrugated Board Spain €'000s*	*Paper Portugal €'000s*	*Corrugated Board Portugal €'000s*	*Paper France €'000s*	*Corrugated Board France €'000s*
Goodwill	8,753	55,865	15,224	6,653	6,848
Property, plant and equipment and Intangible assets	52,051	193,561	67,199	127,123	55,302
Financial investments	5	255	105	679	295
Deferred tax assets	3,018	1,337	588	19,948	13,161
Biological assets	–	2,000	–	–	–
Non-current assets	63,827	253,019	83,116	154,403	75,606
Grants	(1,497)	(190)	(1,108)	(959)	(12)
Non-current provisions	–	(4,910)	(2,409)	(2,491)	(6,818)
Non-current financial liabilities	(123)	(182)	–	–	–
Deferred tax liabilities	(1,170)	(18,986)	(8,415)	(20,425)	(10,176)
Non-current liabilities	(2,790)	(24,268)	(11,931)	(23,876)	(17,006)
Inventories	7,121	16,739	13,225	14,644	19,833
Trade and other receivables	12,084	32,757	6,401	10,536	8,549
Trade and other payables	(15,604)	(74,366)	(18,391)	(35,992)	(29,133)
Working Capital	3,602	(24,870)	1,236	(10,812)	(751)
Total Capital Invested	64,639	203,881	72,420	119,715	57,848

The recoverable amount of a CGU is the higher of fair value less the cost to sell and value in use. Value in use is calculated using projected cash flows based on financial budgets adopted by Group management for a three to five year period. The applied discount rates consider the operational and financial risks associated with each of the CGUs. Cash flows subsequent to the last year of the projection are estimated by applying a constant growth rate in accordance with long-term growth expectations in the industry.

The Group has defined the cash generating units (CGUs) indicated in the above table.

In accordance with the impairment tests conducted for 2017 and 2016 pursuant to International Accounting Standard 36, the directors of the Europac Group believe that the CGUs are compliant with the profitability requirements under that standard. It has not therefore been necessary to recognise any impairment loss in respect of the goodwill and assets apportioned to those CGUs.

The recoverable amount of all CGUs in the Group has been determined on the basis of value in use.

The calculation of value in use for CGUs is sensitive to the following assumptions:

- Sales volumes of the CGUs
- Average sales prices
- Variable unit costs
- Discount rates
- Growth rates used to extrapolate CGU cash flows beyond the expressly projected period

The assumptions used are as follows:

(a) *Sales volumes*

- For the Paper CGUs, the average annual growth rates considered for the expressly projected period (hereinafter, AGR) are between 0.8 per cent. and 2.9 per cent. in 2017 (between (0.6) per cent. and 2.3 per cent. in 2016 and between 0.0% and 1.9% in 2015).
- The Corrugated Board CGUs are expected to grow at between 3.8 per cent. and 9.7 per cent. (between 1.7 per cent. and 2.8 per cent. in 2016 and between 1.6% and 3.2% in 2015), reflecting the expected performance of the corrugated board market in the geographical areas in which the CGUs operate.

(b) *Average sale price*

- It was assumed that the Paper CGUs will increase their average sales prices in accordance with an AGR of between 3 per cent. and 4.7 per cent. (between (0.3) per cent. and 0.7 per cent. in 2016 and between (0.4)% and 1.8% in 2015).
- It was assumed that Corrugated Board CGUs will raise their prices at an AGR of between 1.2 per cent. and 1.4 per cent. (between (0.4) per cent. and 2.7 per cent. in 2016 and between (4.7)% and 0.7% in 2015).

(c) *Variable unit costs*

- It was assumed the variable unit costs of the Paper CGUs will vary at an AGR of between 2 per cent. and 4.7 per cent. (between (0.7) per cent. and 0.6 per cent. in 2016 and between (0.6)% and 1.4% in 2015).
- It was assumed that the variable unit costs of the Corrugated Board CGUs will vary at an AGR of between 0.9 per cent. and 1.6 per cent. (between (0.7) per cent. and 1.3 per cent. in 2016 and between (15.9)% and 0.0% in 2015).

(d) *Discount rates*

The discount rates reflect the market's view of the specific risks faced by each CGU, taking into account the time value of money, the risks intrinsic to the market in which the CGUs operate, and the risks specific to each CGU. The discount rate is based on the specific circumstances of the Group and its CGUs, and reflects its pre-tax weighted average cost of capital ("WACC") calculated using the capital

asset pricing model ("CAPM") approach. In accordance with this approach, WACC is the result of weighting the cost of the Group's sources of financing (debt and equity) in accordance with the Group's market-based financial structure. The cost of equity is the return that an investor would require for investing its funds in the Group, estimated as the risk-free rate (10-year bonds in the market in which the CGU operates) plus a risk premium estimated in accordance with the CAPM. The cost of debt is estimated with reference to a benchmark interest rate based on long-term rate curves and a spread reflecting the market-driven financial structure under consideration. The costs of equity used for each of the CGUs range from 11.45 per cent. to 12.97 per cent. (between 10.73 per cent. and 13.65 per cent. in 2016 and between 11.29 per cent. and 14.43 per cent. in 2015), depending on the geographic area where the given CGU operates. The pre-tax cost of debt is estimated at 2 per cent. for the entire Group, since the Group's financing is mostly obtained on a centralised basis (2.9 per cent. in 2016 and 2.2 per cent. in 2015).

(e) The estimate of the terminal value of each CGU at the end of the specific period is estimated at all the CGUs by calculating the present value of revenue in perpetuity at a rate of constant growth.

The discount rates after tax and with growth used at the CGUs with significant goodwill are as follows:

CGU	*WACC*	*Growth rate*
Corr. board Spain	7.2%	1.5%
Paper Portugal	7.6%	1.5%
Corr. board Portugal	7.6%	1.5%
Paper France	6.8%	1.5%
Corr. board France	6.8%	1.5%

The residual value represents 117.8 per cent., 78.6 per cent., 82.5 per cent., 88.1 per cent. and 94.8 per cent. of the total recoverable value of the Board Spain, Paper Portugal, Board Portugal, Paper France and Board France CGUs respectively.

Sensitivity to changes in assumptions

The parent company's management performs a sensitivity analysis, particularly with regard to the discount rate used and the residual growth rate, in order to ensure that any changes in the estimates of said rates do not have an impact on the recovery of the aforementioned values.

With regard to the assessment of value in use of the CGUs, the directors believe that no reasonably possible change in any of the above key assumptions would cause the carrying amount of a given CGU to materially exceed its recoverable amount.

With regard to the analysis of the sensitivity of the value in use of CGUs with significant Goodwill to changes in the key assumptions, particularly the discount rate and residual growth rate, the changes that have been deemed reasonably possible related to the general recovery of the economy and of private consumption are as follows:

- A rise in the "cost of borrowing" component of WACC of 1 per cent. with regard to the swap rate curves used.
- A reduction of 0.5 per cent. in the residual value growth rate.

Other corporate operations

On 3 August 2016, the instrument notarising the merger by acquisition of Harpalus, S.L., approved by decision of the General Shareholders' Meeting of 29 June 2016, was registered with the Companies Registry of Palencia. The date of the merger for accounting purposes was set at 1 July 2016.

The reasons for carrying out the operations can be summarised as:

- An increase in transparency and visibility of the ownership structure of the Company, since the market will be very aware of who the direct owners of the shares are;
- De-concentration of ownership, thereby making control of the Company disputable in the market;

- Disappearance of the discount to which Europac's market capitalisation may be exposed on being controlled by one family holding company, with the merger thereby leading to an increase in Europac's market capitalisation; and
- In the stock market, the integration will imply greater size and depth of Europac's theoretical free float, which may increase the share's liquidity and reduce potential volatility. As a consequence of that greater size, it may be possible to achieve better and greater monitoring of the Company by stock-market analysts, which would increase informative efficiency of the quoted price and, as the case may be, lead to a reduction in the cost of capital.

The common draft terms of merger were drawn up and signed by the directors of the two companies on 7 April 2016. The independent expert appointed by the Companies Registry issued a favourable opinion with regard to the swap rate and fairness of the equity instruments provided by the companies, without it being necessary for the acquiring company to undertake a capital increase.

The swap ratio was of 9.17396596 shares of the parent company for each share of Harpalus, S.L., with no additional cash compensation or the issue of new shares of the parent company as Harpalus, S.L. was previously a shareholder in the parent company.

The date of acquisition of Harpalus was 1 July 2016, which is the date as from which the merger took effect for the purposes of the company's accounting.

The consideration received by Europac, which amounted to €20.4m, corresponds to a net debt taken on to acquire 1,795,454 treasury shares, in accordance with the fair value of the following assets and liabilities:

	Harpalus, S.L. *€'000s*
Non-current assets	10,397
Deferred tax assets	6,464
Trade and other receivables	238
Cash and cash equivalents	145
Current financial liabilities	(37,300)
Trade and other payables	(394)
Total net assets acquired	(20,449)
Non-controlling interests	–
Consideration received	(20,449)

With regards to the valuation of the treasury shares acquired in the operation, management considered that the share price, which at the date of the acquisition of Harpalus amounted to EUR 4.75 per share, was not the best reference of the fair value of the share price, since it is not sufficiently liquid in the market. In this regard, the use of the share Price or any other reasonable value would not affect equity, since the difference between the treasury shares handed over to the shareholders of Harpalus and received from these shareholders would be recorded in equity for a value of €20.4m.

Other Intangible Assets

Fully amortised intangible assets still in use at 31 December 2017 amount to €17.4m (2016: €14.8m; 2015: €13.1m).

Customer contracts and portfolios mainly include the fair value on the acquisition date of an agreement entered into for the acquisition of Europac Papeterie de Rouen, S.A. pursuant to which the former owner undertakes to buy a certain volume of paper from the company over a period of five years. This agreement was identified in the process of the business combination relating to that company. This heading also includes the fair value of a customer portfolio of Europac Cartonnerie de Rouen, S.A.S.

"Work in progress" in 2017, 2016 and 2015 is primarily comprised of capitalised cost for the development of information systems that are in the process of being implemented.

The increases and transfers under "Computer Software" recorded in 2017, 2016 and 2015 mainly correspond to the cost of implementing new information systems in the Group.

"CO2 Emission Allowances" includes the balance of the Greenhouse Gas Emission Allowances granted by the authorities at no charge and, as the case may be, those acquired from third parties.

The breakdown of the changes under this heading in 2017, 2016 and 2015 is as follows:

Changes in greenhouse gas emission allowances

	No. emission Issue
Total emission allowances at 31 December 2014	408,680
Allowances acquired on the market in 2015	150,000
Submission of govt-certified allowances and expired allowances	(528,530)
Allowances received from government in 2015	231,460
Allowances sold to third parties in 2015	–
Total emission allowances at 31 December 2015	261,610
Allowances acquired on the market in 2016	550,000
Submission of govt-certified allowances and expired allowances	(557,626)
Allowances received from government in 2016	227,043
Allowances sold to third parties in 2016	(100,000)
Total emission allowances at 31 December 2016	381,027
Allowances acquired on the market in 2017	200,000
Submission of govt-certified allowances and expired allowances	(554,577)
Allowances received from government in 2017	222,585
Allowances sold to third parties in 2017	(75,000)
Total emission allowances at 31 December 2017	174,035

The breakdown of the number of the impact of the disposals and estimated consumption of emission allowances on the Group's earnings in 2017, 2016 and 2015 is as follows:

Earnings impact of greenhouse gas emission allowances

	Grants transferred to profit and loss €'000s (Note 21)	*Gain (loss) on disposal assets €'000s (Note 12)*	*Provision for impairment of assets €'000s (Note 12)*	*Emission allowance usage expense €'000s (Note 20)*	*Other expenses €'000s*	*Total €'000s*
2015						
Certif. allowances used in 2014	–	–	–	22	–	22
Sale of allowances 2015	–	–	–	–	–	–
Est. usage allowances 2015	1,638	–	–	(3,899)	–	(2,261)
Total gain (loss) 2015	1,638	–	–	(3,877)	–	(2,239)
2016						
Certif. allowances used in 2015	–	–	–	132	–	132
Sale of allowances 2016	–	61	–	–	–	61
Est. usage allowances 2016	1,432	–	–	(3,527)	–	(2,094)
Total gain (loss) 2016	1,432	61	–	(3,395)	–	(1,901)
2017						
Certif. allowances used in 2016	–	–	–	21	–	21
Sale of allowances 2017	–	52	–	–	–	52
Est. usage allowances 2017	1,336	–	–	(3,359)	–	(2,023)
Total gain (loss) 2017	1,336	52	–	(3,338)	–	(1,950)

There are no intangible assets with restricted ownership or which have been granted as security.

There are no amounts committed to the acquisition of intangible assets.

11. Biological assets

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
Continuing operations			
At 1 January	6,990	6,280	5,440
Increase due to purchases	–	335	1,588
De-registrations	–	–	(231)
Revaluations	(281)	(10)	326
Transfers to/from property, plant and equipment	–	385	(843)
At 31 December	6,710	6,990	6,280

The biological assets recorded fully correspond to the fair value of the trees in the forestry operations (mainly pine and eucalyptus) which are located in Spain (Castile and Leon) and Portugal (Alto Alentejo). The values of the land where these forestry operations are located are recorded as "Land and buildings" under the heading "Property, Plant and equipment" (Note 12). This land is recognised at its acquisition cost less the accumulated loss for impairment, as the case may be.

The Group did not acquire any new forestry operations in 2017, while in 2016 the Company acquired forestry operations in the municipality of Vinuesa (Soria).

The de-registrations in 2015 corresponded to the sales of wood taken from the operations at market value.

"Revaluations" correspond to the difference between the fair value of the biological assets and their carrying value in the previous year.

The main valuation techniques and the variables used in the valuation of the fair value of the biological assets by independent experts commissioned to estimate said value are as follows:

- Valuation by comparison: this method consists of estimating the fair value of the land and the biological assets by applying price multiples paid per hectare in transactions for comparable plots of land, adjusted, as the case may be, by homogenisation coefficients that take into consideration the differences in the type of use, density of the woodland, etc.
- Current rent method: the fair value of the biological assets and the land consists of calculating the present value of a perpetual annual rent, calculated as the difference between:
  - revenue: the average expected growth of the forest mass (m3/Ha per year), multiplied by the average price of the expected m3 and the surface area of the land; and
  - expenses: amount in Euros of the cost of maintaining the land.

The value of the biological assets and the land are obtained as the average of the values by offsetting the current rent. In order to obtain the fair value of the biological assets with the land, the independent expert applies the method of the value of comparing transactions of land plots with comparable woodland.

12. Property, plant and equipment

The break down of this heading as at 31 December 2017, 2016 and 2015 is as follows:

	Land & Buildings €'000s	*Machinery, fixtures and tools €'000s*	*Other PPE €'000s*	*Prepayments and work in progress €'000s*	*Total €'000s*
Cost					
At 1 January 2017	311,173	1,062,396	28,542	39,551	1,441,662
Additions	2,965	12,859	1,590	47,228	64,642
Disposals	–	(3,218)	(134)	(5)	(3,357)
Transfers	1,494	18,732	443	(20,752)	(83)
Changes in consolidated scope	(10,075)	(9,317)	1,134	10	(18,248)
Translation differences	(525)	(634)	(29)	(3)	(1,191)
At 31 December 2017	305,032	1,080,818	31,546	66,029	1,483,425
Depreciation and impairment					
At 1 January 2017	(85,649)	(645,112)	(24,555)	(880)	(756,196)
Depreciation charge	(5,973)	(42,954)	(1,300)	–	(50,227)
Impairment	–	(315)	–	–	(315)
Disposals	16	2,841	127	–	2,984
Transfers	–	(85)	168	–	83
Changes in consolidated scope	454	(1,329)	(925)	–	(1,801)
Translation differences	27	75	6	–	108
At 31 December 2017	(91,125)	(686,879)	(26,479)	(880)	(805,364)
Carrying amount					
At 1 January 2017	225,524	417,284	3,987	38,671	685,466
At 31 December 2017	213,907	393,939	5,067	65,149	678,062

	Land & Buildings €'000s	*Machinery, fixtures and tools €'000s*	*Other PPE €'000s*	*Prepayments and work in progress €'000s*	*Total €'000s*
Cost					
At 1 January 2016	290,043	1,021,728	28,268	53,491	1,393,530
Additions	4,834	12,877	754	32,760	51,225
Disposals	(21)	(2,358)	(1,125)	(348)	(3,852)
Transfers	15,265	29,853	632	(46,135)	(385)
Changes in consolidated scope	822	–	–	–	822
Translation differences	230	296	13	(217)	322
At 31 December 2016	311,173	1,062,396	28,542	39,551	1,441,662
Depreciation and impairment					
At 1 January 2016	(80,397)	(606,665)	(24,310)	(901)	(712,273)
Depreciation charge	(5,248)	(40,866)	(1,322)	–	(47,436)
Disposals	21	2,438	1,079	–	3,538
Transfers	(21)	–	–	21	–
Translation differences	(4)	(19)	(2)	–	(25)
At 31 December 2016	(85,649)	(645,112)	(24,555)	(880)	(756,196)
Carrying amount					
At 1 January 2016	209,736	415,063	3,958	52,590	681,257
At 31 December 2016	225,524	417,284	3,987	38,671	685,466

	Land & Buildings €'000s	*Machinery, fixtures and tools €'000s*	*Other PPE €'000s*	*Prepayments and work in progress €'000s*	*Total €'000s*
Cost					
At 1 January 2015	281,425	976,211	27,936	51,283	1,336,856
Additions	2,447	16,644	548	41,900	61,538
Disposals	–	(2,923)	(287)	61	(3,149)
Transfers	6,119	31,739	70	(39,753)	(1,825)
Translation differences	52	57	1	–	110
At 31 December 2015	290,043	1,021,728	28,268	53,491	1,393,530
Depreciation and impairment					
At 1 January 2015	(75,969)	(570,450)	(23,382)	(251)	(670,052)
Depreciation charge	(4,675)	(40,247)	(1,315)	–	(46,237)
Impairment	–	(379)	–	(650)	(1,029)
Disposals	247	1,854	282	–	2,383
Transfers	–	2,563	105	–	2,668
Translation differences	–	(6)	–	–	(6)
At 31 December 2015	(80,307)	(606,665)	(24,310)	(901)	(712,273)
Carrying amount					
At 1 January 2015	205,456	405,761	4,554	51,032	666,804
At 31 December 2015	209,736	415,063	3,958	52,590	681,257

Additions in 2016 and 2017 mainly correspond to the investment made in machinery and fixtures at the Group's various paper and board plants, while additions in 2015 corresponded to investment in other fixtures, such as conditioning of elements or improvement of the purification of pulp, as well as the reform of PM2 in Duenas, the winder of Rouen and the start-up of a new corrugated board plant in Tangier.

Additions to property, plant and equipment included €4.8m (2016: €2.8m; 2015: €5.2m) corresponding to work performed by the company on its own assets.

The balance of "Work in progress" mainly reflects the amount of investments made over the year corresponding to investment projects which are at the execution stage on the reporting date and which, therefore, have not yet entered into operation.

"Disposals" in 2017, 2016 and 2015 included various disposals of property, plant and equipment and the elimination of the accounting records of fully depreciated items which are not in use. The disposal of assets generated losses of €0.1m in 2017 compared with a loss of €0.8m in 2016 and a gain of €2.8m in 2015.

The breakdown below shows the amounts recorded in the income statement for impairment and gains or losses on disposals of non-current assets:

Impairment and gains (losses) on disposals of assets	*2017*	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Gain/(loss) on disposals of property, plant and equipment	(123)	(787)	2,849
Gain/(loss) on disposals of emission allowances (Note 10)	52	61	–
Impairment of property, plant and equipment	(299)	737	(769)
Impairment of investment property	9	327	90
Total	(361)	338	2,170

In 2017, no expenses were capitalised (2016: €2m; 2015: €0.1m) corresponding to the finance costs of investment projects during the installation and commissioning period of greater than one year prior to start-up.

The capitalisation rate of generic borrowing costs was 2.79 per cent. in 2016 (2015: 3.57 per cent.).

In 2017, the group received government grants associated with items of property, plant and equipment for €0.3m (2016: €1.0m; 2015: €8.2m). See Note 20.

The Europac Group has taken out different insurance policies to cover the main risks which its property, plant and equipment are subject to.

The amount of fully depreciated items which remain in use as at 31 December 2017 stood at €315m (2016: €291m; 2015: €269m).

The carrying amount of assets acquired through finance leases at 31 December 2017 was €4.2m (2016: €4.3m; 2015: €18.5m). The leased assets, mainly machinery and vehicles at plants, secure the financial liabilities attaching to those finance leases.

Future minimum payments of finance leases and the present value of net minimum lease payments are as follows:

	2017		*2016*		*2015*	
	Minimum payments €'000s	*Present value €'000s*	*Minimum payments €'000s*	*Present value €'000s*	*Minimum payments €'000s*	*Present value €'000s*
Less than one year	333	329	344	307	324	307
Between one and five years	499	497	860	853	1,173	1,146
Over five years	–	–	–	–	–	–
Total minimum lease payments	832	825	1,204	1,160	1,497	1,453
Financial charge decrease	7	–	(14)	–	(44)	–
Present value of minimum lease payments	839	825	1,190	1,160	1,453	1,453

13. Investment property

The break down of this heading as at 31 December 2017, 2016 and 2015 is as follows:

	Total €'000s
Cost	
At 1 January 2017	3,313
Changes in consolidated scope	121
At 31 December 2017	3,434
Amortisation and impairment	
At 1 January 2017	(1,285)
Amortisation	(57)
Impairment	(28)
Disposals	38
Changes in consolidated scope	(86)
At 31 December 2017	(1,418)
Carrying amount	
At 1 January 2017	2,028
At 31 December 2017	2,016

	Total €'000s
Cost	
At 1 January 2016	4,220
Additions	85
Disposals	(992)
At 31 December 2016	3,313
Amortisation and impairment	
At 1 January 2016	(1,713)
Amortisation	(58)
Disposals	486
At 31 December 2016	(1,285)
Carrying amount	
At 1 January 2016	2,508
At 31 December 2016	2,028

	Total €'000s
Cost	
At 1 January 2015	4,133
Additions	87
At 31 December 2015	4,220
Amortisation and impairment	
At 1 January 2015	(1,745)
Amortisation	(58)
Disposals	90
At 31 December 2015	(1,713)
Carrying amount	
At 1 January 2015	2,388
At 31 December 2015	2,508

Under "Investment property", the Group mainly recorded as at 31 December 2017 an industrial warehouse in Portugal for an amount of €1.4m (2016: €1.4m; 2015: €1.5m). Forestry land not operational is also included in this heading.

The industrial warehouse was rented in 2014 and in 2015 the Group reversed part of the impairment provision (€0.1m) to adjust its carrying amount to its fair value, while in 2016 a total of €0.3m was reversed (Note 12) and de-registrations as a result of disposals were recorded in an amount of €0.5m.

14. Equity accounted investments

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
At 1 January	1,693	1,639	1,610
Disposals in the year	(17)	–	–
Share of profit of associates	369	115	131
Changes recognised in equity	–	(61)	(102)
At 31 December	2,045	1,693	1,639

Principal equity accounted investments

	Nature of business	*Principal country of operation*	*Ownership interest*		
			2017	*2016*	*2015*
Cartonajes Santander, S.L.	Corr. board manufacture	Spain	39.6%	39.6%	36.6%
Cartonajes Cantabria, S.L.	Corr. board manufacture	Spain	39.6%	39.6%	36.6%
Industria Cartonera Asturiana, S.L.	Corr. board manufacture	Spain	39.6%	39.6%	36.6%
Euskocarton, S.L.	Corr. board manufacture	Spain	39.6%	39.6%	36.6%
Vianaport – Empresa de Trabalho Portuario, Lda.	Port services	Portugal	–	50.0%	50.0%

Spanish-resident associates

The Group holds investments in unlisted Spanish-resident associates which are not listed on the stock exchange and which are accounted for using the equity method. The Group is accounting for these investments under the equity method of accounting because the Group has the ability to exercise significant influence over the investment due to the Group's holdings.

Vianaport – Empresa de Trabalho Portuario, Lda.

The Group accounted for its 50 per cent. shareholding in Vianaport – Empresa de Trabalho Portuario, Lda. as a joint venture until its disposal in 2017.

Summary of financial information of associates

The following items are an aggregate of the financial statements of the Europac Group's main associates on a 100 per cent. basis.

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Assets	7,200	6,288	5,819
Liabilities	1,893	1,341	928
Revenue	5,006	5,887	3,421
Profit after tax	506	292	545

15. Financial assets

The break down of this heading as at 31 December 2017, 2016 and 2015 is as follows:

			2017		
	Held for Trading €'000s	*Available for sale €'000s*	*Loans and other receivables €'000s*	*Held to maturity €'000s*	*Total €'000s*
Non-current					
Equity instruments	–	568	–	–	568
Other financial assets	–	–	2,526	490	3,016
Total non-current financial assets	–	568	2,526	490	3,584
Current					
Equity instruments	784	–	–	–	784
Other financial assets	–	–	6	87	93
Total current financial assets	784	–	6	87	877

			2016		
	Held for Trading €'000s	*Available for sale €'000s*	*Loans and other receivables €'000s*	*Held to maturity €'000s*	*Total €'000s*
Non-current					
Equity instruments	–	13,145	–	–	13,145
Other financial assets	–	–	712	908	1,620
Total non-current financial assets	–	13,145	712	908	14,765
Current					
Equity instruments	554	–	–	–	554
Derivatives	1,641	–	–	–	1,641
Other financial assets	–	–	2	88	89
Total current financial assets	2,195	–	2	88	2,284

			2015		
	Held for Trading €'000s	*Available for sale €'000s*	*Loans and other receivables €'000s*	*Held to maturity €'000s*	*Total €'000s*
Non-current					
Equity instruments	–	577	–	–	577
Other financial assets	–	–	632	611	1,243
Total non-current financial assets	–	577	632	611	1,820
Current					
Equity instruments	–	687	–	–	687
Derivatives	–	461	–	–	461
Other financial assets	–	–	338	80	418
Total current financial assets	–	1,148	338	80	1,566

"Equity instruments" in 2017 mainly includes minority shareholdings in companies in the board manufacturing sector and shares in listed companies in secondary markets.

In 2016, the Group acquired shares in listed companies (almost all in the IBEX35) for the sum of €10.4m as a result of the merger with Harpalus, S.L. These shares were sold in 2017 with a capital gain of €4.1m.

Accordingly, "Available-for-sale financial assets" in 2016 and 2015 include securities with no official quoted price, mainly investments in companies in the corrugated board manufacturing industry, and shares of listed companies in secondary markets.

The change in the financial assets available for sale is as follows:

Available-for-sale financial assets	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Balance at 1 January	13,145	577	577
Business combinations	(9)	10,397	–
Revaluation	1,887	2,219	–
Transfer to profit or loss	(4,106)	–	–
De-registrations	(10,349)	(48)	–
Balance at 31 December	568	13,145	577

"Current and non-current investments held to maturity" in 2017, 2016 and 2015 contains term deposits, guarantees and other financial assets with an explicit maturity.

Non-current "Loans and receivables" mainly includes the non-current maturities of loans granted by Europac Papeterie de Rouen, S.A.S. and Europac Cartonnerie de Rouen, S.A.S. to French public bodies for social purposes pursuant to prevailing legislation.

16. Inventories

The break down of this heading as at 31 December 2017, 2016 and 2015 is as follows:

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
Raw materials and consumables	63,702	59,355	56,651
Work in progress	802	807	917
Goods for resale	908	712	612
Finished goods	22,698	18,279	21,618
	88,110	79,152	79,798

The directors of the parent company believe that the insurance arranged by the consolidated Group adequately covers the risk to which its inventories may be exposed.

There are no material commitments to purchase inventories at the 2017, 2016 and 2015 reporting dates

Inventory provisions at 31 December 2017 were €2.8m (2016: €2.3m, 2015: €4.1m).

17. Trade and other receivables

Trade and other receivables comprise the following:

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
Trade receivables	61,557	56,751	67,637
Impairment and bad debt provisions	(5,255)	(6,612)	(8,282)
Total trade receivables	56,302	50,139	59,355
VAT refundable	3,703	9,514	8,626
Other receivables	4,894	18,777	14,973
Other receivables from tax authorities	10,108	9,737	3,520
Impairment and bad debt provisions	(644)	(643)	(6,473)
Total other receivables	18,061	37,385	20,646

Changes in the provision for impairment and bad debt in 2017 and 2016 are as follows:

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
Balance at 1 January	7,256	14,755	16,915
Changes in the consolidation scope	669	–	–
Provisions/(reversals) for the year	(418)	571	(2,147)
Utilisation	(1,608)	(8,069)	(14)
Balance at 31 December	5,900	7,256	14,755

The Group's exposure to credit risk is mainly attributable to the receivables arriving in the ordinary course of business. Amounts stated in the balance sheet are shown net of the impairment losses on trade receivables and doubtful debts, which were recorded by the Group in accordance with its experience, having regard to expected performance and the economic circumstances prevailing at the reporting date.

The Group has factored without recourse certain receivables for sales of goods and services. Since the risks associated with these receivables have been substantially transferred, the balance of these receivables (with the non-due balance at 31 December 2017 and 2016 amounting to €61.4m, €59.7m respectively) was written off the Group's consolidated balance sheet at 31 December 2017 and 31 December 2016 (Note 23).

In June 2003, the Group brought an ordinary executive action against the company Empresa de Desenvolvimiento e Infraestruturas do Alqueva, S.A. ("EDIA") for collection of a right to collect compensation for the expropriation of the production unit of Portucel Recicla, which was flooded in the construction of the Alqueva dam (Portugal). The ordinary enforcement action led to various actions before different courts, which concluded with the Judgment of the Supreme Court of Justice of Portugal on 14 December 2016 in favour of the Group. As a consequence of said judgement, EDIA paid the Company a total of €14.1m in 2017 as principal plus interest accrued from 31 July 2002 to 27 March 2017. Said amount is recorded as part of the balance of "Receivables" at 31 December 2016 and a balance of €2.0m held in 2015 at the fair value at the balance sheet date.

As at 31 December 2017, 2016 and 2015, there were no indications that the usual collection periods for the balances included under outstanding trade receivables will not be met.

Trade and other receivables not covered by provisions at 31 December 2017, 2016 and 2015 broken down by age are as follows:

			Of which past due but not impaired			
Trade receivables	*Net carrying amount €'000s*	*Of which neither impaired nor past due €'000s*	*1 month or less €'000s*	*1–2 months €'000s*	*2–3 months €'000s*	*More than 3 months €'000s*
At 31 December 2017	60,551	49,910	9,924	344	63	310
At 31 December 2016	68,272	57,713	10,025	184	95	255
At 31 December 2015	67,855	58,500	9,040	253	19	43

18. Cash and Cash Equivalents

The break down of this heading as at 31 December 2017, 2016 and 2015 is as follows:

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
Bank balances	56,207	50,627	79,655
Short-term deposits	29,293	44,141	10,166
Net cash and cash equivalents	85,500	94,768	89,820

The balance under Cash at bank and in hand is kept in current accounts denominated in Euros, which accrue the market interest rate for this type of account.

The "Cash equivalents" are fully denominated in Euros and made up of bank deposits and similar highly-liquid investments, which mature in the first quarter of the year following the reporting date.

There are no restrictions on the availability of such balances.

19. Other payables

The breakdown of the heading "Other payables" is shown below:

	2017 *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Remuneration payable	16,065	15,616	15,202
Personal income tax withholdings	2,243	2,015	2,629
Payable to social security agencies	3,333	3,289	3,977
Value added tax	8,116	8,661	9,943
Other payables	3,798	15,675	12,933
	33,555	45,256	44,683

"Other payables" in the above mainly comprises prepayments from customers and other deferred charges.

20. Provisions

The breakdown and changes under these headings for 2017, 2016 and 2015 are shown below:

	At 1 January 2017 *€'000s*	*Additions* *€'000s*	*Utilisation* *€'000s*	*Actuarial Movements* *€'000s*	*At 31 December 2017* *€'000s*
Non-current provisions					
Provisions for commitments to employees	16,247	611	(830)	(1,016)	15,012
Tax provisions	524	–	–	–	524
Other provisions	67	–	(49)	–	18
Total non-current provisions	16,838	611	(879)	(1,016)	15,554
Current provisions					
Provision for use of CO2 allowances	3,527	3,359	(3,519)	–	3,366
Provision for restructuring	127	–	(127)	–	–
Other provisions	16	–	(16)	–	–
Total current provisions	3,670	3,359	(3,662)	–	3,367

	At 1 January 2016 *€'000s*	*Additions* *€'000s*	*Utilisation* *€'000s*	*Actuarial Movements* *€'000s*	*At 31 December 2016* *€'000s*
Non-current provisions					
Provisions for commitments to employees	14,109	770	(755)	2,124	16,247
Tax provisions	524	–	–	–	524
Other provisions	187	–	(120)	–	67
Total non-current provisions	14,820	770	(875)	2,124	16,838
Current provisions					
Provision for use of CO2 allowances	3,899	3,527	(3,899)	–	3,527
Provision for restructuring	1,129	–	(1,002)	–	127
Other provisions	27	(11)	–	–	16
Total current provisions	5,056	3,516	(4,901)	–	3,670

	At 1 January 2015 €'000s	*Additions €'000s*	*Utilisation €'000s*	*Actuarial Movements €'000s*	*At 31 December 2015 €'000s*
Non-current provisions					
Provisions for commitments to employees	15,061	623	(760)	(815)	14,109
Tax provisions	524	–	–	–	524
Other provisions	985	110	(908)	–	187
Total non-current provisions	16,570	733	(1,668)	(815)	14,820
Current provisions					
Provision for use of CO2 allowances	2,552	3,899	(2,552)	–	3,899
Provision for restructuring	–	1,129	–	–	1,129
Other provisions	25	2	–	–	27
Total current provisions	2,578	5,031	(2,552)	–	5,056

"Provisions for use of CO2 allowances" includes the amount estimated for greenhouse gas emission allowances used in the year (Notes 5 and 10).

Provisions for commitments to employees are disclosed in more detail in note 26.

Provisions for taxes reflect additional assessments in 2017 and 2016 and their corresponding late payment penalties and interest, for corporate income tax in respect of 2000 for the company Fábrica de Pape do Ave, S.A. The penalties have been appealed and a final decision is pending.

21. Government grants

This heading includes the grants received from government bodies which have yet to be recorded in the income statement. It also includes a balancing entry for unused greenhouse gas emission allowances assigned by the environmental authorities to the Group free of charge, carried as intangible assets (Note 2.10 (c) and Note 10).

The Group acquired, at no cost, 222,585 emission allowances in 2017 valued at €1.3m, compared with 227,043 allowances in 2016 valued at €1.4m, and allowances in 2015 of 231,460 valued at €1.6m (Note 10). In 2017, the Group transferred a total of €1,336 (2016: €1,432; 2015: €1,638) to the consolidated income statement as revenue under "Grants related to non-financial assets".

In addition, the Group received new capital grants in 2017 in the amount of €0.3m, (2016: €1.0m; 2015: €8.2m). The amount of the capital grants transferred to profit and loss for the year totalled €1.0m in 2017 (2016: €1.0m; 2015: €3.0m). See "Grants related to non-financial assets" in the consolidated income statement).

22. Bank borrowings

"Bank borrowings" mainly comprises loans, balances drawn down from bank credit facilities and finance leases.

	2017			2016			2015		
	Current €'000s	*Non-current €'000s*	*Total €'000s*	*Current €'000s*	*Non-current €'000s*	*Total €'000s*	*Current €'000s*	*Non-current €'000s*	*Total €'000s*
Syndicated loan[1]	12,500	268,125	280,625	–	290,000	290,000	–	250,000	250,000
Deferred finance expenses	–	(4,369)	(4,369)	–	(5,073)	(5,073)	–	(6,586)	(6,586)
Other loans[2]	2,291	38,136	40,427	30,529	44,439	74,968	46,670	64,007	110,677
Finance leases[3]	264	107	371	161	455	616	289	684	974
Credit facilities[4]	514	–	514	131	–	131	218	–	218
Short-term interest with banks	904	–	904	1,400	–	1,400	1,461	–	1,461
	16,473	301,999	318,472	32,221	329,821	362,042	48,639	308,105	356,744

Notes:

(1) Syndicated Forward Start Facility entered into in February 2012 for up to €253m, of which €166m comprised a loan and €87m related to a revolving credit facility, both for five years with partial maturities. The rate of interest was indexed to Euribor, plus a spread of 3.25 per cent. The facility was subsequently refinanced and novated as follows:

- In July 2014, Europac Group signed a novation of the Forward Start Facility with the corresponding banks, which essentially involved deferring all outstanding due dates on the novation date by two years. The spread for this borrowing was reduced to 2.5 per cent. throughout the remaining life of the loan.
- In July 2015, Europac Group refinanced its syndicated borrowings by increasing the amount of the financing to €290m euros and extending the outstanding maturities on the novation date by two years up to 10 July 2021, with an annual interest rate indexed to the Euribor plus a margin of between 140 and 175 basis points depending on compliance with certain ratios.
- In December 2016, Europac Group signed an amendatory non-extinctive novation of this syndicated borrowing whereby the maturity date was extended to 10 July 2022 and its interest index to Euribor plus a margin of between 120 and 155 basis points depending on compliance with certain ratios.
- In 2016, the Group performed the corresponding analysis of the loan novation, concluding that it was a debt restructuring and therefore had no impact on the 2016 income statement.

(2) The Group has entered into other bilateral loans and financial leases with banks in order to finance its investments. These loans amounted to €33.8m at 31 December 2017 (€69.6m at 31 December 2016; €110m at 31 December 2015).

Almost all such borrowings are indexed to the Euribor and in 2017, 2016 and 2015 they bore interest at an average rate of 1.4 per cent., 2.2 per cent. and 2.6 per cent. respectively.

(3) The Group acquired the use of certain assets under finance leases with financial institutions, the net carrying amount of which is disclosed in Note 12 above.

(4) The Group has credit facilities available with financial institutions in order to finance its operations. At 31 December 2017, 2016 and 2015, the Group had a contractual credit limit of €50.9m, €55.3m and €79.2m, of which €0.3m, €0.4m and €0.2m had been drawn down at 31 December 2017, 2016 and 2015, respectively. All credit facilities are indexed to the Euribor and the average finance cost was 0.75 per cent., 1.6 per cent. and 2.0 per cent. in 2017, 2016 and 2015 respectively.

Maturities of the borrowings

The maturity schedule of non-current bank borrowings is as follows:

	2017 €'000s	*2016 €'000s*	*2015 €'000s*
2017	–	–	38,493
2018	–	21,946	44,718
2019	32,335	36,489	39,516
2020	54,476	40,144	43,452
2021	47,796	52,811	136,369
2022	171,322	183,504	12,143
2023 and other	438	–	–
	306,368	334,894	314,691
Discount to present value	(4,369)	(5,073)	(6,586)
	301,999	329,821	308,105

All Group borrowings are Euro-denominated

23. Other financial liabilities

The breakdown of the carrying amount of other financial liabilities recorded by the Group is as follows:

Year Ended 31 December 2017	*Financial liabilities at fair value through profit and loss €'000s*	*Trade and other payables €'000s*	*Hedging derivatives €'000s*	*Total €'000s*
Non-current				
Derivatives	309	–	452	761
Payables to fixed asset suppliers	–	12,997	–	12,997
Other financial liabilities	–	129	–	129
Total non-current other financial liabilities	309	13,126	452	13,887
Current				
Payables to fixed asset suppliers	–	25,900	–	25,900
Total current other financial liabilities	–	25,900	–	25,900

Year Ended 31 December 2016	*Financial liabilities at fair value through profit and loss €'000s*	*Trade and other payables €'000s*	*Hedging derivatives €'000s*	*Total €'000s*
Non-current				
Derivatives	777	–	1,104	1,882
Payables to fixed asset suppliers	–	12,984	–	12,984
Other financial liabilities	–	32,296	–	32,296
Total non-current other financial liabilities	777	45,281	1,104	47,163
Current				
Payables to fixed asset suppliers	–	22,108	–	22,108
Other financial liabilities	–	6,163	–	6,163
Total current other financial liabilities	–	28,271	–	28,271

Year Ended 31 December 2015	*Financial liabilities at fair value through profit and loss €'000s*	*Trade and other payables €'000s*	*Hedging derivatives €'000s*	*Total €'000s*
Non-current				
Derivatives	184	–	3,738	3,922
Payables to fixed asset suppliers		17,864		17,864
Other financial liabilities	–	37,111	–	37,111
Total non-current other financial liabilities	184	54,975	3,738	58,897
Current				
Payables to fixed asset suppliers	–	18,800	–	18,800
Other financial liabilities	–	33	–	33
Total current other financial liabilities	–	18,833	–	18,833

a) Factoring contracts

The group has non-recourse factoring contracts in place with certain financial institutions. The contractual limit of transferable receivables at 31 December 2017 amounted to €102m (2016: €112m; 2015: €88m), of which €61m had been transferred at 31 December 2017 (2016: €60m; 2015: €61m). All these contracts are indexed to the Euribor, with a spread of between 0.3 per cent. and 0.85 per cent. in 2015-2017.

b) Bonds and other negotiable securities

In 2014, the Group set up a commercial paper issue programme on the MARF (Alternative Fixed-Income Market) for a maximum of €50m. This programme aims to reduce finance costs and diversify the sources of financing. In 2017, this programme was renewed and the maximum amount increased to €100m.

In 2017, the Group carried out issues for an average annual amount of €28m at an average cost of 0.7 per cent. (2016: €9m with an average cost of 0.9 per cent.; 2015: €14m with an average cost of 2.5 per cent.), with no outstanding balance at the end of any year presented.

c) Derivatives

The Group uses derivative financial instruments to hedge volatility risks associated with the floating interest rates borne by its major financial liabilities. The derivative instruments held by the Europac Group in 2017 are shown below:

Type of derivative instrument	*Hedged financial instrument*	*Contract date/ hedge designation*	*Floating interest rate*	*Fixed interest rate*	*Strike Price*	*Notional (€'000s) 31 December 2015*	*31 December 2016*	*31 December 2017*	*Maturity*	*Accounting hedge*
Vanilla floating-fixed swap	Syndicated loan	31/07/2012	E3M	0.72% to 1.28%	–	151,178	43,521	–	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	14/12/2012	E3M	0.860%	–	8,529	6,148	–	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	18/02/2013	E3M	0.71% to 1.30%	–	41,863	95,619	–	16/02/2017	yes
Vanilla floating-fixed swap	Syndicated loan	01/04/2016	E3M	0.0075% to 0.016%	–	–	133,438	124,688	12/07/2021	no
Vanilla floating-fixed swap	Loan	06/03/2013	E6M	0.980%	–	40,000	35,714	–	15/03/2017	yes
Vanilla floating-fixed swap	Cancelled	–	E6M	0.480%	–	17,600	15,200	10,400	08/08/2018	no
Vanilla floating-fixed swap	Loan	14/11/2014	E3M	0.480%	–	20,000	20,000	18,571	07/02/2020	yes
Gas formula swap	Gas futures purchases	22/11/2016	N/A	N/A	€18.68 /MWh	–	24,814	–	31/12/2017	no
Exchange rate forwards	Future purchases pounds	07/06/2017	N/A	N/A	£0.896/€	–	–	3,624	25/01/2021	yes
Exchange rate forwards	Future purchases pounds	06/06/2017	N/A	N/A	£0.883/€	–	–	4,535	25/10/2022	yes

The breakdown of the fair value of the financial instruments taken out by the Group, as well as the effect on the Income Statement and on Equity of changes in their value is shown below:

	Fair Value			*Income Statement*			*Income and expenses recognised in other comprehensive income*		
Derivative financial instruments	2017 €'000s	2016 €'000s	2015 €'000s	2017 €'000s	2016 €'000s	2015 €'000s	2017 €'000s	2016 €'000s	2015 €'000s
Interest-rate derivatives	(452)	(1,104)	(3,738)	(1,056)	281	(2)	79	2,914	1,827
Speculative derivatives	(309)	863	277	(1,172)	1,604	525	–	–	–
	(761)	(241)	(3,461)	(2,228)	1,885	523	79	2,914	1,827

d) Other financial liabilities

Payables to fixed assets suppliers classified as non-current relates to amounts payable to suppliers of investments falling due after one year.

"Other financial liabilities" mainly includes the maturities at more than one year of a loan of €40m granted by the Agency for Business Innovation, Funding and Internationalisation of Castile Leon (ADE). This loan was repaid early in February 2017.

The breakdown of the due dates of non-current, non-derivative other financial liabilities is as follows:

	2017 €'000s	2016 €'000s	2015 €'000s
2017	–	–	10,058
2018	–	11,452	10,790
2019	6,814	10,562	10,727
2020	4,456	8,878	8,878
2021	2,010	16,654	15,755
2022	1,408	–	–
Other	29	–	–
Total	14,717	47,546	56,208
Deferred finance costs	(1,591)	(2,265)	(1,233)
Total non-current other financial liabilities	13,126	45,281	54,975

The finance costs of other financial liabilities have been estimated by applying the effective interest rate method

e) Fair value

Given that almost all the Group's financial liabilities bear interest at benchmark rates, it is believed that the fair value of such liabilities is not materially different from their carrying amount (Note 3)

f) Risk policy and management

Financial risk factors

The Group's activities expose it to various types of financial risk: market risk, credit risk, liquidity risk and interest-rate risk on cash flows. The Group analyses uncertainty in the financial markets and takes steps to minimise any adverse effect on the Group's returns by arranging derivative instruments, among other measures.

The most important financial risks faced by the Europac Group are:

- Financial covenants

The investments in group plants and corporate acquisitions over the past few years were supported by financing structures that are thought to be appropriate. However, those structures carry obligations to comply with certain covenants granted to the lenders. It is therefore critical that compliance with those covenants be suitably monitored. The Group's Finance Department draws up financial projections in the short and long term based on its business plans and regularly monitors compliance with covenants to forestall any risk of non-compliance and warn management so that it may take corrective steps. Under the terms of this loan, failure to comply with financial covenants on two or more occasions qualifies as a breach of contract that would entitle the lenders to declare early maturity.

The Group complied with the covenants of its financial debt in 2017.

- Exchange-rate risk

The Group mainly carries on its business in Spain, Portugal, France and other countries of the Eurozone, so most of its transactions are accordingly denominated in Euros. The Group purchases some of its raw materials in United States dollars and has maintenance contracts for turbines in Pounds Sterling. Management does not regard exchange-rate risk as significant. However, when it considers it appropriate, it hedges these currencies.

- Credit risk

The Group's credit risk exposure mainly relates to receivables arising in the ordinary course of business. Group management believes that the credit risk to which it is exposed is not significantly concentrated (Note 17 itemises unimpaired balances past due). However, the Group has policies in place to ensure that wholesale customers have an appropriate credit and solvency history. The Group's finance area accordingly operates a risk department concerned with the Group's main markets. The main role of this department is to design, implement, monitor and control customer and credit risk acceptance policies. The Group has credit and surety insurance in place.

- Continuity risk

At 31 December 2017, the Group had negative working capital of €27.4m (2016: €23.2m; 2015: €32.2m). The directors of the parent company estimate that the cash flows generated by the business and the available lines of financing make it possible to meet current liabilities. Consequently, the directors of the parent company have prepared the consolidated financial statements following the going concern principle.

- Liquidity risk

The Group carries out prudent liquidity risk management based on establishing and maintaining minimum liquidity ratios. Similarly, the Group's Management, with the aim of maintaining minimum financing availability, took out, as part of the syndicated loan, a line of credit for an approximate amount of €90m in 2015. This financing is supplemented with a sufficient number of lines of credit and factoring arrangements, as well as a corporate paper issue programme entered into in 2017 for a maximum sum of €100m, which grants flexibility, availability and diversification of appropriate sources of short-term financing in the business.

- Cash flow interest-rate risk and fair value risk

Cash flows from the Group's operating activities are independent of changes in market interest rates. Therefore, there is no natural hedging between operating cash flows and financial cash flows. The Group's exposure to interest-rate risk is mainly present in long-term debt which is almost all indexed to variable rates, thus exposing the Group to interest-rate risk in cash flows. Fixed-rate borrowings, which are not significant in the Group, expose the Group to fair value interest-rate risk. Group policy is to arrange derivative financial instruments to swap floating rates for fixed rates or restrict the volatility of floating rates to a given range, while maintaining a reasonable balance between fixed and floating rates.

The Europac Group's sensitivity to interest rate fluctuations in 2017 and 2016 is shown below in thousands of Euros:

	Variances due to interest rate fluctuations					
	2017		*2016*		*2015*	
	0.25%	*(0.25%)*	*0.25%*	*(0.25%)*	*0.25%*	*(0.25%)*
	€'000s	*€'000s*	*€'000s*	*€'000s*	*€'000s*	*€'000s*
Estimated effect on profit after tax	202	(202)	349	(349)	(375)	375
Estimated effect on equity after tax	(317)	317	(212)	212	194	(194)

- Financial instruments and bank deposits

The credit risk of the balances with banks and financial institutions is managed by the Group's Treasury Departments in accordance with the guidelines received from the Finance Department. The Group generally maintains a net debit cash position through its use of credit facilities, reflecting its policy of using any surplus cash to pay down credit facilities; this risk is accordingly regarded as not material.

- Capital management

The Group aims to maintain its financial solvency at reasonable levels, maintaining its debt/equity ratio at acceptable levels. Group policy on dividends, investment and financing is managed in regard to debt levels. In 2017, the group distributed dividends to shareholders for 60 per cent. of the consolidated net profit (2016: 50%; 2015: No disclosure).

No changes were made to the objectives, policies or processes for managing the Group's financial solvency in the years ending 31 December 2017, 2016 and 2015.

The ratios used by the Group to manage financial solvency are the same as those indicated in the above section entitled "Financial Covenants".

Raw material supply risk and price volatility risk

In order to minimise this risk, the raw materials purchasing department is focused on signing long-term contracts, searching for new supply markets and avoiding supplier concentration. Furthermore, the Group has in recent years undertaken strategic acquisitions of recycled paper recovery companies to enable vertical integration and mitigate the supply and price risk associated with this material.

The other major category in group cost structure carrying supply and price volatility risk is the cost of electricity, since paper manufacturing is power-intensive. The Group mitigated this risk to minimum levels by constructing co-generation and combined-cycle power plants in the paper production plants, which are operated under Spain's special power tariff scheme. The price volatility risk of the cost of gas, which is used as fuel in the combined-cycle plant, is mitigated by the use of financial instruments, where necessary.

It is not possible to make a reliable estimate of the impact on the consolidated income statement of a significant change in the price of raw materials as it is not possible to reliably estimate which part of said change could be charged to the customer through the sales price of the finished product.

Below is the impact forecast for the income statement in different scenarios under the assumption that the prices of all raw materials used by the Europac Group rise at a similar rate:

Change in price of raw materials €'000s	*Repercussion of the change on sales prices €'000s*	*2017 Estimated effect on profit/(loss) after tax €'000s*	*2016 Estimated effect on profit/(loss) after tax €'000s*	*2015 Estimated effect on profit/(loss) after tax €'000s*
+/- 5%	10%	+/- 14,815	+/- 12,991	+/- 12,970
+/- 5%	30%	+/- 10,523	+/- 10,104	+/- 10,088
+/- 5%	50%	+/- 8,231	+/- 7,217	+/- 7,206
+/- 5%	70%	+/- 4,938	+/- 4,330	+/- 4,323
+/- 5%	100%	–	–	–

The effect on the Europac Group's equity would not materially differ from that shown in the above table for profit/loss after tax.

Commercial risks

- Customer concentration risk

Although revenue concentration by customer is not greater than the sector average, the Sales Department conducts certain analyses on customer concentration in order to implement measures to mitigate any potential risk.

- Sales price risk

In order to mitigate this risk and prevent a reduction in contribution margins, the Group has computer systems which produce reliable data on the cost and profitability of any offer before it is presented to the customer.

IT risks

The Europac Group's business processes and management model are processed through a unique ERP for all business lines, combined with a logistics system in the Paper division and a production planning system in the Board division. In order to mitigate the risk of concentration in the physical location of the systems, as well as the risk of hacking or the blocking of the communications systems, the Group stores data in a cloud environment and has a contingency plan in the event of a breakdown that is periodically updated.

Human resources risks

- Risk of negligence by executives and employees

The Group is exposed to this type of risk given the need to delegate responsibility to executives.

In order to minimise exposure to this risk, it has established specific selection and training procedures for staff, as well as a catalogue of functions and competencies which each employee must meet in his/her position. There is also an Appointments and Remuneration Committee, Compliance and Business Ethics Committee, a Disciplinary System and a Code of Conduct which has been handed out to all Europac employees. A directors' and executives' liability insurance policy has been taken out.

- Workplace risk prevention

The Europac Group complies with regulations relating to Safety in the Workplace, Industrial Hygiene, Ergonomics and Applied Psycho-sociology and Workplace Medicine. As the Group's activity is industrial, occupational risk control and prevention takes on special importance and it is the Group's policy to promote improvements in work conditions aimed at raising the level of protection of the health and safety of our workers in the workplace.

Production risks

The Europac Group ensures the quality of its products and compliance with prevailing legislation through the implementation of Comprehensive Quality Systems at all its centres. The Group has UNE-EN ISO 9001:2000 certifications at its main centres.

Internal audit

The Group has an internal audit department, whose main responsibility is to ensure compliance with the standards and procedures established by the Group, as well as to identify possible improvements.

In 2017, 2016 and 2015, none of the aforementioned risks had a material impact on the Europac Group.

24. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities, calculated in accordance with the accounting principles specified in Note 2.18, are as follows:

Changes in deferred taxes in 2017

	€'000s				
	1 January	*Change in scope*	*Recognised against Earnings*	*Recognised against Equity*	*31 December*
Deferred tax assets					
Tax losses	36,855	–	(2,278)	–	34,577
Tax deductions	1,029	–	(1,029)	–	–
Share-based payment transactions	580	–	975	–	1,555
Differences between tax and accounting assets	4,739	476	(284)	–	4,932
Provisions for commitments to employees	3,868	–	(41)	(298)	3,529
Provision for restructuring	–	–	–	–	–
Provisions for impairment of current assets and bad debt	710	–	61	–	771
Provision for impairment of non-current assets	115	–	7	–	122
Other provisions	33	–	(33)	–	–
Derivative financial derivatives	133	–	–	(17)	116
Other	217	–	(38)	–	179
Total	48,281	476	(2,660)	(315)	45,782
Deferred tax liabilities					
Differences between tax and accounting assets	60,484	148	(834)	–	59,651
Other	1,266	–	(346)	(555)	365
Total	61,750	148	(1,180)	(555)	60,015

Changes in deferred taxes in 2016

	1 January	Change in scope	€'000s Recognised against Earnings	Equity	31 December
Deferred tax assets					
Tax losses	40,912	2,767	(6,823)	–	36,855
Tax deductions	–	3,697	(2,669)	–	1,029
Share-based payment transactions	–	–	580	–	580
Differences between tax and accounting assets	2,256	–	2,483	–	4,739
Provisions for commitments to employees	3,272	–	45	550	3,868
Provision for restructuring	254	–	(254)	–	–
Provisions for impairment of current assets and bad debt	1,016	–	(306)	–	710
Provision for impairment of non-current assets	115	–	–	–	115
Other provisions	45	–	(11)	–	33
Derivative financial derivatives	861	–	–	(729)	133
Other	406	–	(189)	–	217
Total	49,139	6,464	(7,144)	(178)	48,281
Deferred tax liabilities					
Differences between tax and accounting assets	60,616	–	(132)	–	60,484
Other	589	–	123	555	1,266
Total	61,205	–	(9)	555	61,750

Changes in deferred taxes in 2015

	1 January	Change in scope	€'000s Recognised against Earnings	Equity	31 December
Deferred tax assets					
Tax losses	43,608	–	(2,696)	–	40,912
Differences between tax and accounting assets	3,130	–	(874)	–	2,256
Provisions for commitments to employees	3,521	–	(18)	(230)	3,272
Provision for restructuring	–	–	254	–	254
Provisions for impairment of current assets and bad debt	612	–	405	–	1,016
Provision for impairment of non-current assets	115	–	–	–	115
Other provisions	219	–	(175)	–	45
Derivative financial derivatives	1,339	–	(21)	(456)	861
Other	544	–	(138)	–	406
Total	53,088	–	(3,263)	(686)	49,139
Deferred tax liabilities					
Differences between tax and accounting assets	60,746	–	(129)	–	60,616
Provisions for commitments to employees	18	–	(18)	–	–
Other	5	–	583	–	589
Total	60,769	–	436	–	61,205

The breakdown at 31 December 2017, 2016 and 2015 of the tax loss carryforwards of the Group's companies, as well as the deadline for them to be offset, is as follows:

Tax loss carryforwards	*2017*		*2016*		*2015*	
		Deferred		*Deferred*		*Deferred*
	Base	*tax*	*Base*	*tax*	*Base*	*tax*
Expiry date for offsetting	*€'000s*	*€'000s*	*€'000s*	*€'000s*	*€'000s*	*€'000s*
No limit	110,337	34,577	119,449	36,855	133,179	40,912

In addition, at 31 December 2017, the Group had unrecognised tax loss carryforwards in its assets in the amount of €35.9m (€23.6m at 31 December 2016; €21.1m at 31 December 2015), almost all of which have no expiry date.

Similarly, the Group has deductions in the tax payable pending offsetting for €3.1m that are not recognised as deferred tax assets. The expiry date for offsetting said deductions is:

Deductions in the tax payable pending offsetting

	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
In 5 years	275	–	–
Between 6 and 10 years	1,012	2,356	1,695
Between 11 and 20 years	912	912	912
No limit	852	1,156	–
Total	3,051	4,424	2,607
Recognised amount	–	1,029	–
Unrecognised amount	3,051	3,395	2,607
Total	3,051	4,424	2,607

These deductions mainly belong to the parent company and principally relate to investments, training expenses, research and development, environmental expenses, reinvestment and double taxation.

The parent company pays tax under the tax consolidation system together with its Spanish subsidiary Europac Recicla, S.A.

The Portuguese subsidiaries Europac Portugal SGPS, S.A., Europac Cartão Ovar, S.A., Lepe, Empresa Portuguesa de Embalagens, S.A., Europac Embalagem, S.A., Europac Kraft Viana, S.A., Europac Energia Viana, S.A., Europac Recicla Portugal, S.A., Europac Distribuição da Madeira, Lda. and Greenfrequency Energia, S.A. use the tax consolidation scope for the purposes of Portuguese corporate income tax and pay tax according to the Special Tax Regime of Group Companies.

Similarly, the companies Europac Papeterie de Rouen, S.A.S., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S., Europac Cartonnerie Savoie, S.A.S. and SCI Europac, S.C. have used the tax consolidation scope in France as from 1 January 2010 for the purpose of paying corporate income tax in France.

The deferred assets and liabilities recognised by tax jurisdiction are as follows:

Deferred tax by tax jurisdiction	*Spanish tax group*	*Portuguese tax group*	*French tax group*	*Total*
Tax losses	6,599	–	27,979	34,578
Temporary differences	4,229	1,963	5,012	11,205
Deferred tax assets	10,828	1,963	32,991	45,782
Deferred tax liabilities	2,169	27,693	30,154	60,015

The time horizon for using the taxable bases is 10 years.

Pursuant to prevailing tax legislation, taxation cannot be considered to be definitively settled until the returns have been inspected by the competent tax authorities or when they become time-barred. At the date of preparation of these financial statements of the parent company, the years 2014 to 2017 (both inclusive) remain open for inspection for all those taxes applicable to the parent company except the Special Electricity Tax, whereby the company is open for tax inspection for the years 2014 to 2017. Due to the different possible interpretations of applicable tax legislation and of the results of future inspections, tax liabilities of a contingent nature may exist; however, the Company directors consider that in the event of their existence, this would not significantly affect the Consolidated financial statements.

The subsidiary Europac Kraft Viana received an additional settlement from the Portuguese tax authorities, as a result of a Corporate Income Tax inspection for the year 2000 relating to the latter not accepting the use as from that year of the intensive regime applicable to the amortisation of part of its property, plant and equipment provided for under Article 9 of “Decreto Regulamentar” no. 2/90 of 12 June. In 2003, in accordance with “Decreto-lei” no. 248-A/2002, the company paid out the additional settlement, amounting to €2.4m (Note 17). In addition, in 2004, the Group received additional settlements from the tax authorities relating to the same situation for the years 2001 and 2002 for sums of approximately €2.5m and €1.4m respectively. In 2008, the Group received additional settlements from the tax authorities for the years 2004, 2005 and 2006 for the sums of €0.9m, €0.8m and €0.4m. On 27 December 2010, the Portuguese tax authorities undertook an inspection of the year 2007. The Group’s directors and legal advisers consider that the basis of the additional settlements presented by the Portuguese tax authorities do not adhere to Portuguese tax legislation, to which end these have been appealed against in the courts. In January 2008, the Administrative and Fiscal Court ruled in favour of the Group in relation to the additional settlement appealed against by the Group regarding the use of the intensive regime applicable to the amortisation of part of its property, plant and equipment in the year 2000. This ruling was appealed against by the Portuguese tax authorities before the Central Administrative Court. In 2011, this court ruled in favour of the Group. This ruling is binding as it was not appealed against by the Portuguese authorities within the legal term and led to the reimbursement by the authorities to the Group of the additional settlements made. In August 2012, the Administrative and Fiscal Court ruled in favour of the Group on the additional settlement appealed against by the Group on the amortisation of part of its property, plant and equipment under the intensive regime in 2002. This ruling was not appealed against by the Portuguese authorities and hence is a binding ruling. In 2013, witnesses gave testimony as to the processes relating to the years 2004, 2005 and 2006.

The subsidiary Europac Embalagem received in 2003, as a result of a tax inspection corresponding to the year 2001, a notification from the tax authorities in relation to the tax deduction of capital losses in the sale of all of the shares of Lepe – Empresa Portuguesa de Embalgens, S.A., Europac Portugal, S.A. Consequently, the Group received an additional settlement from the Portuguese tax authorities in 2005 for approximately €3m. The Group’s directors and legal advisers consider that the basis for the additional settlements presented by the Portuguese tax authorities do not adhere to Portuguese tax legislation, and have been appealed against through the courts, and consequently have not been recorded under any provision in the Consolidated financial statements.

In 2008, the Group paid the Portuguese tax authorities a sum of €0.5m (Note 17 “Other receivables from tax authorities”) by way of additional settlement deriving from a tax inspection on the Tax on Collective Performance (Corporate Income Tax) for the year 2006 of the subsidiary Europac Cartao Ovar, S.A., based on the application of a tax credit in 2000 recorded in the tax return that was not accepted by the authorities. The additional settlement was appealed against by this company before the Portuguese judicial authorities.

25. Capital and reserves

The composition and changes of equity are disclosed in the statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company’s shares that are held by the Group, all rights are suspended until those shares are reissued.

Share capital

	Number of shares					
	2017	*2016*	*2015*	*2017*	*2016*	*2015*
At 31 December	*'000s*	*'000s*	*'000s*	*€'000s*	*€'000s*	*€'000s*
Ordinary equity shares of €2 each issued, allotted, called up and fully paid	99,238	97,368	93,623	198,476	194,737	187,247

At 01 January 2015, the parent company's share capital comprised 90,022,529 fully subscribed and paid up shares, each with a par value of two Euros.

On 24 June 2015, the parent company approved a capital increase charged to unrestricted reserves at a maximum figure of €7.2m, through the issue and circulation of up to 3,600,901 new shares, each with a par value of two Euros. The increase was fully subscribed by the existing shareholders on that date.

The General Shareholders' Meeting held on 24 June 2015 delegated powers to the board of directors for a period of five years, with an attached ability to further delegate, to increase capital on one or several occasions and up to half of the share capital, with an attached power to bar the exercise of pre-emption rights, and to change the wording of the final article of the Articles of Association, rendering null and void the authorisation conferred by the General Shareholders' Meeting held on 7 June 2011.

Therefore, at 31 December 2015, the capital comprised 93,623,428 shares, each with a par value of two Euros.

On 29 June 2016, the parent company approved a capital increase charged to unrestricted reserves at a maximum figure of €7.5m, through the issue and circulation of up to 3,744,937 new shares, each with a par value of two Euros. The increase was fully subscribed by the existing shareholders on that date and registered with the Companies Registry of Palencia in November 2016.

At 31 December 2016, the capital of the parent company comprised 97,368,366 shares, each with a par value of two Euros, fully subscribed and paid up.

On 28 June 2017, the parent company approved a capital increase charged to unrestricted reserves, with the free allocation of one new share for 25 old shares.

On 18 October 2017, the parent company carried out a capital reduction through the amortisation of 1,947,368 treasury shares, which led to a reduction in the capital of €3.9m and voluntary reserves of €8.6m, as well as a reduction in shares and equity of €12.4m.

Therefore, at 31 December 2017, the capital comprised 99,237,837 shares, each with a par value of two Euros.

There are no restrictions on the free transfer of the parent company's shares or preference shares.

The breakdown of the significant shareholders owning more than 5 per cent. of the capital of the parent company at 31 December 2017 and 2016 is as follows:

Shareholders	*2017*	*2016*	*2015*
Harpalus, S.L.	–	–	40.0%
Cartera Industrial REA, S.A.	–	6.6%	6.6%
Angel Fernández González	6.4%	6.4%	6.4%
Norges Bank	5.0%	5.0%	5.0%
Onchena S.L.	5.0%	5.0%	5.0%
Jose Miguel Isidro Rincón	5.7%	5.5%	–
Carmen Ybarra Careaga	5.1%	5.1%	–
Treasury stock	5.5%	6.2%	3.5%
Other	67.3%	60.2%	33.5%
Total	100%	100%	100%

Reserves

The breakdown of the Group's reserves is as follows:

Reserves	*2017*	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Legal reserve	25,929	20,439	16,463
Reserve for treasury stock	34,370	38,013	13,728
Retained earnings and other reserves – Opening	103,625	101,675	122,736
Profit for the year	77,963	48,884	32,449
Total	241,887	209,011	185,376

Legal Reserve

Included in reserves is an amount totalling €25.9m (2016: €20.4m, 2015: €16.5m) in relation to legal reserves.

Pursuant to Article 274 of the Capital Companies Act (Ley de Sociedades de Capital), the parent company must appropriate 10 per cent. of earnings for the year to a legal reserve until such reserve reaches an amount equal to 20 per cent. of capital. This reserve is not distributable to shareholders. If no other reserves are available, it may be used to offset losses. In certain circumstances, the reserve may be used to increase capital to the extent that it would exceed 10 per cent. of capital after such increase.

Under Article 273(4) of the Capital Companies Act, the entity must institute a restricted reserve in an amount equal to the goodwill recognised on the asset side of its individual balance sheet, funded by earnings allocated at a rate of at least five percent of such goodwill per annum. If earnings are absent or insufficient for the purpose, the entity must use its unrestricted reserves. The reserves for goodwill, in accordance with Royal Decree 602/2016, were transferred in 2016 to voluntary reserves while the amount exceeding the registered goodwill will be unrestricted.

Own Shares

As a consequence of the merger with Harpalus, S.L. in 2016 (Note 10), treasury shares of the parent company were acquired in addition to those already held. Accordingly, at 31 December 2017, 2016 and 2015, the parent company held 5,438,608, 6,021,697 and 3,251,473 treasury shares respectively, representing 5.48 per cent., 6.18 per cent. and 3.47 per cent. of its share capital, respectively.

Gains on disposal of treasury shares amounted to €3,000 in 2017, €2,000 in 2016 and €0.2m in 2015. These gains are charged or credited to the company's voluntary reserves.

The parent company's Treasury stock reserve is maintained for the purpose of compliance with Article 148 (c) of the Capital Companies Act, which prescribes rules on Treasury stock. This reserve is restricted.

Retained earnings and other reserves

"Retained earnings and other reserves" chiefly comprises the parent company's voluntary reserves, the reserves of fully consolidated entities, the reserves of entities accounted for using the equity method and consolidated profit or loss for the year. The parent company's voluntary reserves, which stood at €20.7m at 31 December 2017 (2016: €12.9m; 2015: €23.1m), are unrestricted, subject to the exceptions under Articles 273 and 274 of the Capital Companies Act, as well as an amount of €2.3m as at 31 December 2017 from the reserves for goodwill.

Other equity instruments

On 29 June 2016, Europac's General Shareholders' Meeting approved a share option plan for executives, envisaged as a variable remuneration system consisting of the delivery of shares over a multi-annual period with the aim of contributing towards increasing the value of the Company, and thus the sustainability of profits and their long-term positioning. The plan has the following conditions:

- Duration of three years, starting on 1 January 2016 and ending on 31 December 2018, with it being a mandatory condition for the beneficiaries to remain in the plan until the end of the three-year period.
- A maximum of 2,629,410 shares will be given in total to the beneficiaries depending on a series of parameters linked to the theoretical value of the Company, determined by a formula that takes into account, *inter alia*, the level of sales, net debt and EBITDA of the Group in each one of the three years.

On 31 December 2017, the Company recorded a personnel expense, charged to "Other equity instruments" for the sum of €3.9m in 2017 (€2.3m in 2016), corresponding to a personnel expense recorded for services rendered by the beneficiaries of the plan.

The valuation of the plan for the year ending on 31 December 2017 and 2016 was carried out by considering the share price at the date the plan was granted and compliance with the aim of the theoretical value of the Company of 100 per cent. and 90 per cent. respectively.

Dividends

On 31 January 2017, the Board of Directors of the parent company agreed to distribute an interim dividend on 2016 profits for the sum of €8.7m, representing a gross amount of 0.0951 Euros per share.

On 28 June 2017, the General Shareholders' Meeting of the parent company approved a share dividend for the sum of €28.9m charged to profits from 2016, representing 0.318 Euros per share.

On 22 January 2016, the parent company's board of directors agreed a resolution to pay an interim dividend on 2015 profits of €4.8m, representing a gross amount of 0.0531 Euros per share.

On 29 June 2016, the parent company's General Shareholders' Meeting agreed to pay out a dividend of €16.2m charged to 2015 profits, representing 0.179 Euros per share.

26. Employee benefits

Balance sheet	*2017* *€'000s*	*2016* *€'000s*	*2015* *€'000s*
Pension supplements with allocated funds	(15,839)	(17,276)	(16,308)
Retirement bonuses plan (unfunded)	(8,256)	(8,626)	(8,103)
Present value of post-retirement obligations	(24,095)	(25,902)	(24,411)
Fair value of plan assets	9,679	10,266	10,895
Pension supplements with allocated funds	6,160	7,010	5,413
Retirement bonuses plan (unfunded)	8,256	8,626	8,103
Net post-retirement plan deficit	(14,416)	(15,636)	(13,516)
Other long-term benefits – non-service bonuses	(596)	(611)	(593)
Total provisions for commitments to employees (Note 20)	(15,012)	(16,247)	(14,109)

According to the actuarial studies referred to below, the extent of coverage of pension liabilities afforded by the assets allocated to the relevant fund was 61.1 per cent. in 2017 (2016: 59.4 per cent.; 2015: 66.8 per cent.).

The breakdown of movements in employee benefits is as follows:

	Defined benefit plans €'000s	*Other long-term benefits €'000s*	*Total €'000s*
Balance at 1 January 2015	14,422	639	15,061
Expense/(income) for the year	734	(11)	723
Payment of remuneration in plans without allocated funds	(646)	(35)	(681)
Contributions made to plans with allocated funds	(179)	-	(179)
Actuarial differences recognised in equity	(815)	-	(815)
Balance at 31 December 2015	13,516	593	14,109
Expense/(income) for the year	703	67	770
Payment of remuneration in plans without allocated funds	(419)	(49)	(467)
Contributions made to plans with allocated funds	(288)	-	(288)
Actuarial differences recognised in equity	2,124	-	2,124
Balance at 31 December 2016	15,636	611	16,247
Expense/(income) for the year	617	(6)	611
Payment of remuneration in plans without allocated funds	(470)	(9)	(479)
Contributions made to plans with allocated funds	(351)	-	(351)
Actuarial differences recognised in equity	(1,016)	-	(1,016)
Balance at 31 December 2017	14,416	596	15,012

Employee benefit schemes

At 31 December 2017, the Group operated both defined benefit and defined contribution arrangements, and these are briefly described below.

"Pension supplements with allocated funds" reflects the extent to which the value of assets allocated to Group pension funds falls short of covering the present value of the Group's defined benefit pension liabilities.

"Defined-benefit plans, retirement bonuses" comprises the present value of obligations to pay retirement bonuses at the companies Europac Papeterie de Rouen, S.A.S., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S. and Europac Cartonnerie Savoie, S.A.S.

"Other long-term benefits" includes the present value of long-service bonuses accrued by current employees of Europac Papeterie de Rouen, S.A., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S. and Europac Cartonnerie Savoie, S.A.S.

Pension scheme trustees and representatives of the Group work with those managing the employee benefit arrangements to monitor the effects on the arrangements of changes in financial markets and the impact of uncertainty in assumption, and to develop strategies that could mitigate the risks to which these employee benefit schemes expose the Group.

Defined contribution pension plans

The subsidiaries Europac Portugal SGPS, S.A., Europac Embalagem, S.A., and Europac Kraft Viana, S.A. are bound by commitments to pay pension supplements by reason of retirement and disability.

Up to 13 July 2007, those entities had maintained defined-benefit pension funds for their employees. On that date, in response to the incorporation of the Portuguese Insurance Institute, the companies modified the contract constituting the pension fund to convert those defined benefit funds into defined contribution funds with reference to persons then employed. The defined benefit funds were kept in place for retired employees and their beneficiaries, and for company directors with vested rights. At the start of the period (1 January 2007), current employees transferred to the defined contribution pension plan were allocated an initial balance equal to the present value of recognised liabilities as at 31 December 2006. Upon conversion of the fund, the Group also attributed certain additional contributions to some current employees to be made within five years. These plans cover all persons employed by the entities noted above at 13 July 2007, and persons employed later if they satisfy the terms of subscription.

These companies make monthly contributions to the fund equivalent to a percentage of salary, which is recorded as an expense when made. In 2017 contributions of €0.1m (2016: €0.1m; 2015: €0.1m) were made and recognised as an employee benefit expense.

Pension supplements

In accordance with the modification to the pension fund contract noted above, current employees are no longer beneficiaries of these plans. The beneficiaries are limited to:

- All retired employees and pensioners who were receiving a pension from the fund on 13 July 2007.
- All the company's directors and former directors having vested rights at 31 December 2006.
- All surviving beneficiaries who, as a result of the death of the above, are entitled to survival pensions provided for under the pension plan.

The terms of the contract referred to above require the entity to assure payment to beneficiaries of a monthly retirement or disability pension supplement in accordance with a specified formula, having regard to the present value of the gross monthly basic pay for the employee's occupational category at the date of his retirement and for the number of years of service, with a maximum of 30 years.

Retirement bonuses

These defined benefit plans entail payments to employees of a specific amount upon retirement. The amount is estimated with reference to the employee's length of service with the company. All employees of the Group's French companies are covered by these retirement bonuses.

The liabilities arising for services rendered by employees under the defined benefit plans referred to above are estimated using actuarial studies conducted by various independent institutions and are detailed further below.

Other employee benefit liabilities

Long-service bonuses are accrued at present value by Europac Papeterie de Rouen, S.A., Europac Cartonnerie de Rouen, S.A.S., Europac Cartonnerie Atlantique, S.A.S. and Europac Cartonnerie Savoie, S.A.S. for current employees under the scheme.

Movements in the liability for employee benefit plans' obligations recognised in the Consolidated Statement of Financial Position

Pension supplements	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Schemes' liabilities at 1 January	17,276	16,308	17,454
Interest cost	150	316	339
Service cost recognised in the Consolidated Income Statement	–	–	–
Actuarial (gains)/losses	(490)	1,661	(462)
Pension supplement payments	(1,097)	(1,010)	(1,023)
Schemes' liabilities at 31 December	15,839	17,276	16,308

Retirement bonuses plan	2017 *€'000s*	*2016 €'000s*	*2015 €'000s*
Schemes' liabilities at 1 January	8,626	8,103	8,459
Interest cost	94	164	170
Service cost recognised in the Consolidated Income Statement	460	427	445
Actuarial (gains)/losses	(448)	347	(325)
Pension supplement payments	(476)	(414)	(646)
Schemes' liabilities at 31 December	8,256	8,626	8,103
	24,095	25,902	24,411

Movements in the fair value of employee benefit plans' assets recognised in the Consolidated Statement of Financial Position

Pension supplements	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Schemes' assets at 1 January	10,266	10,895	11,491
Employer contributions	344	288	180
Investment income	88	208	219
Actuarial gains/(losses)	78	(116)	28
Benefits paid to participants	(1,097)	(1,010)	(1,023)
Schemes' assets at 31 December	9,679	10,266	10,895

Percentage of fair value of total assets	*2017*	*2016*	*2015*
Equity instruments	5.3%	5.4%	4.9%
Debt instruments	73.7%	76.4%	73.5%
Cash and cash equivalents	20.0%	16.9%	20.7%
Other	1.0%	1.3%	0.9%
Schemes' assets at 31 December	100%	100%	100%
Actual return on assets	1.7%	0.9%	2.3%
Net interest cost – Defined benefit schemes	(63)	(108)	(119)
Net interest cost – Retirement bonuses plan	(94)	(164)	(170)

Durations and expected payment profile

The following table provides information on the distribution of the timing of expected benefit payments for the Europac Group scheme.

The Europac Group estimates that it will have to make contributions totalling €0.4m to the Europac Group schemes in 2018 (2017: €0.3m; 2016: €0.3m).

Significant actuarial assumptions

Principal actuarial assumptions for the Europac Group schemes are as follows:

Pension supplements	*2017*	*2016*	*2015*
Discount rate for scheme liabilities	1.15%	0.90%	2.00%
Pension increase rate	1.00%	1.00%	1.00%

Retirement bonuses	*2017*	*2016*	*2015*
Discount rate for scheme liabilities	1.58%	1.10%	2.00%
Wage increase rate	1.75%	1.75%	1.75%
Retirement age – managers	65	65	65
Retirement age – non-managers	62	62	62

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with the relevant standard mortality tables. For the Group Scheme at 31 December 2017, the mortality base table used was TV 88/90 for the defined benefit scheme and INSEE 10-12 for the retirement bonuses scheme (2016: TV88/90 and INSEE 10-12, 2015: TV88/90 and INSEE 08-10).

Sensitivity analysis

The sensitivity of the liabilities in the Europac Group scheme to each significant actuarial assumption is summarised in the following table, showing the impact on the defined benefit obligation if each assumption is altered by the amount specified in isolation, whilst assuming that all other variables remain the same. In practice, this approach is not necessarily realistic since some assumptions are related. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of plan assets.

	2017		*2016**	
	DB plan	*Ret. bonus*	*DB plan*	*Ret. bonus*
Increase in pension liability due to:	*€'000s*	*€'000s*	*€'000s*	*€'000s*
0.5% increase in discount rate	(773)	(230)	(884)	(466)
0.5% decrease in discount rate	840	468	964	507
0.5% increase in wages/pensions	880	448	1,008	501
0.5% decrease in wages/pensions	(809)	(418)	(923)	(466)

* Note – no audited information presented in 2015 for this disclosure

Expenses recognised in the Income Statement

		Total	
	2017	*2016*	*2015*
	€'000s	*€'000s*	*€'000s*
Expense for contribution to defined contribution plans	(166)	(100)	(108)
Expenses with former employees	–	(126)	(680)
Gain/(loss) on other long-term benefits	6	(67)	11
Pension fund management costs	(7)	(8)	(8)
Service cost	(460)	(427)	(445)
Net interest cost on group defined benefit plan	(157)	(277)	(289)
Total expense recognised in the Consolidated Income Statement	(784)	(1,003)	(1,518)

The strategies for the correlation between assets and liabilities used to manage risk are described below:

Defined benefit pension plans:

The entity that manages the plan has developed a model to analyse the correlation between assets and liabilities under the plan, known as Model ALX, which seeks to determine the suitable composition of a portfolio of financial assets, correlating the nature, risk, duration and profitability of assets, with the average maturity of responsibilities under the plan.

Accordingly, the conclusions of the analysis of the asset and liability correlation under the plan are set out below, which have been fully adopted in the investment policy followed by the pension plan:

Asset and liability correlation strategy	ALX Model			
	Lower limit	*Central value*	*Upper limit*	*Investment policy*
Shares	0%	0%	5%	5%
Fixed-rate obligations	35%	70%	100%	31%
Floating-rate obligations	10%	25%	40%	62%
Absolute return	0%	0%	5%	1%
Real estate	0%	0%	5%	1%
Liquidity	0%	5%	100%	0%

Retirement benefits:

The Group monitors the liabilities associated with retirement benefits from its French subsidiaries on an annual basis derived from the corresponding actuarial calculations. The Group's management considers that the maximum risks associated with future payments of retirement benefits are limited and quantifiable, and that the potential impact of their occurrence is not material. For this reason, a strategy of correlation between assets and liabilities has not been carried out.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 €'000s	2016 €'000s	2015 €'000s
Less than one year	4,187	3,238	3,041
Between one and five years	6,793	7,403	8,073
More than five years	809	–	–
	11,789	10,641	11,114

Operating lease payments represent rentals payable by the Europac Group for certain of its vehicles, IT equipment, forklift trucks and buildings. These leases have an average life of three to five years, with no renewal option included in the contracts. The Group is unrestricted as to the arrangement of such leases.

28. Capital commitments and contingencies

At 31 December 2017, the Europac Group had committed to incur capital expenditure of €25.5m (31 December 2016: €20.4m; 31 December 2015: €7.3m).

Bank and other guarantees given to third parties

In 2017 and 2016, the Europac Group provided bank guarantees and security to public institutions and private entities to a value of €10.6m and €10.8m, respectively. Since these guarantees are commercial and financial, they are not expected to give rise to any contingency or loss.

Commitments and guarantees securing bank borrowings

With regard to the syndicated loan for a maximum amount of €290m, six Europac subsidiaries act as joint and several guarantors of Europac for the banks extending the facility. The guarantee consists of a first-

demand guarantee with the same terms and conditions, and secures all the payment obligations assumed by Europac on entering into the said credit arrangement.

Other contingent liabilities

In 2007, the Portuguese trade union for the paper industries (Sindicato dos Trabalhadores das Indústrias de Celulose, Papel, Gráfica e Imprensa) filed an application for judicial review against the Instituto de Seguros de Portugal (an institution of which certain Group companies are stakeholders) by which the union moved to set aside the governmental body's decision to authorise changes to the Gescartao pension fund (see 'Employee Benefits,' Note 26). In addition, some former employees receiving benefits from the pension fund brought legal action against the company with the aim of cancelling the modification carried out in the fund. In 2012, the Supreme Court rejected the appeals filed by the pension fund beneficiaries, laying down a doctrine pursuant to which the consolidation of the rights is recognised for beneficiaries reaching retirement on a certain date. In accordance with this doctrine, it is unlikely that this litigation will result in a loss for the company over and above the existing provisions. Between the end of 2014 and start of 2016, it was possible to reach an agreement with all former employees, thus ending the Group's liabilities with said processes.

In April 2013, the National Markets and Competition Commission (Spanish acronym: CNMC) opened an investigation into bad competition practices, investigating Europac, among others. On 23 June 2015, the CNMC communicated a disciplinary penalty of €5.3m. A judicial appeal was lodged on 23 September 2015 before the National High Court. No provision has been recorded in the consolidated financial statements as the directors, as well as the company's legal advisers of the parent company, believe that it is unlikely that the company will have to make significant payments as a result of this case for the reasons mentioned in the communication of 23 June 2015 published as a Significant event to the Spanish securities market regulator (registration number 224904). At the date these financial statements were drawn up, the appeal is pending a final ruling.

At the date these financial statements were drawn up, the Group was party to other outstanding litigation. The Group's directors do not expect the rulings on these cases to have any material adverse effect on the consolidated financial statements not already recognised therein.

As a result of previous acquisitions, various contingent liabilities were identified and included within provisions, as required by IFRS 3 *Business Combinations*. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate is that no losses are anticipated to arise on these contingent liabilities.

29. Acquisitions and disposals

The following business combinations took place in 2017, 2016 and 2015:

2017

- Acquisition of 100 per cent. of the shares in Ondulados Andaluces S.A and Industrias Cartones Ondulados Andaluces, S.L and the subsequent merger of the two companies to create the company Europac Packaging Lucena S.L. This company was incorporated within the CGU "Corrugated Board Production Assets in Spain". The transaction was carried out with the aim of controlling the packaging activity in the Spanish market.

- Acquisition of 100 per cent. of the shares in Transcon Valladolid S.A. and subsequent merger of this company, which was taken over by Europac Recicla. This company was incorporated in the CGU "Paper Production Assets in Spain". The acquisition took place with the aim of extending the recovery of the Group's waste.

2016

- Acquisition of 91.42 per cent. of the shares of Herederos de D. Timoteo, S.L., whose main asset is a plantation forest located in Gallegos (Segovia), which has been integrated into the "Paper Production Assets in Spain" CGU. The aim of the transaction was to increase the Group's biological assets.

- Merger by acquisition of Harpalus, S.L., with subsequent extinction of the company, whose main asset was the provision of services to paper companies and holding interests in other companies.

2015

- None

The fair value on the acquisition date of the full consideration transferred and of each category of consideration, as well as the amounts recognised for categories of assets and liabilities in these business combinations, are shown below:

Business combinations

		2017	
€'000s	*Carrying amount*	*Adjustments*	*Fair Value*
Property, plant and equipment	8,125	(1,905)	6,219
Deferred tax assets	–	476	476
Other non-current assets	38	–	38
Inventories	507	–	507
Trade and other receivables	4,299	(28)	4,271
Cash and cash equivalents	(1,987)	–	(1,987)
Deferred tax liabilities	(148)	–	(148)
Non-current financial liabilities	(3,597)	–	(3,597)
Trade and other payables	(2,512)	–	(2,512)
Total net assets	4,724	(1,457)	3,267
Cash paid to vendor			7,936
Cash payable to vendor			358
Total consideration			8,293
Goodwill			5,026
Cash flow from the business combination			
Cash paid			(7,936)
Cash and cash equivalents of the acquired company			(1,987)
Net cash flow from the business combination			(9,923)

Business combinations

		2016	
€'000s	*Carrying amount*	*Adjustments*	*Fair Value*
Non-current assets	300	520	820
Current assets	55	–	55
Current liabilities	(2)	–	(2)
Total net assets	353	520	873
Attributable to previous acquisitions:			
Reduction in investments			–
Non-controlling interests			(75)
Total net assets acquired			798
Cash paid or payable to the seller			798
Directly attributable costs			–
Cost of the business combinations			798
Negative goodwill			–

30. Related parties

Remuneration received by directors and executives and balances and transactions with related parties

Main balances and transactions with related parties (€'000s)

	Significant shareholders			Directors and senior executives			Other related parties		
	2017 €'000s	2016 €'000s	2015 €'000s	2017 €'000s	2016 €'000s	2015 €'000s	2017 €'000s	2016 €'000s	2015 €'000s
Balances									
Sales and provision of services	–	–	–	–	–	–	–	–	–
Dividends received	–	–	–	–	–	–	–	–	–
Total revenue	–	–	–	–	–	–	–	–	–
Remuneration and attendance fees	–	–	–	5,221	3,389	3,389	–	–	–
Dividends paid	10,253	9,535	7,219	2,965	1,258	–	–	–	–
Total payments	10,253	9,535	7,219	8,186	4,647	3,389	–	–	–
Other transactions									
Purchases of non-current assets	–	–	–	–	–	–	9,360	6,933	7,033
Total other transactions	–	–	–	–	–	–	9,360	6,933	7,033

Directors who are themselves significant shareholders are addressed in the section on directors and senior executives

Remuneration received by directors and executives	*2017 €'000s*	*2016 €'000s*	*2015 €'000s*
Directors			
Fixed remuneration	1,592	1,576	1,496
Variable remuneration	1,393	500	–
Per diems	243	174	117
Article-related provisions	1,081	1,438	1,020
Total	4,309	3,688	2,633
Life insurance premiums	1	1	1
Executives			
Total remuneration received by executives	822	605	756

No pension or life insurance obligations relating to former and present members of the board are extant other than those to which such persons may contingently become entitled by virtue of performance of their offices in the investees of the Portuguese subsidiaries.

In accordance with Article 229 of the Capital Companies Act, members of the board and parties related thereto have declared that they have no conflicts of interest with the parent company (except those indicated in section D of the Corporate Governance Report).

Neither the directors, nor persons acting on their behalf, have performed transactions in the year with the parent company (or with other Group companies) outside its ordinary business or under non-market conditions.

The related-party transactions disclosed in these financial statements were notified in six-monthly communications filed with the Spanish securities market regulator (Comisión Nacional del Mercado de Valores).

31. Subsequent Events

On 15 February 2018, the Board of Directors of the parent company agreed an interim dividend charged to 2017 profits of €0.1251 per share issued, amounting to approximately €11.7m, which was paid out on 26 February 2018.

32. Environmental information

In order to comply with prevailing legislation, the Group applies environmental improvement policies aimed at, among other things, recovering the water treated in the production process, the reduction of emissions, waste treatment, the reduction in consumption of certain polluting substances and noise reduction. These policies are enacted in specific action plans for the company's different plants.

In 2017, 2016 and 2015, the Group made investments in environmental assets for €5.4m, €6.5m and €5.3m, respectively. The investment in environmental assets mainly comes from the actions carried out in the factories at Alcolea del Cinca, Dueñas, Rouen (France) and Viana (Portugal) to improve energy efficiency, control of liquid and gas emissions and waste management. In 2017, 2016 and 2015, the environmental authorities allocated a total of 222,585, 231,460 and 240,174 emission allowances, respectively, to the Europac Group.

Notes 10 and 21 herein give a breakdown of the greenhouse gas emission allowances granted at no charge by the environmental authorities, as well as the consumption and surpluses in the year.

Similarly, the Europac Group incurred €4.2m, €4.5m and €5.0m in expenses for environmental protection and enhancement in 2017, 2016 and 2015, respectively. These are ordinary expenses and include the fees for the use of water, environmental audits, consumption and measurement of greenhouse gas emissions and environmental management.

The Europac Group did not record any provision for environmental actions in 2017, 2016 or 2015.

At the preparation date of these financial statements, the company's directors have no knowledge of any contingencies related to environmental protection and enhancement.

No environmental grants were received in 2017 and 2016 other than the free acquisition of greenhouse gas emission allowances described in Note 21.

33. Europac Group companies

The Europac Group's ultimate parent company is Papeles y Cartones Europa, S.A.

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly owned and consolidated by the Europac Group and the share capital held comprises ordinary or common shares which are held by Europac Group subsidiaries.

Fully owned subsidiaries

Non-fully owned Entities

Portugal

Europac Portugal SGPS, S.A.
Europac Embalagem, S.A.
Lepe – Empresa Portuguesa de Embalagens, S.A.
Europac Cartão Ovar, S.A.
Europac Distribuição da Madeira, Lda.
Europac Kraft Viana, S.A.
Europac Recicla Portugal, S.A.
Europac Energia Viana, S.A.
Europac Logística, Lda.
Iberia Capital – Fundo Especial de Invest. Imob.
Iberian Forest Fund – Fundo Especial de Invest.Imob.Florest.
Greenfrequency Energía, S.A.

Fully owned subsidiaries	*Non-fully owned Entities*
France	
Europac Papeterie de Rouen, S.A.S.	
Europac Cartonnerie de Rouen, S.A.S.	
Europac Cartonnerie Atlantique, S.A.S.	
Europac Cartonnerie Savoie, S.A.S.	
SCI Europac, SC	
Spain	
Europac Recicla, S.A.	Herederos de D.Timoteo, SL[1,3]
Europac Packaging Lucena, S.L.U.	Cartonajes Santander, S.L.[2]
	Cartonajes Cantabria S.L.[2]
	Euskocartón, S.L.[2]
	Industria Cartonera Asturiana S.L.[2]

1 91.4% ownership interest

2 39.6% ownership interest

3 In April 2017, the Group included in the consolidation scope the companies Industrias Cartones Ondulados Andaluces S.L. and Ondulados Andaluces, S.A., two complementary companies engaged in the manufacture of corrugated board, after acquiring 100 per cent. of their shares. Subsequently, these two companies were merged to create the new company Europac Packaging Lucena S.L.

4 In October 2016, the Group added to its consolidation scope the company Herederos D. Timoteo, S.L., whose main activity is the operation of a plantation forest, by acquiring 91.42 per cent. of its shares.

In June 2017, the Moroccan company MED Packaging SARLAU was excluded from the consolidation scope after being sold off to third parties.

In May 2017, the Group included the company Trasncon Valladolid, SA within the consolidation scope, after acquiring 100 per cent. of its shares. The company is engaged in waste management. At the close of the year, the company was taken over by Europac Recicla, SA.

In April 2017, the companies Europac Logistica, SA and Vianaport LDA were removed from the consolidation scope after being sold off to third parties.

In December 2016, the companies Europac Integra, S.L. and Renova Generación de Energías Renovables de Castilla y León, S.L. were removed from the consolidation scope as a consequence of their liquidation and subsequent dissolution.

SECTION B
RECONCILIATION OF THE EUROPAC GROUP FINANCIAL INFORMATION TO THE DS SMITH GROUP'S ACCOUNTING POLICIES

Following an analysis of the accounting policies of the Europac Group for each of the financial years ended 31 December 2015, 31 December 2016, and 31 December 2017, DS Smith concluded that there were no material differences between the accounting policies adopted by the DS Smith Group and the accounting policies adopted by the Europac Group, in each case for the period covered by the historical financial information. Consequently, no material adjustment needs to be made to the historical financial information for the Europac Group, in order to achieve consistency with the accounting policies of the DS Smith Group.

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

SECTION A

UNAUDITED PRO FORMA INFORMATION RELATING TO THE ENLARGED GROUP

The unaudited pro forma financial information for the Enlarged Group and related notes in this Section A of this Part V (*Unaudited pro forma financial information relating to the Enlarged Group*) have been prepared to illustrate the effect of the Acquisition on the income statement of the DS Smith Group for the 2018 financial year as if the Acquisition had taken place on 1 May 2017 and the effect on the net assets of the DS Smith Group as if the Acquisition had occurred on 30 April 2018. The unaudited pro forma income statement for the Enlarged Group also illustrates the impact of DS Smith's acquisition of 80 per cent. of Interstate Resources Inc. as if that acquisition had taken place on 1 May 2017, instead of 25 August 2017.

The following unaudited pro forma financial information is based on the consolidated financial information of the DS Smith Group for the 2018 Financial Year, the historical financial information of the Europac Group for the year ended 31 December 2017 and the financial information of Interstate Resources Inc. for the period from 1 May 2017 to 25 August 2017 and compiled on the basis set out in the notes to the unaudited pro forma financial information. The unaudited pro forma financial information has been prepared in a manner consistent with the accounting policies adopted for the DS Smith Group for the 2018 financial year.

The unaudited pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results. The unaudited pro forma financial information of the Group has been prepared in accordance with Annex II to the Prospectus Directive Regulation, as applied by item 13.3.3R of the Listing Rules.

The unaudited pro forma financial information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

The unaudited pro forma financial information does not take into account trading of the DS Smith Group and/or the Europac Group subsequent to 30 April 2018 (in the case of the DS Smith Group) or 31 December 2017 (in the case of the Europac Group).

Investors should read the whole of this Circular and not rely solely on the unaudited financial information in this Part V (*Unaudited pro forma financial information relating to the Enlarged Group*). Deloitte's report on the unaudited pro forma financial information is set out in Section B of this Part V (*Unaudited pro forma financial information relating to the Enlarged Group*).

Unaudited pro forma income statement

Continuing operations	DS Smith for the year ended 30 April 2018 (Note 1) £m	Interstate for the four months ended 31 August 2017 (Note 2) £m	Adjustments Europac Group for the year ended 31 December 2017 (Note 3) £m	Acquisition Adjustments (Note 4) £m	Unaudited pro forma of the Enlarged Group for the year ended 30 April 2018 £m
Revenue	5,765	191	761	–	6,717
Operating costs	(5,282)	(164)	(663)	(19)	(6,128)
Operating profit before amortisation, acquisitions and disposals	483	27	98	(19)	589
Amortisation of intangible assets; acquisitions and disposals	(122)	(1)	(1)	(9)	(133)
Operating profit	361	26	97	(28)	456
Finance income	2	6	1	–	9
Finance costs	(72)	(6)	(8)	(7)	(93)
Employment benefit net finance expense	(4)	–	(1)	–	(5)
Net financing costs	(74)	–	(8)	(7)	(89)
Profit after financing costs	287	26	89	(35)	367
Share of profit of equity-accounted investments, net of tax	5	–	–	–	5
Profit before income tax	292	26	89	(35)	372
Income tax (expense)/credit	(33)	(10)	(20)	6	(57)
Profit for the year	259	16	69	(29)	315

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from the 2018 Annual Report and Accounts which are incorporated by reference in this document. The financial information is inclusive of amounts which are disclosed in the 2018 Annual Report and Accounts as adjusting.

(2) The Interstate financial information has been extracted, without material adjustment, from the unaudited pre-acquisition financial information migrated from the Interstate Resources Inc. financial reporting systems and converted into pounds sterling using the average exchange rate for the period of $1:£0.7740.

(3) The financial information of the Europac Group has been extracted, without material adjustment, from the audited consolidated income statement included within the consolidated financial statements of Europac for the year ended 31 December 2017, which is set out in Part IV (*Historical Financial Information Relating to the Europac Group*) of this Circular and converted into pounds sterling using the average exchange rate for the year ended 31 December 2017 of €1:£0.8758. This information has been adjusted to conform to the presentation adopted by the DS Smith Group. The presentational adjustments made were as follows:

(a) Amortisation of £1m was reclassified from Depreciation and Amortisation to Amortisation of intangible assets; acquisitions and disposals to reflect amortisation expense in the line item Amortisation of intangible assets, acquisitions and disposals, as presented by DS Smith.

(b) Employment benefit net finance expense of £1m was reclassified from Employee benefits expense to reflect DS Smith's presentation of employment benefit finance expense costs as a separate line item.

(4) This adjustment includes:

(a) The estimated one-off transaction expenses of £19m which are required by IFRS 3 to be charged to the income statement. One-off transaction costs of £23m relating to the Rights Issue have been netted against equity as required by International Accounting Standard 32.

(b) An additional £9m has been recognised in amortisation in order to reflect the pro-rata increase in amortisation of acquired intangibles as a result of the Interstate acquisition.

(c) A charge of £1m has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the additional amounts drawn down from existing facilities to finance part of the Acquisition. This is expected to be an ongoing annual cost.

(d) A further £1m charge has been recognised in "Finance costs" to reflect the pro rata increase in interest relating to the debt drawn down as part of the Interstate acquisition.

(e) One-off debt issuance costs of £5m have been recorded within "Finance costs" for the standby facility.

(f) Tax impacts of the above, based on an effective tax rate of 22.5 per cent. Only the £1m tax credit related to the annual interest charged (notes (c) and (d)) is expected to be an ongoing annual benefit.

(5) In preparing the unaudited pro forma income statement of the Enlarged Group, no account has been taken of the trading activity or other transactions of the DS Smith Group since 30 April 2018 and no account has been taken of the trading activity or other transactions of the Europac Group since 31 December 2017.

(6) In preparing the unaudited pro forma income statement of the Enlarged Group, no account has been taken of the amortisation of other intangibles or items subject to fair value acquisition accounting, on the basis that the actual amortisation charges will not be known until completion of the fair value exercise. Similarly no adjustment has been made as a result of the Acquisition to reflect any synergies that may arise after the acquisition as these are dependent upon future actions of management.

(7) The unaudited pro forma income statement does not reflect the effect of any fair value adjustments which may be recorded to acquired assets and liabilities. Upon completion of the purchase price allocation, which will be finalised after completion of the acquisition, additional depreciation of property, plant and equipment and amortisation of intangible assets, amongst other things, may be required in the Enlarged Group's financial statements.

Unaudited pro forma statement of net assets

	DS Smith Group as at 30 April 2018 (Note 1) £m	Europac Group as at 31 December 2017 (Note 2) £m	Adjustments Transaction Funding (Note 3) £m	Acquisition Adjustments (Note 4) £m	Unaudited pro forma of the Enlarged Group as at 30 April 2018 £m
Assets					
Non–current assets					
Goodwill and intangible assets	2,043	87	–	1,058	3,188
Biological assets	3	6	–	–	9
Property, plant and equipment	2,396	599	–	–	2,995
Investment Property	–	2	–	–	2
Equity accounted investments	24	2	–	–	26
Other investments	11	–	–	–	11
Deferred tax assets	64	40	–	–	104
Non–current Financial Assets	–	3	–	–	3
Other receivables	7	–	–	–	7
Derivative financial instruments	15	–	–	–	15
Total non–current assets	4,563	739	-	1,058	6,360
Current assets					
Inventories	543	78	–	–	621
Biological assets	4	–	–	–	4
Income tax receivable	15	3	–	–	18
Trade and other receivables	863	66	–	–	929
Cash and cash equivalents	297	75	1,421	(1,421)	372
Other Current Financial Assets	–	1	–	–	1
Derivative financial instruments	44	–	–	–	44
Total current assets	1,766	223	1,421	(1,421)	1,989
Total assets	6,329	962	1,421	(363)	8,349
Liabilities					
Non–current liabilities					
Borrowings	(1,811)	(267)	(421)	–	(2,499)
Employee benefits	(106)	(13)	–	–	(119)
Other payables	(14)	(5)	–	–	(19)
Provisions	(4)	(1)	–	–	(5)
Deferred tax liabilities	(195)	(53)	–	–	(248)
Derivative financial instruments	(35)	(1)	–	–	(36)
Other long term liabilities	–	(12)	–	–	(12)
Total non–current liabilities	(2,165)	(352)	(421)	–	(2,938)
Current liabilities					
Bank overdrafts	(29)	–	–	–	(29)
Borrowings	(162)	(15)	–	–	(177)
Trade and other payables	(1,705)	(199)	–	(42)	(1,946)
Income tax liabilities	(118)	(7)	–	–	(125)
Provisions	(16)	(3)	–	–	(19)
Other financial liabilities	–	(23)	–	–	(23)
Derivative financial instruments	(24)	–	–	–	(24)
Total current liabilities	(2,054)	(247)	-	(42)	(2,343)
Total liabilities	(4,219)	(599)	(421)	(42)	(5,281)
Net assets	2,110	363	1,000	(405)	3,068

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from the 2018 Annual Report and Accounts which are incorporated by reference in this document.

(2) The consolidated Statement of Financial Position of the Europac Group as at 31 December 2017 has been extracted, without material adjustment, from the audited consolidated financial statements of Europac for the year ended 31 December 2017, which is set out in Part IV (*Historical Financial Information Relating to the Europac Group*) of this Circular and converted into pounds sterling using the December 2017 exchange rate of €1:£0.8828. This information has been adjusted to conform to the presentation adopted by the DS Smith Group. The presentational adjustments made were as follows:

   (a) Derivative financial liabilities of £1m were reclassified from Other financial liabilities to reflect DS Smith's disclosure of derivative liabilities as a separate line item.

   (b) Employee benefits of £13m were reclassified from Non-current provisions to reflect DS Smith's disclosure of Employee benefits as a separate line item.

(3) The Acquisition will be financed using a mixture of sources:

	£m
Rights Issue proceeds, net of underwriting costs	1,000
Draw-down from existing facilities	426
Estimated cash raised	1,426
Debt issuance costs for additional standby facility	(5)
Net increase in cash held	1,421

The £421m increase in interest-bearing liabilities includes £426m drawn down from existing debt facilities, less £5m of debt issuance costs which have been netted against the liability.

(4) The consideration on the Acquisition will be payable as cash. A portion of the amounts paid is for treasury shares held by Europac and therefore will be deducted from the overall consideration. The Acquisition consideration is set out below:

	€m
Cash	1,667
Cash consideration relating to treasury shares	(49)
Acquisition net cash paid	1,618
Converted to GBP at an indicative exchange rate of €1: £0.8785 based on DS Smith forecasts	£1,421m

The Acquisition has been accounted for using the acquisition method of accounting. Any excess consideration above the book value of the net assets acquired has been reflected as goodwill. A fair value exercise will be completed post Acquisition, therefore no account has been taken of any fair value adjustments that may arise on the Acquisition and no intangible assets and tax consequences have been valued at this stage. The adjustment to goodwill has been calculated as follows:

	£m
Acquisition net cash paid	1,421
Book value of net assets acquired	(363)
Pro forma goodwill adjustment	1,058

An adjustment of £42m has been made to "trade and other payables" to reflect a payable for one-off transaction costs. This is made up of £19m of transaction costs and £23m of costs related to the Rights Issue.

(5) In preparing the unaudited statement of net assets of the Enlarged Group, no account has been taken of the trading activity or other transactions of the DS Smith Group since 30 April 2018 and no account has been taken of the trading activity or other transactions of the Europac Group since 31 December 2017.

(6) The table below sets out the net debt of the Enlarged Group as if the acquisition had occurred on 30 April 2018:

	£m
DS Smith Group	(1,680)
Europac Group	(206)
Estimated cash raised (Note 3)	1,421
Cash consideration on Acquisition (Note 4)	(1,421)
Draw-down from existing facility, net of issuance costs for standby facility	(421)
	(2,307)

The net debt of the DS Smith Group has been extracted, without material adjustment, from the 2018 Annual Report and Accounts which have been incorporated by reference in this document.

The net debt of the Europac Group has been calculated based on the reconciliation below. Line items have been extracted, without material adjustment, from the Statement of Financial Position of the Europac Group for the year ended 31 December 2017 included in Part IV (*Historical Financial Information Relating to the Europac Group*) of this Circular.

	€m
Non-current Bank borrowings and bonds or other negotiable securities	(302)
Current Bank borrowings and bonds or other negotiable securities	(17)
Cash and cash equivalents	86
Europac Group net debt	(233)
Converted to GBP at the December 2017 exchange rate of €1:£0.8828	£(206)m

Refer to notes 3 and 4 above for details on the net debt created by the transaction funding.

(7) In preparing the unaudited pro forma statement of net assets, no account has been taken of the amortisation of other intangibles or items subject to fair value acquisition accounting, on the basis that the actual amortisation charges will not be known until completion of the fair value exercise. Similarly, no adjustment has been made as a result of the Acquisition to reflect any synergies that may arise after the Acquisition as these are dependent upon future actions of management.

SECTION B: ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

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The Board of Directors
on behalf of DS Smith Plc
350 Euston Road
Regent's Place
London
NW1 3AX

J.P. Morgan Securities plc
25 Bank Street
London
E14 5JP

19 June 2018

Dear Sirs,

DS Smith Plc (the "Company")

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Part V of the Class 1 Circular (the "**Circular**") dated 19 June 2018, which has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how:

(a) The proposed acquisition (the "Acquisition") of Papeles y Cartones de Europa SA (the "Transaction"); and

(b) Inclusion of the Income Statement of Indevco Management Resources Inc. for the period 1 May 2017 to 25 August 2017,

might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 April 2018. This report is required by the Commission Regulation (EC) No 809/2004 (the "**Prospectus Directive Regulation**") as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including Spain, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully
Deloitte LLP

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("**DTTL**"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.*

PART VI

ADDITIONAL INFORMATION

1. Responsibility

DS Smith and the DS Smith Directors, whose names appear in paragraph 4 (*Directors*) of this Part VI, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of DS Smith and the DS Smith Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

DS Smith was incorporated and registered in England and Wales on 7 July 1978 under the Companies Acts 1948 (as amended) as a private company limited by shares with the name David S. Smith (Packaging) Limited and registered number 01377658. Its name was changed to David S. Smith (Holdings) Limited on 11 August 1978. On 28 June 1982, the Company re-registered as a public company limited by shares with the name David S. Smith (Holdings) Public Limited Company. The Company listed on the London Stock Exchange on 3 March 1986. Its name was subsequently changed to DS Smith Plc on 17 September 2001.

The registered and head office of DS Smith is at 350 Euston Road, London NW1 3AX. Its telephone number is +44 (0)20 7756 1800.

The principal legislation under which DS Smith operates is the Companies Act 2006 and the regulations made under the Companies Act 2006.

3. DS Smith's share capital

3.1 The issued and fully paid share capital of DS Smith as at the Latest Practicable Date and following Admission of the New Ordinary Shares on completion of the Rights Issue (excluding any Ordinary Shares which may be issued on the exercise of options under the Employee Share Plans) is as follows:

	Ordinary Shares at the Latest Practicable Date		*Ordinary Shares immediately following Admission*	
	Number	£	*Number*	£
Issued and fully paid	1,074,571,043	107,457,104.30	1,367,635,872	136,763,587.20

Notes:

(1) As at the Latest Practicable Date, the Company does not hold any shares as treasury shares.

3.2 The Ordinary Shares are admitted to the premium segment of the Official List and traded on the Main Market. The ISIN of the Ordinary Shares is GB0008220112 and the SEDOL number is 0822011. The Ordinary Shares are in registered form and are capable of being held in either certificated or uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

3.3 The New Ordinary Shares will be ordinary shares in registered form and may be held in certificated form or in uncertificated form, and title to such New Ordinary Shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where New Ordinary Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where New Ordinary Shares are held in paperless form, the Company's registrar, Equiniti, will transfer the New Ordinary Shares through the CREST system. Where the registered member is resident overseas the New Ordinary Shares are transferred through the CREST system to the beneficial owner's CREST appointed partner and from there they can be transferred to the beneficial owner's preferred holding vehicle.

4. Directors

4.1 *Directors' information*

The Directors and their positions as at the date of this Circular are as follows:

Name of Director	*Position*
Gareth Davis	*(Non-executive Chairman)*
Miles Roberts	*(Group Chief Executive)*
Adrian Marsh	*(Group Finance Director)*
Jonathan Nicholls	*(Senior Independent Director)*
Christopher Britton	*(Independent Non-executive Director)*
Ian Griffiths	*(Independent Non-executive Director)*
Kathleen O'Donovan	*(Independent Non-executive Director)*
Louise Smalley	*(Independent Non-executive Director)*

As at the Latest Practicable Date, except as disclosed in the table below, neither the Directors nor any of their respective immediate families, will have any interests in the share capital of DS Smith which:

(a) are required to be notified to DS Smith pursuant to the Market Abuse Regulation and Chapter 3 of the Disclosure Guidance and Transparency Rules; or

(b) are interests of a connected person (within the meaning of Schedule 11B of FSMA) which would be required to be disclosed under paragraph (a) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, as at the Latest Practicable Date.

The following table sets out the interests of the Directors as at the Latest Practicable Date and immediately following Admission:

	As at the Latest Practicable Date		*Immediately following Admission*	
	Number of Ordinary Shares	*Approximate percentage of issued share capital* (1)	*Number of Ordinary Shares*(2)	*Approximate percentage of issued share capital* (2)
Gareth Davis	106,900	0.01	136,054	0.01
Miles Roberts	1,651,589	0.16	2,102,022	0.15
Adrian Marsh	221,893	0.02	282,409	0.02
Jonathan Nicholls	109,307	0.01	139,117	0.01
Christopher Britton	10,550	0.00	13,427	0.00
Ian Griffiths	15,000	0.00	19,090	0.00
Kathleen O'Donovan	10,471	0.00	13,326	0.00
Louise Smalley	14,615	0.00	18,600	0.00

Notes:

(1) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,074,571,043.

(2) On the basis that: (i) no further Ordinary Shares are issued between the Latest Practicable Date and completion of the Rights Issue; (ii) 293,064,829 New Ordinary Shares are issued in connection with the Rights Issue; and (iii) that the DS Smith Directors take up their rights to the New Ordinary Shares in full. Note that certain DS Smith Directors may intend to sell a sufficient number of their Nil Paid Rights during the nil dealing period to meet the costs of taking up the balance of their entitlements to New Ordinary Shares.

Taken together, the combined percentage interest of the Directors in the issued share capital expected to subsist immediately following completion of the Rights Issue is approximately 0.20 per cent.

Details of other rights over Ordinary Shares held by the DS Smith Directors as at the Latest Practicable Date are set out below. Those rights are not included in the interests of the DS Smith Directors shown in the table above.

4.2 ***Interests of the Directors in Ordinary Shares pursuant to the Employee Share Plans***

The following tables set out details of the options and awards held by the Directors under the Employee Share Plans as at the Latest Practicable Date.

(a) *PSP*

As at the Latest Practicable Date, participation by Directors in the PSP was as follows:

Director	*Award date*	*Vesting date*[(1)]	*Maximum Number of Ordinary Shares under award*
Miles Roberts	30 July 2014	30 July 2017	375,700
	24 July 2015	24 July 2018	356,214
	01 July 2016	01 July 2019	415,876
	18 July 2017	18 July 2020	335,619
Adrian Marsh	24 July 2015	24 July 2018	191,107
	01 July 2016	01 July 2019	203,199
	18 July 2017	18 July 2020	164,066

Notes:

(1) If performance conditions are met.

(2) Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash or shares.

(b) *DSBP*

As at the Latest Practicable Date, participation by Directors in the DSBP was as follows:

Director	*Award date*	*Vesting date*[(1)]	*Maximum Number of Ordinary Shares under award*
Miles Roberts	24 July 2015	24 July 2018	156,734
	1 July 2016	1 July 2019	146,018
	18 July 2017	18 July 2020	67,123
Adrian Marsh	24 July 2015	24 July 2018	72,074
	1 July 2016	1 July 2019	68,797
	18 July 2017	18 July 2020	31,629

Notes:

(1) Dividend equivalents arising over the period between the grant date and the vesting date were paid in cash prior to the 2017 Financial Year, following which they were paid in shares.

(c) *Sharesave*

As at the Latest Practicable Date, participation by Directors in the Sharesave was as follows:

Director	*Award date*	*Vesting date*[(1)]	*Maximum Number of Ordinary Shares under award*
Miles Roberts	1 April 2017	1 April 2020	2,702
Adrian Marsh	1 April 2017	1 April 2020	2,702

5. Irrevocable undertakings

The Irrevocable Undertakings are described in paragraph 6.1 of Part III of this Circular (*Irrevocable Undertakings*).

6. Directors' service contracts and letters of appointment

6.1 ***Executive Directors***

(a) *General terms*

The following Executive Directors have service agreements with DS Smith as follows:

Director	*Position*	*Date of joining the Group*
Miles Roberts	Group Chief Executive	4 May 2010
Adrian Marsh	Group Finance Director	24 September 2013

Details of the share options and awards held by the Executive Directors are set out in paragraph 4.2 (*Interests of the Directors in Ordinary Shares pursuant to the Employee Share Plans*) of this Part VI.

Each Executive Director is eligible to participate in DS Smith's bonus scheme and PSP. Miles Roberts receives an annual pension allowance of 30 per cent. of his base salary and Adrian Marsh receives an annual pension allowance of 20 per cent. of his base salary. The Executive Directors are also entitled under their services contracts to receive a car allowance or company car equivalent life cover and family medical insurance.

(b) *Termination provisions*

Each Executive Director's service contract can be terminated immediately by the Company for cause, or by either party giving 12 months' notice. Each service contract may also be terminated at any time by the Company by paying a sum in lieu of notice equal to 12 months' basic salary. Miles Roberts is entitled to pension allowance for the unexpired period of notice as well as basic salary. Miles Roberts may not compete with DS Smith for a six-month period after termination of employment and Adrian Marsh may not compete with DS Smith for a twelve-month period after termination.

6.2 ***Non-Executive Directors***

(a) *General terms*

The dates of initial appointment to the Board and unexpired term of the Non-Executive Directors as at the Latest Practicable Date are as follows:

Director	*Position*	*Date of initial appointment*	*Date of expiration of current term in office*
Gareth Davis	Non-executive Chairman	1 June 2010	31 May 2019
Jonathan Nicholls	Senior Independent Director	1 December 2009	1 December 2018
Christopher Britton	Independent Non-Executive Director	6 March 2013	6 March 2019
Ian Griffiths	Independent Non-Executive Director	23 June 2014	23 June 2020
Kathleen O'Donovan	Independent Non-Executive Director	5 December 2012	5 December 2018
Louise Smalley	Independent Non-Executive Director	23 June 2014	23 June 2020

Each of the Chairman and the Non-Executive Directors has a letter of appointment. The appointment of a Non-Executive Director or Chairman is for a period of three years. The Non-Executive Directors and the Chairman are required to seek re-election at the annual general meeting of DS Smith and any subsequent annual general meeting as required by DS Smith's Articles or as the Board resolves. In addition, the Non-Executive Directors and Chairman are entitled to be reimbursed for expenses properly and reasonably incurred arising from the performance of their duties.

(b) *Termination provisions*

The appointment of each Non-Executive Director or the Chairman may be terminated: (a) immediately if not re-elected at any general meeting; (b) by giving DS Smith not less than one month's written notice; or (c) by resolution of a meeting of the Board (which shall include a majority of the Non-Executive Directors voting in favour, excluding the vote of the Non-Executive Director or Chairman to whom the vote relates) giving not less than one month's written notice, and in any event a payment may be given in lieu of such notice.

Save as disclosed in this Part VI, there are no existing service contracts between any Non-Executive Director and any member of the DS Smith Group which provide for benefits upon termination of employment.

7. Major Shareholders and Other Interests

As at the Latest Practicable Date, in so far as it is known to the Company by virtue of the notifications made pursuant to the Companies Act 2006 and/or Chapter 5 of the Disclosure Guidance and Transparency Rules, or as the Company is otherwise aware, the name of each person, other than a Director, who, directly or indirectly, is interested in voting rights representing three per cent. or more of the total voting rights in respect of the Company's issued share capital, and the amount of such person's holding, was as follows:

	As at the Latest Practicable Date	
	Number of Ordinary Shares	*Approximate percentage of issued share capital*[(1)]
BlackRock, Inc.	76,566,473	7.13
Aviva plc	74,169,049	6.90
Ameriprise Financial, Inc. and its group	61,705,042	5.74
Standard Life Investment Limited	61,676,725	5.73
Merpas Co SARL	52,474,156	4.88
Norges Bank Investment Management	49,528,475	4.61
Old Mutual plc	40,259,254	3.75
Royal London Asset Management Ltd	36,431,235	3.39

Notes:

(1) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,074,571,043.

Save as disclosed in this paragraph 7 (*Major Shareholders and Other Interests*) of this Part VI, the Company is not aware of any holdings of voting rights (within the meaning of Chapter 5 of the Disclosure Guidance and Transparency Rules) by persons which will represent three per cent. or more of the total voting rights in respect of the issued ordinary share capital of the Company as at the Latest Practicable Date.

Insofar as is known to the Company, the Company is not, as at the Latest Practicable Date, directly or indirectly owned or controlled by another corporate, any foreign government or any other natural or legal person, severally or jointly. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

All Ordinary Shares (other than treasury shares) have the same voting rights.

8. Related party transactions

Save as disclosed in the financial information relating to related party transactions as set out:

(a) in note 31 in the notes to the 2018 Financial Statements on page 133 of the 2018 Annual Report and Accounts; and

(b) in note 31 in the notes to the 2017 Financial Statements on page 126 of the 2017 Annual Report and Accounts; and

(c) in note 32 in DS Smith's notes to the 2016 Financial Statements on page 146 of the 2016 Annual Report and Accounts, each of which are incorporated by reference into this Circular, for each of the years ended 30 April 2018, 30 April 2017 and 30 April 2016, and during the period between 30 April 2018 and the Latest Practicable Date, the DS Smith Group entered into no transactions with related parties.

9. Material contracts

9.1 *DS Smith*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which DS Smith or any other member of the DS Smith Group is or has been a party: (i) within the two years immediately preceding the date of this Circular which is, or may be, material to DS Smith or the DS Smith Group; or (ii) at any time, which contains any provision under which any member of the DS Smith Group has any obligation or entitlement which is material to the DS Smith Group as at the date of this Circular:

(a) *Break Fee Agreement*

The Break Fee Agreement is described in Part III of this Circular (*Principal Terms of the Proposed Offer*).

(b) *New Debt Facility Agreement*

The New Debt Facility Agreement is described in Part III of this Circular (*Principal Terms of the Proposed Offer)*.

(c) *Equity CNMV Guarantee Agreement*

The Equity CNMV Guarantee Agreement is described in Part III of this Circular *(Principal Terms of the Proposed Offer*).

(d) *Irrevocable Undertakings*

The Irrevocable Undertakings are described in paragraph 6.1 of Part III of this Circular (*Principal Terms and Conditions of the Proposed Offer*).

(e) *Non-disclosure Agreement*

The NDA is described in Part III of this Circular (Principal Terms of the Proposed Offer).

(f) *Acquisition Agreement*

On 28 June 2017, DS Smith and DS Smith Holdings (as relevant (the "**Buyer**")), Merpas Co. S.à r.l. ("**Merpas**") and IMRI entered into the Acquisition Agreement for the acquisition by DS Smith and DS Smith Holdings of 80 per cent. of the total issued share capital of Interstate Resources, Inc. ("**IMRI**") from Merpas for consideration of US$920 million. The Buyer also assumed or undertook to procure repayment of 100 per cent. of the financial indebtedness of IMRI and its subsidiaries (the "**IRI Group**") at Completion. The consideration was subject to customary post-completion net debt and working capital adjustments.

The Buyer satisfied the consideration through: (i) a payment of US$846 million in cash, to be satisfied out of the net proceeds of a placing, utilisation of a new debt facility and existing cash resources; and (ii) the issue of consideration shares with a value of US$300 million. At Completion, DS Smith acquired a number of shares in IMRI equivalent in value to the consideration shares, and DS Smith Holdings acquired the remaining shares in IMRI that were the subject of the acquisition of 80 per cent. of the total issued share capital of IMRI (the "**Initial Interest**"). Under the terms of the Acquisition Agreement, Merpas is subject to a lock-up arrangement restricting its sale or transfer of DS Smith Shares until 25 August 2018.

The Acquisition Agreement contains representations, warranties, covenants, undertakings and conditions that are customary for a transaction of this size and nature. The Acquisition

Agreement contains certain termination rights for each of the Buyer and Merpas that are exercisable by mutual written consent or written notice to the other in certain circumstances.

(g) *Shareholders' Agreement*

Following completion of the acquisition of the Initial Interest, the respective governance and other rights of DS Smith, DS Smith Holdings, IMRI and an entity within the Indevco Group ("**Merpas Newco**") is governed by the Shareholders' Agreement.

The Shareholders' Agreement contains customary governance provisions, reserved matters and restrictions on transfers of shares. The Shareholders' Agreement also contains certain customary warranties given by Merpas Newco and the Buyer as of the date of Completion and customary post-completion undertakings given by Merpas Newco.

Pursuant to the Shareholders' Agreement, on 1 September 2018, 1 September 2019, 1 September 2020 and 1 September 2021, Merpas Newco has the option to sell to the Buyer either all of the shares in IMRI then held by Merpas Newco or a number of shares in IMRI held by Merpas Newco representing not less than 10 per cent. of the shares in IMRI then issued and outstanding. If Merpas Newco holds shares in IMRI on 1 September 2022 or Merpas Newco holds less than 10 per cent. of the shares in IMRI then issued and outstanding on any date before 1 September 2022, Merpas Newco will be required to sell all of the shares in IMRI then held by it to the Buyer. Further, within one month of a change of control of DS Smith, Merpas Newco will have option to sell to the Buyer all of the shares in IMRI then held by it. If any of the above circumstances occur (each, a "**Further Acquisition**"), the Buyer will pay cash for any shares in IMRI sold to it by Merpas Newco with such shares valued on the basis of the higher of: (i) the initial enterprise value of the IRI Group; and (ii) IRI Group's consolidated EBITDA for the last 12 months multiplied by eight (or ten in the event of a change of control of DS Smith), adjusted for cash, debt and working capital pursuant to the adjustment mechanics provided in the Acquisition Agreement. DS Smith proposes to fund any Further Acquisition through cash and debt facilities available to it at such time.

(h) *Placing Agreement*

On 29 June 2017, DS Smith, Citi and JPM entered into the Placing Agreement, pursuant to which DS Smith appointed Citi and JPM as joint bookrunners in connection with the placing of 62,637,363 new Ordinary Shares by the Company that raised approximately £280 million (net of commissions and expenses) to fund part of the cash portion of the consideration for the acquisition of the Initial Interest, the results of which were announced by DS Smith on 29 June 2017 Placing. Closing of the Placing and admission of the Placing shares to the Official List and to trading on the Main Market took place on 3 July 2017.

Subject to the terms and conditions of the Placing Agreement, each of Citi and JPM severally agreed, as agent for DS Smith, to use its reasonable endeavours to procure placees for such number of new Ordinary Shares as would result in gross proceeds from the Placing of £285 million (before commissions and expenses). In consideration for the services provided by Citi and JPM under the Placing Agreement, the Company paid Citi and JPM an aggregate commission of 1.7 per cent. of the gross proceeds from the Placing.

Under the Placing Agreement, the Company gave certain customary (for a transaction of this nature) representations, warranties and undertakings to Citi and JPM concerning, among other things, the accuracy of the statements of fact in certain public documents, including, but not limited to, the Placing announcement and the Acquisition announcement, and in relation to other matters relating to the DS Smith Group and its business. The Company also gave a customary indemnity to Citi and JPM, liability in respect of which is unlimited as to time and amount.

The Company undertook that (subject to certain limited exceptions) it would not, for a period of 90 calendar days following the closing date, without the prior written consent of Citi and JPM, directly or indirectly: (i) offer, issue, lend, charge, assign, sell or contract to sell or grant options in respect of or otherwise transfer or dispose of any Ordinary Shares (or any interest

in Ordinary Shares) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares (or any interest in Ordinary Shares); (ii) enter into any swap or other agreement that transfers, in whole or in part, any economic consequences of ownership of the Ordinary Shares; or (iii) make any announcement or other publication of the intention to do any of the foregoing or make any filing with respect thereto.

(i) *EcoPack and EcoPaper SPA*

On 18 October 2017, DS Smith, Kameran Financial Limited (the "**Seller**") and Mr Vladimir Cohn entered into a share purchase agreement (the "**SPA**") for the acquisition by DS Smith of substantially all (>99 per cent.) of the total issued share capital of each of EcoPack S.R.L ("**EcoPack**") and EcoPaper S.A. ("**EcoPaper**") from the Seller for an enterprise value of circa €208 million. Consideration for the purchase comprised both cash and DS Smith Shares. Certain cash consideration given in relation to the purchase of EcoPaper was (and in some instances continues to be) held in escrow for release under certain conditions relating to ongoing litigation or an absence of any claim against the Seller under the terms of the SPA. The consideration was subject to customary post-completion net debt and working capital adjustments. The sale completed on 6 March 2018.

The SPA includes protective covenants requiring that non-Purchaser parties do not: (i) take part in competing business activities in the sphere of EcoPaper's and EcoPack's operations; and (ii) do not induce or employ a director or employee of EcoPaper or EcoPack, for a period of three years from completion. For a period of 15 months following completion, the Seller is subject to lock-up provisions in relation to DS Smith Shares received as consideration, with certain exceptions for, *inter alia*, transfers to a subsidiary or in the context of an offer made by a third party to all holders of DS Smith Shares.

The SPA contains representations, warranties, indemnities, covenants, undertakings and conditions that are customary for a transaction of this size and nature. The SPA is governed by Romanian law, and in the event of any dispute arising from or in connection with the SPA is subject to referral and resolution by way of arbitration.

(j) *Revolving Credit Facilities Agreement*

On 20 May 2014, DS Smith entered into a £800 million revolving credit facility agreement (the "**Revolving Credit Facilities Agreement**") with Barclays Bank Plc, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, HSBC Bank Plc, J.P. Morgan Limited, Lloyds Bank Plc, the Royal Bank of Scotland Plc, the Bank of Toyko-Mitsubishi UFJ, Ltd., Credit Lyonnais, ING Bank N.V., London Branch and Natixis as arrangers, Barclays Bank Plc, BNP Paribas, London Branch, Citigroup N.A., London Branch, Commerzbank Aktiengesellschaft, London Branch, HSBC Bank Plc, JPMorgan Chase Bank, N.A., London Branch, Lloyds Bank Plc, the Royal Bank of Scotland Plc, the Bank of Toyko-Mitsubishi UFJ, Ltd., London Branch, Credit Lyonnais, ING Bank N.V., London Branch and Natixis as original lenders (the "**Original Lenders**") and the Royal Bank of Scotland Plc as agent.

The Revolving Credit Facilities Agreement provides for DS Smith to receive multiple loans on a revolving credit basis (the "**Loans**") from the Original Lenders, which may be used to refinance existing indebtedness and for general corporate purposes including financing for future acquisitions and working capital. Each Loan is available to be drawn until the date falling one week prior to the final maturity date under the Revolving Credit Facilities Agreement (the "**Availability Period**"). The Loan may be drawn in different currencies (sterling, US dollars, Euros or other optional currencies). DS Smith was initially required to repay the Loans within five years. It had two extension options allowing it to extend this repayment date by one year at a time; the first extension option was utilised but not the second one and, therefore, the final repayment date of the Loans will fall six years after the original date of the Revolving Credit Facilities Agreement.

The Revolving Credit Facilities Agreement includes certain mandatory prepayment events, being (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loans provided it gives five

business days' notice and the prepayment is of a minimum of £1,000,000. The Revolving Credit Facilities Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period and that DS Smith can cancel the commitment of a lender which has defaulted.

The Loans are unsecured and are guaranteed by DS Smith. The Revolving Credit Facilities Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Revolving Credit Facilities Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Revolving Credit Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(k) *Unicredit Facility Agreement*

On 20 July 2016, DS Smith Finance B.V. ("**Dutchco**") entered into a €150 million facility agreement (the "**Unicredit Facility Agreement**") with Unicredit Bank AG as mandated lead arranger, Unicredit Luxembourg S.A. as original lender (the "**Original Lender**") and Unicredit Luxembourg S.A. as agent.

The Unicredit Facility Agreement provides for Dutchco to receive one initial loan, and two potential subsequent loans under an accordion facility (together, the "**Loans**") from the Original Lender, which may be used for general corporate purposes of the group. The initial Loan was available to be drawn until the date falling one month after the date of the Unicredit Facility Agreement, whilst the subsequent increase Loans are available to be drawn during the period specified in the relevant increase confirmation (together, the "**Availability Periods**"). The Loans may only be drawn in Euros. Dutchco is required to repay the Loans within five years.

The Unicredit Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). Dutchco may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €5,000,000. The Unicredit Facility Agreement provides that any undrawn part of the lender's commitments will be automatically cancelled at the end of the relevant Availability Period, and that Dutchco can cancel the commitment of a lender which has defaulted.

The Loan is unsecured and is guaranteed by DS Smith. The Unicredit Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Unicredit Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Unicredit Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(l) *Private Shelf Agreement*

On 5 December 2008, DS Smith and DS Smith Finco Limited ("**Finco**") entered into a private shelf agreement (the "**Private Shelf Agreement**") with Prudential Investment Management, Inc. ("**Prudential**"), which was subsequently amended on 2 July 2010.

The Private Shelf Agreement provides for DS Smith to and/or Finco to issue senior promissory notes in an aggregate principal amount of $150,000,000 (the "**Notes**"). The Notes may be issued and sold until the earliest of the date falling four years after the date of the Private Shelf Agreement and the 30th day after the Private Shelf Agreement has been terminated by either Prudential or the Company, each on 30 days' notice.

The Private Shelf Agreement generally contains representations, covenants and events of default which are customary for this type of agreement and includes certain covenants (including financial covenants) and events of default that are generally consistent with its other existing corporate borrowings. The Private Shelf Agreement includes a mandatory prepayment event, being a change of control of DS Smith (if a noteholder so requests after a certain period

of negotiations). DS Smith or Finco may prepay any Note issued by them at any time in an amount not less than 5 per cent. of the aggregate principal amount of all outstanding Notes at that time. The Private Shelf Agreement also allows DS Smith and Finco to prepay the Notes in full on not less than five Business Days' notice as a result of certain tax events. Any issued Notes are required to mature no later than 12 years after their original issue date.

DS Smith and Finco each guarantee the other's Notes and the Private Shelf Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Private Shelf Agreement contains various conditions to closing including representations and warranties by DS Smith and Finco, and customary affirmative and negative covenants.

The Private Shelf Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

On 11 August 2010, DS Smith issued two series of unsecured notes pursuant to the Private Shelf Agreement, which included €59,000,000 4.395 per cent. Series A Senior Notes due 13 August 2018 and €59,000,000 4.825 per cent. Series B Senior Notes 11 August 2020 (collectively, the "**Shelf Facility Notes**"). The Shelf Facility Notes were issued for general corporate purposes.

(m) *Danske Facilities Agreement*

On 8 December 2016, DS Smith entered into a €60 million bridge facility agreement (the "**Danske Facility Agreement**") with Danske Bank A/S, London Branch as original lender (the "**Original Lender**").

The Danske Facility Agreement provides for DS Smith to receive one loan (the "**Loan**") from the Original Lender, which may be used for general corporate purposes including financing for future acquisitions and working capital. The Loan was available to be drawn until the date falling 90 days after the date of the Danske Facility Agreement (the "**Availability Period**"). The Loan must be drawn in Euros. DS Smith is initially required to repay the Loan within two years, although it has two extension options allowing it to extend this repayment date, first by one year and then to 20 May 2020.

The Danske Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000. The Danske Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period, and that DS Smith can cancel the commitment of a lender which has defaulted.

The Loan is unsecured and is guaranteed by DS Smith. The Danske Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Danske Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Danske Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(n) *Santander Facilities Agreement*

On 27 January 2017, DS Smith entered into a €60 million bridge facility agreement (the "**Santander Facility Agreement**") with Abbey National Treasury Services Plc as original lender (the "**Original Lender**").

The Santander Facility Agreement provides for DS Smith to receive one loan (the "**Loan**") from the Original Lender, which may be used for general corporate purposes including financing for future acquisitions and working capital. The Loan was available to be drawn until the date falling 90 days after the date of the Santander Facility Agreement (the "**Availability Period**"). The Loan must be drawn in Euros. DS Smith is initially required to repay the Loan within two

years, although it has two extension options allowing it to extend this repayment date, first by one year and then to 20 May 2020.

The Santander Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000. The Santander Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period.

The Loan is unsecured and is guaranteed by DS Smith. The Santander Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Santander Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Santander Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(o) *Note Agreement*

On 6 August 2012, DS Smith issued five series of unsecured notes pursuant to a note agreement (the "**Note Agreement**"), which included US$20,000,000 3.71 per cent. Series A Senior Notes due 6 August 2017, US$72,000,000 4.09 per cent. Series B Senior Notes due 6 August 2019, US$10,000,000 4.28 per cent. Series C Senior Notes due 6 August 2020, US$30,000,000 4.47 per cent. Series D Senior Notes due 6 August 2021 and US$268,000,000 4.65 per cent. Series E Senior Notes due 6 August 2022 (collectively, the "**US Private Placement Notes**"). The US Private Placement Notes were issued for general corporate purposes.

The Note Agreement generally contains representations, covenants and events of default which are customary for this type of agreement and includes certain covenants (including financial covenants) and events of default that are generally consistent with its other existing corporate borrowings. In addition, DS Smith may voluntarily prepay the US Private Placement Notes, plus a make-whole payment, at any time, in whole or in part. In the event of a change of control in respect of DS Smith, the US Private Placement Notes may be redeemed at the option of the holders of the US Private Placement Notes. In the event of certain changes affecting taxation, DS Smith may elect to prepay the US Private Placement Notes, subject to certain rights of the affected holders of the US Private Placement Notes.

(p) *Notes issued under Euro Medium Term Note Programme*

On 14 September 2015, DS Smith issued €500,000,000 2.250 per cent. Notes (the "**2.250 per cent. MTN Notes**") due 16 September 2022 (the "**2.250 per cent. MTN Notes Maturity Date**") under its €2,500,000,000 euro medium term note programme in respect of which the interest rate payable is subject to adjustment from time to time in the event of a rating change concerning DS Smith's senior unsecured long-term debt.

On 26 July 2017, DS Smith issued €750,000,000 1.375 per cent. Notes (the "**1.375 per cent. MTN Notes**") due 26 July 2024 (the "**1.375 per cent. MTN Notes Maturity Date**") and £250,000,000 2.875 per cent. Notes (the "**2.875 per cent. MTN Notes**" and, together with the 2.250 per cent. MTN Notes and the 1.375 per cent. MTN Notes, the "**MTN Notes**") due 26 July 2029 (the "**2.875 per cent. MTN Notes Maturity Date**" and, together with the 2.250 per cent. MTN Notes Maturity Date and the 1.375 per cent. MTN Notes Maturity Date, the "**MTN Notes Maturity Date**") under its €2,500,000,000 euro medium term note programme in respect of which the interest rate payable is subject to adjustment from time to time in the event of a rating change concerning DS Smith's senior unsecured long-term debt.

The MTN Notes were issued for general corporate purposes.

The terms and conditions of the MTN Notes contain a negative pledge and events of default which are customary for Euro medium term notes. In addition, the MTN Notes may be

redeemed prior to the relevant MTN Notes Maturity Date at the option of (i) DS Smith on any day up to but excluding the day that is three months prior to the MTN Notes Maturity Date at a make whole redemption price, (ii) DS Smith on any day during the period from (and including) the day that is three months prior to the MTN Notes Maturity Date at par, or (iii) any holders of the MTN Notes upon a change of control in respect of DS Smith at par. In the event of certain changes affecting taxation, DS Smith may elect to redeem the MTN Notes at par.

9.2 ***Europac Group***

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which Europac or any other member of the Europac Group is or has been a party: (i) within the two years immediately preceding the date of this Circular which is, or may be, material to Europac or the Europac Group; or (ii) at any time, which contains any provision under which any member of the Europac Group has any obligation or entitlement which is material to the Europac Group as at the date of this Circular. With the exception of the Break Fee Agreement and the NDA, information contained in this paragraph 9.2 of Part VI has been compiled solely from information included in public documents published by Europac:

(a) *Break Fee Agreement*

The Break Fee Agreement is described in Part III of this Circular (*Principal Terms of the Proposed Offer*).

(b) *Non-disclosure Agreement*

The NDA is described in Part III of this Circular (*Principal Terms of the Proposed Offer*).

(c) *Syndicated Loan*

On 16 February 2012, Europac entered into a Forward Start Facility for up to €253 million, of which €166 million comprised a loan and €87 million related to a revolving credit facility, both for five years with partial maturities. The sole purpose of the Forward Start Facility is to partly re-finance the existing syndicated loan. The rate of interest was indexed to Euribor, plus a spread of 3.25 per cent. On 24 July 2014, Europac signed a novation of the Forward Start Facility with the corresponding banks, which essentially involved deferring all outstanding due dates on the novation date by two years. The spread for this borrowing was reduced to 2.5 per cent. throughout the remaining life of the loan.

On 10 July 2015, Europac refinanced its syndicated borrowings by increasing the amount of the financing to €290 million and extending the outstanding maturities on the novation date by two years up to 10 July 2021, with an annual interest rate indexed to Euribor plus a margin of between 140 and 175 basis points depending on compliance with certain ratios.

On 28 December 2016, Europac signed an amendatory non-extinctive novation of this syndicated borrowing whereby the maturity date was extended to 10 July 2022 and its interest indexed to Euribor plus a margin of between 120 and 155 basis points depending on compliance with certain ratios.

At 31 December 2017, the balance of the syndicated loan amounted to €281 million (€290 million euros in 2016).

(d) *Commercial Paper Programme*

In 2014, the Europac Group set up a commercial paper issue programme on the MARF (Alternative Fixed Income Market) for a maximum of €50 million. In 2017, this programme was renewed and the maximum amount increased to €100 million.

In 2017 the Europac Group carried out issues for an average annual amount of €28 million at an average cost of 0.7 per cent. (€9 million with an average cost of 0.9 per cent. in 2016), with no outstanding balance at the end of said years.

10. Dividends

In respect of the current financial year, the Company paid an interim dividend of 4.9 pence per Ordinary Share on 1 May 2018.

In respect of the 2018 Financial Year, the Company paid a final dividend of 10.6 pence per Ordinary Share to Shareholders on 1 November 2017 and an interim dividend of 4.6 pence per Ordinary Share on 2 May 2017. Therefore, the total dividend paid to Shareholders in respect of the 2018 Financial Year was made at the rate of 15.2 pence per Ordinary Share.

In respect of the 2017 Financial Year, the Company paid a final dividend of 8.8 pence per Ordinary Share to Shareholders on 1 November 2016 and an interim dividend of 4.0 pence per Ordinary Share on 3 May 2016. Therefore, the total dividend paid to Shareholders in respect of the 2017 Financial Year was made at the rate of 12.8 pence per Ordinary Share.

In respect of the 2016 Financial Year, the Company paid a final dividend of 7.7 pence per Ordinary Share to Shareholders on 2 November 2015 and an interim dividend of 3.7 pence per Ordinary Share on 1 May 2016. Therefore, the total dividend paid to Shareholders in respect of the 2016 Financial Year was made at the rate of 11.4 pence per Ordinary Share.

Following Completion, DS Smith intends to maintain the same dividend policy.

11. Working Capital

DS Smith is of the opinion that the working capital available to the Enlarged Group, which includes the net proceeds of the Rights Issue and the New Debt Facility, is sufficient for its present requirements, that is, for at least the next 12 months from the date of publication of this Circular.

12. Litigation

12.1 *DS Smith Group*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this Circular which may have, or have had, a significant effect on the Company's and/or the DS Smith Group's financial position or profitability.

12.2 *Europac Group*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this Circular which may have, or have had, a significant effect on Europac and/or the Europac Group's financial position or profitability.

13. No Significant Change

13.1 *DS Smith Group*

There has been no significant change in the trading or financial position of the DS Smith Group since 30 April 2018, being the date to which the latest audited consolidated financial statements of the DS Smith Group were prepared.

13.2 *Europac Group*

There has been no significant change in the trading or financial position of the Europac Group since 31 December 2017, the date to which the latest audited consolidated financial statements of the Europac Group were prepared, on which the historical financial information of the Europac Group, as set out in Part IV (*Historical financial information relating to the Europac Group*) of this Circular, was based.

14. Consents

Citi, Goldman Sachs and JPM have each given and not withdrawn their written consent to the inclusion in this Circular of references to their respective names in the form and context in which they appear.

Deloitte has given, and not withdrawn, its written consent to the inclusion in this Circular of its report in Section B of Part V (*Unaudited pro forma financial information relating to the Enlarged Group*), in the form and context in which they appear.

15. Incorporation by reference

The following documents, which have been approved, filed with or notified to the FCA, and which are available for inspection in accordance with paragraph 16 (*Documents on display*) of this Part VI, contain information about the DS Smith Group which is relevant to this Circular:

- DS Smith Announcement
- 2018 Annual Report and Accounts
- 2017 Annual Report and Accounts; and
- 2016 Annual Report and Accounts.

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this Circular, and only the parts of the documents identified in the table below are incorporated by reference in, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular.

Except as indicated below, information contained on the Company's website or the contents of any website accessible from hyperlinks on the Company's website are not incorporated into and do not form part of this Circular.

Reference document	*Information incorporated by reference into this Circular*	*Page number(s) in reference document*
DS Smith Announcement	Principal terms and conditions of the Acquisition	15
2018 Annual Report and Accounts	Note 31 to DS Smith's financial statements for the 2018 Financial Year	133
2017 Annual Report and Accounts	Note 31 to DS Smith's financial statements for the 2017 Financial Year	126
2016 Annual Report and Accounts	Note 32 to DS Smith's financial statements for the 2016 Financial Year	146

16. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY and at the Company's registered office up to and including the date of the General Meeting and for the duration of the General Meeting:

(a) the articles of association of DS Smith;

(b) the accountant's report from Deloitte set out in Section B of Part V (*Unaudited pro forma financial information relating to the Enlarged Group*) of this Circular;

(c) the audited financial statements of the DS Smith Group for the periods ended 30 April 2017 and 30 April 2016;

(d) the written consents referred to in paragraph 14 (*Consents*) of this Part VI;

(e) this Circular;

(f) the Form of Proxy; and

(g) the DS Smith Announcement.

PART VII

DEFINITIONS AND GLOSSARY

The following expressions have the following meanings throughout this Circular, unless the context otherwise requires:

2016 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2016 Financial Year;
2016 Financial Year	DS Smith's financial year ended 30 April 2016;
2017 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2017 Financial Year;
2017 Financial Year	DS Smith's financial year ended 30 April 2017;
2018 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2018 Financial Year;
2018 Financial Year	DS Smith's financial year ended 30 April 2018;
Acceptance Undertakings	the Irrevocable Undertakings and the Treasury Shares Commitment;
Acquisition	has the meaning ascribed to it in paragraph 1 (*Introduction*) of Part I (*Letter from the Chairman*) of this Circular;
Admission	the proposed admission of New Ordinary Shares by the UKLA to listing on the premium segment of the Official List and by the London Stock Exchange to trading on the Main Market following completion of the Rights Issue;
Break Fee Agreement	the break fee agreement entered into by DS Smith and Europac, as further detailed at page 47 of this Circular;
business day	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
Buyer	DS Smith;
CAGR	compound annual growth rate;
CCM	corrugated case material;
certificated	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
Citi	Citigroup Global Markets Limited;
Closing Price	the closing middle market price of a relevant share as derived from SEDOL on any particular day;
CNMV	*Comisión Nacional del Mercado de Valores,* the Spanish Securities and Exchange Commission;
Companies Act 2006	the Companies Act 2006, as amended;

Completion	completion of the Acquisition;
CREST or **CREST**	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is the operator as defined in the CREST Regulations);
CREST Manual	the rules governing the operation of CREST as published by Euroclear;
CREST Proxy Instruction	has the meaning ascribed to it in paragraph 17 (*Action to be taken*) of Part I (*Letter from the Chairman*) of this Circular;
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;
Deloitte	Deloitte LLP;
Disclosure Guidance and **Transparency Rules**	the rules made by the FCA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
DSBP	the Company's Deferred Share Bonus Plan;
DS Smith or the **Company**	DS Smith Plc, a company incorporated in England and Wales with registered number 01377658 and having its registered office at 350 Euston Road, London, NW1 3AX;
DS Smith Announcement	the DS Smith announcements dated 4 June 2018 in relation to the proposed Acquisition and the Rights Issue;
DS Smith Board or **Board**	the board of Directors of DS Smith;
DS Smith Directors or **Directors**	the directors of the Company, whose names appear on page 10 of this Circular, or, as the context requires, the directors from time to time of the Company, and Director shall be construed accordingly;
DS Smith Group or the **Group**	DS Smith and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
DS Smith Prospectus	the prospectus published by DS Smith on 19 June 2018;
EBITDA	earnings before interest, tax, depreciation and amortisation;
Employee Share Plans	the PSP, DSBP, LTIP, Sharesave, International Sharesave and US ESPP;
Enlarged Group	the DS Smith Group and the Europac Group together following Completion or the DS Smith Group if the Acquisition is not completed, as the context requires;
Equiniti	Equiniti Limited;
EU Merger Regulation	Council Regulation (EC) 139/2004 (as amended);
Euroclear	Euroclear UK and Ireland Limited;
Europac	Papeles y Cartones de Europa S.A., a Spanish corporation with registered address of Avenida de Fuencarral, 98, (Alcobendas) Madrid and registered at the Commercial Registry of Palencia under volume 227, sheet 208, page P-2350, and Tax Identification Number (N.I.F) A34158824;

Europac Board	the board of directors from time to time of Europac;
Europac Group	Europac and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
Europac Shareholder	a holder of Europac Shares from time to time;
Europac Shares	the ordinary shares of EUR 2 each in the capital of Europac;
EU	the European Union;
Excluded Territories	United States, Australia, Canada, Hong Kong, Japan, South Africa, Switzerland or the United Arab Emirates and any other jurisdiction where the extension or availability of the Rights Issue (and any other transaction contemplated thereby) would breach any applicable law;
Executive Directors	the Directors who hold the position of executive director, and each an **Executive Director**;
Family Irrevocable Undertakings	the irrevocable undertakings having been entered into by certain Europac Shareholders who are members of the Isidro family, as further detailed in paragraph 6.1 of Part III (*Principal terms and conditions of the Proposed Offer*);
Family Shareholders	has the meaning given in paragraph 6.1 of Part III (*Principal terms and conditions of the Proposed Offer*);
FCA	the Financial Conduct Authority of the United Kingdom;
FMCG	fast moving consumer goods;
Form of Proxy	the form of proxy for use at the General Meeting;
FSMA	the Financial Services and Markets Act 2000, as amended from time to time;
General Meeting	the general meeting of the Company to be held at 11.00 a.m. on 10 July 2018 at Melia White House, Albany Street, London NW1 3UP to approve the Resolution, the notice of which is contained in Part VIII of this Circular;
Goldman Sachs	Goldman Sachs International
IFRS	the International Financial Reporting Standards, as adopted by the European Union;
Joint Underwriters	Citi, Goldman Sachs and JPM;
JPM	J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove;
International Sharesave	the Company's International Sharesave Plan;
Irrevocable Undertakings	the Family Irrevocable Undertakings and the Other Irrevocable Undertakings, as further detailed in paragraph 6.1 of Part III (*Principal terms and conditions of the Proposed Offer*);
Latest Practicable Date	18 June 2018 (being the latest practicable date before publication of this Circular);

Listing Rules	the Listing Rules made by the FCA under Part VI of FSMA (as amended from time to time);
London Stock Exchange	London Stock Exchange plc;
LTIP	the Company's Long Term Incentive Plan;
Main Market	the London Stock Exchange's main market for listed securities;
MAR or **Market Abuse Regulation**	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse;
NDA	the non-disclosure agreement entered into by DS Smith and Europac, as further detailed at page 47 of this Circular;
New Debt Facility	the debt facility made available under the New Debt Facility Agreement;
New Debt Facility Agreement	the new debt facility agreement entered into by DS Smith; Goldman Sachs; JPM; J. P. Morgan Chase Bank, N.A., London Branch; Goldman Sachs International Bank; and J.P. Morgan Europe Limited, as further detailed at page 44 of this Circular;
New Ordinary Shares	Ordinary Shares to be allotted and issued pursuant to the Rights Issue;
Non-Executive Directors	the Directors who hold the position of Chairman of the DS Smith Board or non-executive director, and each a **non-Executive Director**;
Notice of General Meeting	the notice of the General Meeting contained in Part VIII of this Circular;
Offer Document	the tender offer document to be submitted to and, approved by the CNMV and published in connection with the Proposed Offer in accordance with applicable law;
Offer Price	EUR 16.80 per Europac Share (subject to any adjustments allowed under the terms of the Offer Document), equating to equating to a total of approximately EUR 1,667 million for all of the Europac Shares as at the Latest Practicable Date;
Official List	the official list of the FCA;
Ordinary Shares	the ordinary shares of 10 pence each in the capital of DS Smith;
Other Irrevocable Undertakings	the irrevocable undertakings having been entered into by certain Europac Shareholders who are not members of the Isidro family, as further detailed in paragraph 6.1 of Part III (*Principal terms and conditions of the Proposed Offer*);
PRA	the Prudential Regulation Authority of the United Kingdom;
Proposed Offer	the proposed offer by DS Smith to purchase the entire issued share capital of Europac to be made under the Offer Document and as may be varied in accordance with applicable law;
Prospectus Directive Regulation	the Commission Regulation (EC) No. 809/2004;
PSP	the Company's Performance Share Plan;

Registrar	Equiniti, or any other registrar appointed by the Company from time to time;
Regulatory Information Service	one of the regulatory information services authorised by the UKLA to receive, process and disseminate regulatory information from listed companies;
Resolution	the resolution to be proposed at the General Meeting and set out in the Notice of General Meeting;
Restricted Territories	any jurisdiction where the extension and availability of this Circular would breach any applicable law, and each a **Restricted Territory**;
Rights Issue	the proposed issue by way of rights of New Ordinary Shares to Shareholders;
Selling Shareholders	has the meaning given in paragraph 6.1 of Part III (*Principal terms and conditions of the Proposed Offer*);
SEDOL	the London Stock Exchange Daily Official List of share identifiers;
Shareholder	a holder of Ordinary Shares from time to time;
Sharesave	the Company's Sharesave Plan;
Treasury Shares Commitment	the commitment from the Europac Board under the terms of the Break Fee Agreement that it will procure acceptance at the start of the acceptance period for the Acquisition in respect of all treasury shares held by Europac representing 6.14 per cent. of the entire share capital of Europac (subject to fiduciary duties and to issuing the mandatory board report taking into account the relevant financial and legal advice);
UKLA	the UK Listing Authority;
UK	the United Kingdom of Great Britain and Northern Ireland;
uncertificated or in **uncertificated form**	in relation to a share or other security title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
United Kingdom or **UK**	the United Kingdom of Great Britain and Northern Ireland;
United States or **US**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia; and
US ESPP	the Company's US Stock Purchase Plan.

PART VIII

NOTICE OF GENERAL MEETING

DS Smith Plc (the Company)

(Incorporated and registered in England and Wales with registered number 01377658)

NOTICE OF GENERAL MEETING

NOTICE IS GIVEN that a general meeting of DS Smith Plc (the "**Company**") will be held at 11.00 a.m. on 10 July 2018 (UK time) at Melia White House, Albany Street, London NW1 3UP for the purpose of considering and, if thought fit, passing the following resolution. The Resolution will be proposed as an ordinary resolution.

Ordinary Resolution

THAT the proposed acquisition by the Company of the entire issued share capital of Europac pursuant to the terms and subject to the conditions contained in the offer document to be approved by the Comisión Nacional del Mercado de Valores (the Spanish Securities and Exchange Commission) (the "**Acquisition**") be and is approved, and the board of directors of the Company (or any duly constituted committee of the board of directors) (the "**Board**") be and is authorised to take all such steps as may be necessary, expedient or desirable in relation to the Acquisition and to carry the same into effect with such modifications, variations, revisions or amendments (provided such modifications, variations or amendments are not of a material nature) as the Board may in its absolute discretion deem necessary, expedient or desirable.

By order of the Board

Iain Simm
Company Secretary

19 June 2018

Registered No: 01377658
Registered office: 350 Euston Road, London, NW1 3AX

NOTES TO THE NOTICE OF GENERAL MEETING

NOTES

1. Only those persons registered in the register of members of the Company as at 4.30 p.m. on 6 July 2018 (or, in the case of an adjournment, on the date which is 48 hours before the time of the adjourned meeting, excluding for this purpose any part of a day which is not a working day) shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the Meeting. A member may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

3. A proxy may be appointed by any of the following methods:

   (a) completing and returning the enclosed Form of Proxy; or

   (b) logging onto the website of the Company's registrars, Equiniti Limited (the **Registrars**), at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy enclosed. Members who have already registered with the Registrars' online portfolio service Shareview can submit a proxy by logging into their profile at www.shareview.co.uk and clicking on the link to vote; or

   (c) members of CREST should use the CREST electronic appointment service (see Note 7 below).

   If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was received last, none of them shall be treated as valid in respect of that share. To be effective, Forms of Proxy and powers of attorney or other authority, if any, under which they are signed or a notarially certified or office copy of such power or authority must reach the Registrars at the address shown on the Form of Proxy, and the Registrars must receive any electronic appointment of proxy, not later than 48 hours before the time of the Meeting. Completion and return of the Form or appointing a proxy electronically will not, however, prevent a Member from attending and voting at the Meeting instead of the proxy. A Member must inform the Registrars in writing of any termination of the authority of a proxy.

4. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between them and the member by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

5. The statement of the rights of members in relation to the appointment of proxies in Notes 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

6. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (including any adjournment(s) of the Meeting) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 9.00 a.m. on 6 July 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. The CREST Manual can be reviewed at www.euroclear.com.

8. As at 18 June 2018 (being the latest practicable date prior to publication of this Circular), the Company's issued share capital consisted of 1,074,571,043 ordinary shares, carrying one vote each. No shares were held in treasury. Therefore, the total voting rights in the Company as at 18 June 2018 are 1,074,571,043.

9. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Meeting. In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares.

10. Any member attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

11. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found on the Investors page on our website www.dssmith.com.

12. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

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