inapa

IMPROVING
THE WORLD

Annual Results Announcement 2021

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01 Message from the CEO

In 2019, Inapa shareholders approved a strategic plan for the 2019-2021 period focused on four pillars of performance: consolidation and optimization of the paper business, diversified growth in the businesses of packaging and visual communication, reinforcement of financial sustainability and sustainable development.

During this period, Inapa has continued to lead the consolidation movement of the sector, by completing the acquisition of Papyrus Deutschland in July 2019. This operation allowed in this triennium the annual volume of paper sold by Inapa to grow by 15%, while the paper market in Western Europe suffered a substantial decrease of 20%, affected by the impact of COVID-19 pandemic. The market share in the geographies where Inapa operates had therefore a 4.2pp growth (from 13.7% to 17.9%) from 2018 to 2021. When we compare this last year with 2015, we see that the share gain in the markets where Inapa operates was 6.1pp (in 2015 the share was 11.8%).

Synergy plans identified at the time of acquisition of Papyrus France and Papyrus Deutschland have been successfully implemented. In France the plan is already fully implemented with significantly higher savings than initially estimated and in Germany savings are already implemented, whose annual effect is greater than that presented to shareholders during the transaction approval. Meanwhile, in Germany, significant additional opportunities have been identified, which will be implemented during the course of 2022 and 2023.

To achieve a greater systematization and coordination of processes across geographies and business areas that allow optimizing resources, we have decided to use a new state-of-the-art ERP (SAP 4/HANA), in all the companies of Inapa Group. Its implementation began in Germany in 2020 and, despite the limitations caused by the new COVID-19 wave in early 2021, it was successfully completed at the end of the first half among all German operations. In the second half of 2021, the new ERP was implemented in the operations in Belgium and Portugal, continuing therefore to achieve an increase of efficiency at the Group level.

Complementary businesses grew by 4.3% over the three-year period, reduced by the impact of COVID-19, with significant effects on the Viscom area, which suffered a 10% drop (with emphasis on the consequence of trade fairs cancelations during the pandemic period) while the packaging area grew by 11%.

Net debt decreased by € 10 million over these three years, continuing the former trend (in the previous three years it had decreased by € 39 million). This development incorporates the effects of the application of IFRS16 in 2019 and the classification of sales made in factoring in Germany as true sale in 2021 and was achieved despite the acquisition of Inapa Deutschland. As a consequence of this reduction and the increase in recurrent EBITDA, the ratio of net debt to recurring EBITDA changed from 14.8 in 2018 to 8.3 in 2021.

The pillar of sustainable development has made interesting progress in 2021 with an unprecedented increase in global renewable energy consumption, exceeding the 12% target set for 2022. A significant part of this success is due to the shift of about 80% to wind and water electricity in Germany. We have also reinforced, among other measures described in the respective report, investing in lower consumption vehicles and hybrid technology. In terms of social matters, we highlight the Group's Gender Equality Plan, which, as a result of the joint initiative of several employees, was prepared for the year of 2021 for the first time. Therefore, we reaffirm our full commitment to the United Nations Sustainable Development Goals (SDGs) initiative, to which we have enthusiastically joined.

In 2021, the turnover stood at 965 million euros, down from 51 million euros, when compared to 2020. After the first half of the year, heavily affected by COVID-19 pandemic restrictions, in which turnover contracted by around 73 million euros compared to the first half of the previous year, in the second half of the year turnover grew by 22 million euros (+4.5%), when compared to the same period. The increase in activity in the second half of the year allowed to achieve a recurring EBITDA of 22 million euros in the first half, an improvement of 5 million euros, when compared to the same period.

The strong evolution of annual EBITDA needs to be highlighted. After significant restructuring costs in 2020, EBITDA stood in 2021 at 31 million euros, with an increase of 95% (+ 15 million euros), when compared to the previous year.

In the second half, we achieved a 6.3 million euros net profit, reversing the losses of the first half and closing the year 2021 with a net income of 3.3 million euros.

Compared to December 2020, net debt fell by around 53 million euros in December 2021 to 262 million euros (including 38 million euros for IFRS16 effects). This amount includes trade finance in all geographies, except in Germany where, due to changes in contracts, sales through factoring are now considered true sale. Gross short-term debt fell by 17 million euros and the medium and long-term debt by 38 million euros.

We rely on a team prepared to answer the challenges and opportunities for growth, efficiency, innovation and sustainability that will be very important in the coming years. To our employees, customers, suppliers, financial institutions and shareholders we leave a special word of thanks for their contribution so that Inapa will carry on with its values in the performance of its mission.

Diogo Rezende

CEO do Grupo Inapa

02 Main Activity Indicators

(Ammounts in million Euros, except when specified otherwise)

	2021	2020	2019	2018	VAR.21/20
Tonnes (‘000)	841	913	887	735	-7.8%
Sales	964,6	1,015,5	1,030,8	860,3	-5.0%
Gross margin	179,3	185,5	178,4	151,9	-3.4%
Gross margin (%)	*18.6%*	*18.3%*	*17.3%*	*17.7%*	*0.3 pp*
Net Operating Costs	146,2	156,6	148,6	131,9	-6.7%
Operating income	28,8	23,6	24,8	22,9	22.3%
Operating costs	175,0	180,2	173,4	154,9	-2.9%
Impairment of receivables	1,6	1,5	1,5	1,5	10.9%
Re-EBITDA	31,5	27,4	28,3	18,4	-14.9%
Re-EBITDA (%)	*3.3%*	*2.7%*	*2.7%*	*2.1%*	*0.6 pp*
Non recurrent costs	0,7	11,6	1,6	2,0	-10.9
EBITDA	30,8	15,8	26,7	16,5	94.7%
EBITDA (%)	*3.2%*	*1.6%*	*2.6%*	*1.9%*	*1.6 pp*
EBIT	15,5	-2,7	10,8	10,6	18.2
EBIT (%)	*1.6%*	*-0.3%*	*1.0%*	*1.2%*	*1.9 pp*
Financial function	14,2	15,5	15,7	14,3	-8.9%
EBT	1,3	-18,2	-4,9	-3,7	19.6
Taxes on profits	2,0	2,8	0,8	0,1	-0.8
net income	3,3	-15,5	-4,1	-3,6	18.8

	31/12/21	31/12/20	31/12/19	31/12/18	VAR.21/20
Net debt	261,8	315,0	337,3	272,2	-16.9%
Net debt/Re-EBITDA	8,3 x	11,5 x	11,9 x	14,8 x	-3.2 x
Net debt excluding Trade Finance	241,8	258,7	248,4	181,0	-6.5%
Interest coverage	2,2 x	1,8 x	1,8 x	1,3 x	0.5 x
Working capital	11,4	73,0	87,6	97,0	-84.4%

03 Relevant Facts

30.04.2021
2020 Results Announcement
2020 Annual Report
Notice of Ordinary General Meeting

21.05.2021
Ordinary General Meeting

15.09.2021
Gender Equality Plan

30.09.2021
First half results announcement

21.10.2021
Qualified stake of BCP Pension Fund

SUBSEQUENT FACTS

On 24 February 2022, a military conflict began, triggered by the invasion of Ukraine by the Russian Federation, to which the international community responded with the application of strong economic sanctions. These events created uncertainty regarding the evolution of economies and financial markets worldwide, putting strong pressure on the costs of energy and certain raw materials, which were already on a significant growth trend. So far, the market has shown the capacity to absorb the higher prices resulting from this situation.

04 Management Report

4.1 Macroeconomic context

The world economy surpassed pre-pandemic levels at the beginning of 2021. However, this positive evolution reflects essentially the performance of the Chinese and North American economies, which showed a rapid recovery capacity. In fact, by the end of 2021, a significant number of economies – both developed and emerging – were still below pre-pandemic levels. In the Eurozone, there was also strong growth in 2021, but with significant disparities between countries, with France standing our on the positive side, as a major driver of European recovery, and Germany on the negative side.

At the begining of this year, a progressive return to normality was anticipated for 2022/2023: despite the slowdown in economic growth compared to 2021, this would be in line with the levels immediately prior to the pandemic; employment recovery in 2023; inflation convergence (albeit starting from higher levels and more slowly than previously anticipated) and normalization of fiscal and monetary policies.

This evolution forecast faced a set of important risks: the growing pressure on inflation, problems in the supply chain and also the uncertainty associated with the extension of the pandemic.

The invasion of Ukraine by Russia has significantly accentuated the risks and uncertainties that already existed at the beginning of 2022, calling into question the anticipated path towards normality. As economies of relatively small size in the global context, Ukraine and Russia are producers and exporters of essential products, agri-food, minerals and energy. The war situation, as well as the sanctions applied to Russia by the international community, resulted in a spiral of price increases, namely in oil, gas and wheat. The maintenance of this situation will lead to a revision of the estimates of economic growth and inflation.

Below are some comments regarding the economic evolution in 2021 and future perspectives in the countries in which the Inapa Group has operations.

The **German economy** grew by 2.8% in 2021, after a contraction of 4.8% in 2020. The economy benefited from the progressive opening of pandemic restrictions and a growth in private consumption, particularly in the 2nd quarter. In the 3rd quarter, exports and investment penalized economic performance, reflecting the difficulties felt in production as a result of disruptions in international distribution chains. Pressure on investment was stronger in the 4th quarter, which, combined with the negative impact of growing inflation on private consumption, resulted in a 0.7% drop in GDP in the last quarter of 2021. For 2022, is expected an economy recover, in particular from the 2nd quarter, with GDP growth of 3.6%, thus resuming pre-pandemic levels. In 2023, growth should continue (+2.6%).

The **French economy** grew by 7% in 2021, albeit with a deceleration in the 4th quarter, as a result of disruptions in the international logistics chain and the increase in energy prices. The recovery in private consumption contributed to this performance in 2021, returning to pre-pandemic levels in the second half of the year, while investment has been impacted by the aforementioned logistics difficulties since mid-2021. After stagnation in the 1st quarter of 2022, consumption and investment are expected to recover throughout the year (supported by the Recovery and Resilience Plan and favorable financing conditions) and exports, supported by the recovery of international tourism. Globally, GDP is expected to grow by 3.6% in 2022 and 2.1% in 2023.

The **Spanish economy** grew by 5% in 2021, with the recovery of the economy gaining strong traction in the second half of the year. Investment and exports essentially contributed to this performance in the second half of the year, with consumption impacted by price increases. After a slowdown in growth in the 1st quarter of 2022, a sustained recovery is expected from the 2nd quarter onwards, reaching pre-pandemic levels in the 4th quarter. This performance should contribute, on the one hand, to the recovery in consumption (supported by the savings accumulated during the pandemic and increases in pensions) and, on the other hand, the implementation of the Recovery and Resilience Plan. The gradual recovery of tourism should also contribute positively. Globally, GDP is expected to grow by 5.6% and 4.4% in 2022 and 2023 respectively.

In 2021, the **Portuguese economy** grew by 4.9%, recovering a little more than half of the decrease recorded in 2020 (-8.4%), as a result of the Covid-19 pandemic. While investment and exports of goods have already returned to pre-pandemic levels, exports of services are still far below, as a result of the impact of the pandemic still felt on international tourism, despite a strong recovery in the 2nd semester. Private consumption showed a slower pace of recovery. After a slowdown in the 1st quarter of 2022, a recovery is expected from the 2nd quarter to pre-pandemic levels. GDP growth of 5.5% in 2022 and 2.6% in 2023 are estimated, supported by domestic demand and the Recovery and Resilience Plan, and specially in 2022 by the recovery of international tourism.

After a 5.7% drop in 2020 caused by the pandemic, the **Belgian economy** recorded a significant recovery in 2021 (+6.1%), still surpassing pre-pandemic levels in the 3rd quarter of the year. After some deceleration in the 4th quarter of 2021 and 1st quarter of 2022, a sustained recovery is expected throughout 2022, supported by both private consumption and investment. Globally, GDP is still expected to grow by 2.7% in 2022 and +2.2% in 2023.

The **Turkish economy** grew by 9% in 2021, the highest growth in the last decade, after being one of the few countries that managed to avoid an economic contraction in 2020. Growth is expected to decelerate to 3.3% in 2022 and 3.9 % in 2023. However, significant monetary challenges remain. Recent interest rate cuts put increased pressure on the lira, due to high inflation, with an impact on domestic consumption and foreign financing. In the 4th quarter, the lira devalued to minimum levels, and despite some recovery, it remains very volatile.

	2019	2020	2021F	2022E	2023E	2019-2021	2021-2023E
Global	2.8	-3.4	5.6	4.5	3.2		
Eurozone	**1.6**	**-6.5**	**5.3**	**4.0**	**2.7**		
Germany	1.1	-4.8	2.8	3.6	2.6		
France	1.8	-7.9	7.0	3.6	2.1		
Spain	2.1	-10.8	5.0	5.6	4.4		
Portugal	2.7	-8.4	4.9	5.5	2.6		
Belgium	2.1	-5.7	6.1	2.7	2.2		
Turkey	0.9	1.8	9.0	3.3	3.9		

Source: OCDE (Dec/2021), European Commission (Feb/2022)]

4.2
Sector framework

In 2021, despite the impacts on paper consumption still felt throughout the first quarter in Western Europe, due to the Covid-19 pandemic outbreak, from the second quarter onwards there was a progressive reopening of economies with the consequent recovery in consumption, the year ended with an overall increase compared to 2020, but still below 2019 (pre-Covid) levels.
Based on statistics provided by Eurograph (European Association of Graphic Paper Producers), Western Europe recorded an 8.6% increase in graphic paper consumption, writing and printing in 2021, when compared to 2020. Coated woodfree papers increased 7.6%, while uncoated woodfree papers grew 9.4% compared to 2020.

In the main markets where Inapa is present (Germany, France, Spain, Portugal and Belgium), the total volume of paper sales increased by 7.9%, according to Eurograph statistics, with all countries showing increases compared to 2020. Germany recorded an increase of 2.8%, France of 10.4%, Spain of 25.8% and Portugal of 5.1%.

The presented data refer to the consumption of coated and uncoated papers – which represents around 90% of the papers sold – not including the remaining sub-families that include specialties, cardboard and self-adhesive, among others. In relation to Belux (Belgium and Luxembourg), where Inapa is mainly represented in the office paper segment, the market declined by 1.5%.
In total (aggregate volumes of coated and uncoated paper) there was an increase of 9.8% in Europe.

Regarding paper and board production, and according to CEPI (Confederation of European Papier Industries) statistics, there was an increase of 5.8% compared to 2020 to 90.2 million tons. The structural divergence between the evolution of the production of paper for graphic arts, writing and printing and paper and board for packaging was accentuated on the one hand by the health crisis that started in 2020 and on the other hand by the closures and conversions of factories. There was an increase of 10.2% in the production of coated woodfree papers and of 8.4% in uncoated papers (mainly office papers), while newsprint continued its downward trend with a decrease of 7.4%. Mechanical pulp coated papers grew 7.4% and uncoated papers 6.1%. As for the production of paper and board for packaging, there was an increase of 7.1% compared to 2020. Despite the sanitary restrictions, most factories remained in production. Production capacity optimization was possible by increasing exports overseas by around 9.2%, as well as managing downtime. The influence of imports from markets outside the CEPI area remained limited to uncoated office papers, which fell by 21%.

The weight of graphic, writing and printing papers in its total production remained stable at 27.8% compared to 27.9% in 2020, as well as the weight of packaging paper and board which stood at 58.7% in 2021 compared to 58.2% in 2020. During this period, the share of all other specialty and industrial paper sectors increased 9.6% to 4.8%, while the tissue sector decreased by 2.5% to a share of 8.7%.

The price of coated papers, depending on their grammage, rose up to around 35.0%, while the price of office papers in general grew by 30.0% and newsprint increased by 80.0% (January to December 2021 - RISI[1] Fastmarkets Index for Europe for Europe). It is estimated that the packaging and tissue sectors, the biggest pulp consumers, will maintain a good growth rate. Bearing in mind that, in the short term, increases in pulp production capacity are not expected, it is also estimated that its price will remain stable with an upward trend throughout 2022. There is a greater emphasis on softwood pulp , essentially used in the production of packaging paper and tissue.

Paper producers are exposed to the cost-increase of other production factors, such us energy and raw materials. The first half of 2021 was marked by the increase in pulp prices, but from the third quarter onwards, the increase in energy costs was more prevalent. It is estimated that the energy cost will continue to play a relevant role in paper and board production during 2022, now aggravated by the war in Ukraine, which will certainly lead to an even sharper rise in prices. Most likely, global production capacity will continue to decline, which will lead to greater shortages in the supply of paper and board.

(1) Fastmarkets RISI is an independent company that publishes price statistics for pulp, paper, recycled paper and wood biomass.

4.3
Consolidated Performance

The 2021 trend activity reflects the impact of the pandemic outbreak, which were still significant throughout the first half of the year, affecting the volume of activity of the different Inapa Group subsidiaries. The most impacted market was Germany, where travel restrictions in the first few months affected the implementation of the new SAP ERP, extending the transition period beyond what was initially planned, with repercussions on commercial and logistics activities only surpassed at the end of the first half of the year, with the conclusion of the migration process.

As a result of the aforementioned effects, the consolidated sales of the Inapa Group in 2021 were 964.6 million euros, showing a total decrease for the year of 5.0% compared to 2020. Their behavior was, however, very different throughout the year, showing a fall of 14% in the first half of the year and growth of 5% in the second, following the progressive lifting of containment measures and the inherent economic recovery.

Complementary businesses sales (packaging, visual communication and office supplies businesses) registered a growth of 3.8% in 2021 compared to 2020. The different areas presented different behaviors, with the packaging business recording a strong growth (+7.7% when compared to the previous year), and the visual communication business was penalized by the Covid-19 outbreak due to the widespread postponement of events and fairs, recording a fall of 5.2%.

Despite the drop in sales, it was maintained a careful management of pricing and improved the sales mix, by investing in products with higher margins, which despite a strong increase in prices by producers (due to the cost of productive factors such as pulp, energy…), allowed to increase the gross margin on sales from 18.3% in 2020 to 18.6% in 2021.

Net operating costs, excluding impairment on customer balances, registered a reduction of 10.4 million euros in 2021 (-6.7%), representing 15.2% of sales, -0.3 pp compared to 2020.
In 2021, the performance already fully benefited from the gains resulting from the reorganization of the logistics and distribution in the Paris area, completed at the end of 2020, as well as the restructuring implemented in the first quarter of 2021 in Spain. In Germany, all the optimization measures initially planned with the merger of operations have already been implemented, having obtained significant gains in the optimization of resources.
In the meantime, additional cost reduction measures have already been identified in the

areas of logistics and commercial organization, whose savings will progressively be reflected during 2022 and 2023.

In 2021, personnel expenses benefited from government support obtained in the context of the pandemic, namely layoffs, when compared with expenses in 2020.

Impairments on customer amounted to 1.6 million euros in 2021, approximately in line with 2020. Inapa maintains a strict risk monitoring, following strict internal credit control procedures for its customer portfolio, working always in close coordination with the Group's credit insurer.

Recurrent EBITDA amounted to 31.5 million euros in 2021, an increase of 14.9% compared to 27.4 million euros in 2020, representing 3.3% of sales, +0.6 pp relatively to 2020. The Group's operating profitability was still heavily impacted by the pandemic in the first half, having witnessed a strong recovery in the second half with recurrent EBITDA reaching 21.9 million euros (4.2% over sales), an increase of 5.2 million euros compared to the same period of 2020 and of 12.3 million euros compared to the first half of 2021.

Non-recurring costs totaled 0.7 million euros and basically refer to expenses with restructuring processes still in progress in the logistics and commercial areas, intending to optimize the Group's operations.

In 2021, EBITDA totaled 30.8 million euros (corresponding to 3.2% of sales), an expressive increase of 15 million compared to 2020. Operating results (EBIT) were positive 15.5 million euros, an improvement of 18.2 million over the previous year.

Financial charges for 2021 decreased by 1.3 million euros to 14.2 million euros (15.5 million euros in 2020). This progression is essentially due to the combined effects of debt reduction and its lower average cost (reflecting a greater weight of debt associated with the financing of the activity).

Consolidated results before tax were positive by 1.3 million euros (18.2 million euros negative in 2020) thanks to positive results of 6.7 million euros in the second half.

Income tax was positive 2.0 million euros, of which around 3.1 million euros related to deferred taxes and 1.1 million euros related to current taxes. Net profit for 2021 was positive by 3.3 million euros, an improvement of 18.8 million compared to 2020.

In 2021, the Group negotiated a factoring contract without recourse for its operations in Germany, which covers the vast majority of customer balances in that geography, so working capital recorded a significant reduction, in the amount of 61.6 million euros compared to December 2020, to 11.4 million euros. Excluding this effect, the downward trend in working capital continued.

This year it was worth mentioning the good performance in inventory management, which reflects the optimization of the logistics network resulting from the consolidation of warehouses.

Consolidated net debt as of 31 December 2021 stood at 262 million euros, 53 million euros less than in 2020. This progression results from the aforementioned effect of recognizing factoring without recourse in German operations, together with the optimization of inventories level and the application of the cash-flow generated by the operations, while ensuring the investments still in progress in the area of information systems, particularly in the replacement of the Group's ERP. Current debt excluding trade finance, associated to factoring contracts, is around 66.4 million euros, i.e., 24.6% of total gross debt (14.3% in 2020). To note that this ratio is temporarily affected by the consideration as a short-term debt contracted by the Group's German subsidiary, which has already reached an agreement in 2022 to extend the maturity until 2023.

To face the uncertainty of the impact of the Covid-19 pandemic on the activity, the Group raised in 2020 credit lines with the State guarantee, whose maturities were revised in 2021 for some of the contracts, with the extension of the financing terms covered up to 60 months and inclusion of an additional 12-month moratorium.

4.4
Business Areas Performance

The impact of the Covid-19 pandemic outbreak, with periodic confinements and restrictions, has accelerated the change in consumption patterns. Over the last two years, the pandemic has accelerated the change in consumption patterns that has resulted in a growing demand for paper and cardboard packaging, essential for transport, in the agri-food, pharmaceutical and other industries, and for tissue and hygiene products, by offering a safer option in their product category.

Demand for graphic paper for writing and printing remained under pressure from changing habits in the digital era, particularly in the mature markets of North America and Western Europe, as well as changes in behavior in order to prevent the spread of Covid-19 virus, such as telework and teleschool. With the lifting of stricter confinement rules and the economic recovery, demand immediately increased, altough to levels that in 2021 were still below pre-pandemic volumes.

Paper will always be relevant to the global economy and will continue to be irreplaceable for a variety of purposes. There are countless studies that prove the greatest impact and recall of messages transmitted on paper compared to electronic formats, proving that the word written on paper has a tangible and tactile presence that can never be replaced by the information displayed on screens. It should also be noted that paper is one of the most renewable and recyclable materials in existence, a very relevant issue in the context of growing concern with environmental sustainability.

Regarding the supply side, in 2021 there was a progressive increase in the suppliers' average prices, especially from the second quarter onwards. This evolution is based on a new balance between demand and supply, due to the economic recovery that resulted in a significant increase in demand for paper in Europe, in a context of reduced supply on the part of producers (with several reconditioned paper mills for packaging in 2020/ 2021) and strong limitations on paper imports from other continents, as a result of the constraints felt in the global logistics chain. Additionally, there has been a significant cost increase in several paper production inputs (paper pulp, chemicals, energy), as well as transport, which led to producers reviewing upwards their prices to customers.

Paper distribution continues to be Inapa Group's core business, subject to the market dynamics described above. We continued with the strategy of improving the sales mix, through a constant review of the product portfolio to customer needs and reorganization of commercial areas, and with a continued focus on efficiency and productivity of operations, through the systematic adjustment of business models and the organization. Accordingly, we proceeded with the sale and rent back operation of the Markt Schwaben warehouse and the sale of the Porto Salvo warehouse.

The merger of Papyrus Deutschland and Papier Union, under the new name of Inapa Deutschland, took place on June 30, 2020, with the implementation of all synergy initiatives identified in the initial integration plan having been completed in 2021, however the total annual savings will only be fully visible in 2022. Meanwhile, additional cost rationalization measures were identified, particularly in the areas of logistics and commercial areas, which will be implemented throughout 2022, and which will have an impact on a full year basis in 2023.

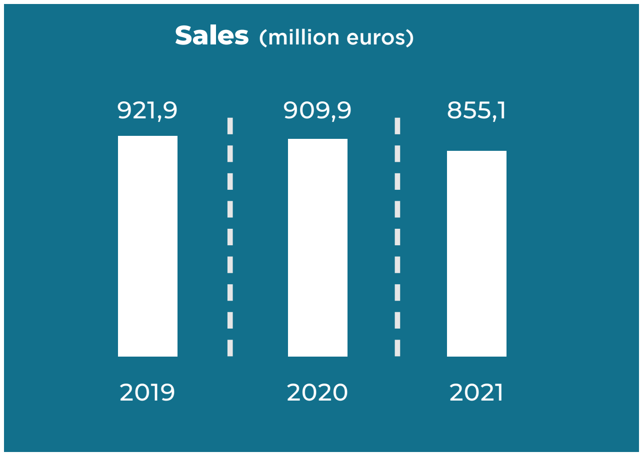
Paper distribution sales in 2021 when compared to 2020 fell by 6.0% and represent around 89% of the Group's total turnover. Packaging and visual communication businesses grew by 3.8%, having maintained a distinct progression. The packaging business continued to evolve very positively, with growth supported by the e-commerce and agri-food industry and driven by the continuous need for protection products and social distancing, together with a recovery in sales for the traditional sectors of wine, chemistry and cosmetics, among others. As for visual communication, its performance in 2021 continued to be heavily penalized by the Covid-19 outbreak due to the cancellation of major fairs that and despite the economic recovery that has been witnessed, along with a greater willingness to invest on the part of our customers, there was a low flow of orders compared to 2020. Overall, the contribution of complementary businesses to the Group's operating results was very positive.

Inapa remains focused on boosting the cross-selling of packaging materials, visual communication and graphic and office supplies, as a way of increasing its penetration among customers, thus offsetting part of the decrease in paper. In this sense, we continued to explore cross-selling in the packaging area through the sale of hygiene and safety products, in terms of protection and social distancing equipment, sign & display and adhesive & floor marking.

PAPER

In 2021 the turnover of Inapa's paper operations was 855.1 million euros. In the first quarter of 2021, there was still a sharp drop in turnover (in the same period of 2020 the impact of Covid-19 was quite limited), having been seen from the second quarter, with the lifting of confinement measures, to a progressive recovery of activity. For the whole year, Western Europe registered a paper consumption growth of 8.6% compared to 2020, but still below the pre-pandemic 2019 levels. In the European countries where Inapa operates, consumption increased by 7.9% compared to 2020.

Inapa's activity level was affected by the development in Germany, conditioned by the delay in the implementation of the Group's new ERP (SAP S/4 HANA), because of the restrictions imposed on travel in the context of Covid-19, with a direct impact on performance operations of Inapa Deutschland due to the inherent difficulties in the commercial, logistics and customer service areas. With the implementation completed at the end of the first semester, it was possible to recover and improve the service level and efficiency.
In 2021, the volume of paper sold by Inapa fell by 7.8% compared to the same period in 2020, to 841 thousand tonnes, having registered a very different evolution between the first half of the year, with a drop of 14.6%, and the second half, where the volume remained in line with the previous year. The evolution of volumes also reflects Inapa's strategic positioning, favoring margin over volumes.
In terms of value, sales amounted to 855.1 million euros (-6.0% compared to 2020), here also having registered a very different behavior in the first half, with a drop of 16.0% compared to the same period of 2020 , while on the second half there was an increase of 5.0%, as a result of the recovery in volumes along with price increases, more relevant essentially from the last quarter onwards.



Throughout the year, we continued to explore cross-selling opportunities for packaging solutions, hygiene and safety products, regarding protection and social distancing equipment, sign & display and adhesive & floor marking, among others.

The performance in Germany in 2021 was strongly impacted by the aforementioned delay in the implementation of SAP S/4HANA, as a result of the restrictions imposed on travel in the context of Covid-19. In fact, the delay in implementing SAP had a direct impact on Inapa Deutschland's operational performance, with difficulties in the logistics area, perceived both on the top line (as a result of lower service level and customer satisfaction led to a loss of volumes and market share) and costs (added costs during implementation and delay in implementing the optimization measures planned in the logistics area, only possible after SAP is fully operational in all warehouses). This situation put strong pressure, albeit for a limited period in time, on the company's profitability. With the completion of SAP's implementation at the end of the first half of 2021, there was a progressive recovery of activity, although it was not enough to fully offset the impacts of the beginning of the year. Meanwhile, additional optimization measures have already been identified in the areas of logistics and commercial organization, whose savings are estimated to be reflected, progressively, between 2022 and 2023.

In France, the benefits of the consolidation operation through the acquisition of Papyrus France are currently fully implemented.
The maintenance of price discipline and the strict control of sales conditions continue to allow that, despite the drop in volumes, the gross margin had a very positive progression, compared to the same period of the previous year. This commercial dynamic, combined with a reduction in costs with the synergies obtained in the merger, resulted in a sharp increase in profitability levels with a Re-EBITDA margin level above the market average.

Inapa maintained its focus on improving the sales mix, which, together with a context of strong price increase by producers (due to the cost of production factors such as pulp, energy...), transmitted to customers in view of the new balance between demand and supply, allowed it to increase the average sales price and the gross margin during 2021.

Operations remain focused on the constant improvement of efficiency levels and looking for new ways to optimize our operations. In 2021, significant savings in operating costs were achieved, fully benefiting from the reorganization of the logistics and distribution network in the Paris area, as well as the restructuring implemented in the first quarter of 2021 in Spain and the partial capture of synergies from the merger plan of the operations in Germany, ongoing throughout the year. In 2021 there was a strong decrease in government support obtained, namely layoffs, despite the still feeble recovery of the market.

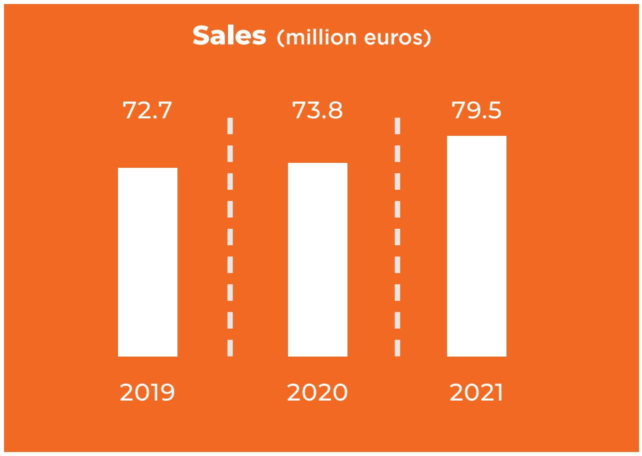
Operating results (EBIT) in the paper business were positive 14.9 million euros, representing 1.7% of sales (negative 3.0 million euros in 2020).

In short, despite the impacts of the Covid-19 pandemic outbreak, still felt in the first months, and the delays in the implementation of the new ERP in Germany, with a direct impact on operational performance, we witnessed a clear recovery in consumption from the second half of the year , in addition to an increase in margins and a reduction in operating costs during the year, as a result of the savings inherent to the different restructuring measures implemented.

PACKAGING

In 2021 the turnover of Inapa's packaging operations was 79.5 million euros. According to CEPI (Confederation of European Paper Industries) statistics, it is estimated that in 2021 the global production of packaging solutions grew by around 7.1% compared to 2020, reaching the highest value ever. The structural divergence between the graphics sector and the production of packaging paper continued, with the packaging market share representing 58.7% of the total production of paper and board (58.2% in 2020).

The production of transport packaging and corrugated cardboard boxes grew by around 7.8%, driven by the e-commerce boom, while the production of packaging paper – used in the production of bags – increased around 11.7%, benefiting from the substitution effect resulting from the community phase-out rules for plastic packaging. The packaging sector, influenced by a general concern for sustainability and environmental protection, continued to invest in the research and development of new solutions that can replace plastic such as thermal packaging, packaging for food or lightweight packaging that can be used in a variety of uses, like agri-food or cosmetics, among others.



Periodic confinements and restrictions due to the covid-19 pandemic have accelerated the change in consumption patterns that resulted in a growing demand for products for the health sectors (hygiene, protection and safety equipment), agri-food and food processing and packaging for the e-commerce or shipping boxes (food, medicine, etc.). In 2021, with the advancement of vaccination campaigns and the economic recovery, there was a recovery in sales to the cosmetics, automotive and electronics industry.

In Germany, we continued to work on the strategy of promoting the different ranges of products in our portfolio, particularly in the area of e-commerce and maritime transport solutions, one of the fastest growing areas in the German packaging market, as well as in the sale of standard Inapa Packaging products (Stop Gliss solutions, among others). As a result of promotional campaigns carried out in the past, there was a significant increase in demand for tailor-made solutions, which has led to intensive use of the production facilities in Wimsheim. In mid-year the operation transitioned to the Group's new ERP (SAP S/4HANA).

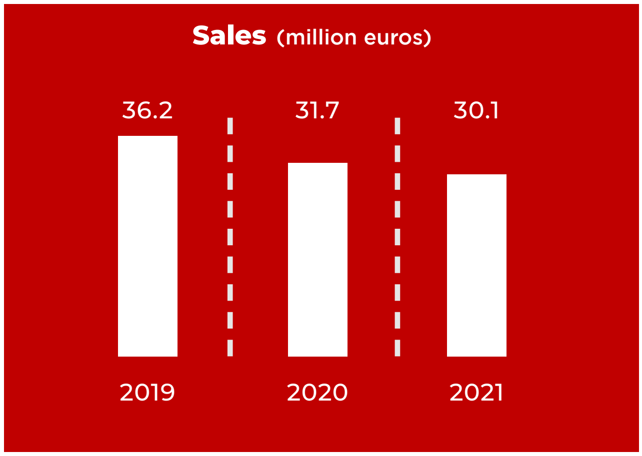
In France, Inapa maintains its position as a reference player in the market. In 2021, in a particular context linked to the pandemic and price increases by suppliers, operations maintained a very positive growth, supported by the new opportunities that emerged with the health crisis in the areas of e-commerce and the demand for protective equipment and packaging for hydroalcoholic gel, together with an increase in the supply of foodstuffs and a resumption of sales in the wine, chemical and cosmetics sectors, among others. Operations maintained a very strong business development capacity thanks to the range of more than 5,000 product references that we make available to the market through different sales channels (commercial team, telesales, web). Sales team continued to focus on finding new customers through market prospection and marketing campaigns.

In Portugal, the operation continued to pursue an intense and focused organic growth agenda, where we recorded a strong sales increase driven by the diversification of the customer portfolio (in particular in the key & major accounts channel) and entrance into new market segments as well as investing in customized solutions and engineered packaging. Strong sales growth associated with cost control and increased productivity allowed to achieve high efficiency levels.

Operating results in the packaging business were 4.4 million euros, representing 5.5% of sales (3.1 million euros and 4.2% in 2020). The substantial and sustained improvement in the EBIT margin in 2021 is once again a reflection of the positive impacts of protecting the gross margin through a very disciplined pricing policy, despite the pressure on producers' prices due to the increase in the cost of raw materials.

VISUAL COMMUNICATION

In 2021 the turnover of Inapa's visual communication operations was 30.1 million euros. In 2021, the visual communication business was, on the one hand, still marked by the cancellation of major specialty fairs, but on the other hand saw the emergence of some new trends, namely the exponential growth of the print-on demand business model, the concern with sustainability (eg replacing canvas with fabrics, with polyester), the story telling and new printing technologies.



In this context, it was witnessed a slight recovery in the market from March onwards, which, in conjunction with a more intensive plan of visits to customers and marketing campaigns (demos, newsletters, promotions, etc.), allowed to grow in all business segments, with the exception of the LFP (Large Format Printing) segment and its hardware and inks components, which maintained a lower flow of orders compared to the same period in 2020.

In Germany, despite the more prolonged effects of the confinements and the transition to the Group's new ERP (SAP S/4HANA), the operation remained focused on organic growth supported by the promotion of different initiatives to diversify the customer portfolio and on marketing campaigns, thus achieving a turnover in line with the same period in 2020. At the end of October it was already possible to organize an open-house event at our facilities, with a very positive impact on sales, namely in the LFP segment.

In Portugal, despite the relative margin having been leveraged by the focus on brands and products with greater added value and the diversification of the equipment portfolio and printing media (as a result of the signing of new distribution contracts and the launch of new products), the impact of the pandemic produced a sharp drop in sales, demand and investment in visual communication.

In 2021, Inapa maintained a greater focus on the diversification of the sales mix towards higher value-added products, such as specialty media, which, despite the drop in activity, led to an increase in operating results to 0.8 million euros, representing 2.8% of sales (0.3 million euros and 1.0% in 2020).

Inapa remains well positioned in terms of geographic coverage and the investment made in recent years, in terms of the internal sales and technical support structure, allowing to continue to develop the visual communication business area in a sustainable way through organic growth, and will continue to keep an eye out for opportunities that can stimulate growth through acquisitions.

4.5
Outlook for 2022

The pandemic continued to have a relevant economic impact in the first months of 2021, despite the substantial additional fiscal policy measures announced.

The containment measures in the first half of 2021 were significantly stricter than expected, and from the end of the semester there was a progressive opening of the economies with the inherent recovery resulting in a recovery of consumption in the most affected business areas (graphic paper, office paper and viscom), albeit at levels that still fell short of pre-pandemic levels.

The Covid-19 pandemic outbreak has substantially changed the business structure of many industries worldwide, as most populations have been forced to adopt very different lifestyles over the years 2020 and 2021, where confinement, closure retail, hotels and restaurants, home office and online schools, among others, have become the new normal.

In the paper industry, along with the trend towards digitization that we have been witnessing, sustainability issues and energy trends, major transformations have taken place: (i) widespread fall in demand for coated and uncoated papers for the printing industry, schools or offices, as a result of the confinement measures implemented, (ii) the increase in e-commerce that occurred as the confinements were driving an increasing transition to online shopping due to the structural change in consumption habits, and (iii) opportunities created in the packaging area with the growing demand for products for the food and health industries, etc.

We still do not have full visibility on the medium-term impact of the pandemic on the sectors in which we operate, and we should at least anticipate the maintenance of the trend towards digitization, which has been felt.

During the first months of 2021, and taking into account the decline in consumption, paper producers kept prices stable. However, with continued pressure from raw material costs, associated with higher energy and chemical costs, we once again witnessed a general increase in prices from the second quarter onwards. This increase is supported by a higher rate of production capacity utilization induced by the closure or conversion of paper mills and by the disruption of global logistics chains, affecting the import of paper from other continents. These increases became more relevant from the fourth quarter onwards, having already reached very significant values, between 30% and 40%.

The current war in Ukraine will certainly have repercussions not only on rising energy costs, but also on the supply of wood and pulp to European paper manufacturers, which will lead to additional pressure on prices in the medium and long term, which is still difficult to evaluate at this stage.

As a result of the longer confinement measures in Germany and the consequent travel restrictions that were imposed over the last year, the transition period to the new ERP in this geography was extended beyond what was initially planned, with repercussions on commercial and logistical activities throughout the first half of 2021. These operational difficulties resulted in a decrease of around 63 million euros in turnover in this geography, while in the remaining countries the activity level showed a positive growth trend. With the ERP migration conclusion, operations have progressively resumed the activity level in Germany, where we expect to recover market share during 2022.

Inapa will maintain its focus on improving the margin, through both the optimization of the product-mix (stimulating sales of higher value-added products and through electronic channels), and a very disciplined pricing policy. This vector is a fundamental pillar of Inapa's strategy in the future, even in a context of strong price increases by producers.

The creation of an organizational structure remains a key line of action, with reduced operating costs, leveraging scale and focusing on flexibility. Operations will continue with the German integration plan, where we have already achieved significant cost reductions, and there is still great potential in the medium term.

As mentioned above, Inapa continues with the implementation of the Group's new ERP (SAP 4/HANA). After completing the implementation in Germany in the first half, in the second half we continued with the implementation in Belgium and Portugal, and in 2022 will be moving forward with the roll-out to the other geographies.

In addition to the obvious benefits of reducing costs and increasing productivity, the harmonization of processes and systems in all the Group's operations will enhance the Group's strategy of creating shared centers for some functions, already initiated at the end of 2020. Also worth mentioning the transformational impact on our IT application ecosystem, significantly reducing its complexity and maintenance effort and increasing its resilience.

Inapa will also continue to invest in the packaging and visual communication businesses, promoting organic growth through greater penetration in the markets where it operates and the reinforcement of cross-selling. Given that these businesses are characterized by high fragmentation, Inapa will also actively pursue investment opportunities that present prospects for growth, profitability and value creation in line with the Group's standards.

Operations will maintain a disciplined approach on working capital management, which is particularly important in a context where there is still some volatility. This initiative, combines with the management of Covid-19 treasury relief funds, whose maturities were reviewed in 2021 for some of the contracts, with the extension of the financing terms covered up to 60 months and the inclusion of an additional moratorium of 12 months, allowing to anticipate, in the current context of progressive recovery of activity, the maintenance of the treasury balance.

05 Consolidated Accounts

INAPA - Investimentos, Participações e Gestão, SA

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2021 AND DECEMBER 31, 2020

(Amounts in thousands of Euros)

	DECEMBER 31, 2021	2nd HALF 2021*	DECEMBER 31, 2020	2nd HALF 2020*
Tonnes*	**841,225**	**448,303**	**912,589**	**452,615**
Sales and services rendered	980,911	527,896	1,030,415	503,472
Other income	12,506	6,596	10,844	4,586
Total income	**993,417**	**534,492**	**1,041,259**	**508,058**
Cost of sales	-782,581	-421,495	-832,172	-403,292
Personnel costs	-94,096	-48,746	-105,114	-54,804
Other costs	-85,952	-42,912	-88,148	-42,524
Operating results before depreciations and e amortizations	**30,789**	**21,339**	**15,826**	**7,438**
Depreciations and amortizations	-15,304	-7,435	-18,511	-8,959
Operating results	**15,484**	**13,904**	**-2,685**	**-1,521**
Gains / (losses) in associates	655	668	-97	-23
Net financial function	-14,807	-7,825	-15,447	-7,282
Net profit before income tax	**1,332**	**6,747**	**-18,230**	**-8,826**
Income tax	1,982	-417	2,776	1,788
Net profit / (loss) for the period	**3,314**	**6,330**	**-15,454**	**-7,038**
Attributable to:				
Shareholders of the company	3,314	6,330	-15,454	-7,038
Earnings per share on continuing operations				
Basic	(0.0063)	(0.0120)	(0.0294)	(0.0134)
Diluted	(0.0048)	(0.0093)	(0.0226)	(0.0103)

* Non audited

INAPA - Investimentos, Participações e Gestão, SA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2021 AND DECEMBER 31, 2020

(Amounts in thousands of Euros)

	DECEMBER 31, 2021	DECEMBER 31, 2020
Assets		
Non current assets		
Tangible fixed assets	57,390	69,518
Goodwill	232,620	232,620
Right of use	33,105	31,538
Intangible assets	125,471	121,724
Investments in associate companies	2,260	2,385
Assets at fair value through profit or loss	120	119
Other non current assets	3,373	3,514
Deferred taxes assets	37,148	33,584
Total non current assets	**491,487**	**495,003**
Current assets		
Inventories	55,032	62,212
Trade receivables	65,801	115,621
Tax to be recovered	6,642	11,892
Other current assets	59,275	33,262
Cash and cash-equivalents	7,982	9,354
Total current assets	**194,734**	**232,341**
Total assets	**686,221**	**727,344**
SHAREHOLDERS' EQUITY		
Share capital	180,135	180,135
Share issue premium	431	431
Reserves	19,782	20,214
Retained earnings	-46,240	-30,786
Net profit for the period	3,314	-15,454
Total shareholders' equity	**157,422**	**154,540**
LIABILITIES		
Non current liabilities		
Loans	183,408	221,462
Deferred tax liabilties	48,618	47,670
Provisions	5,648	7,119
Employees benefits	21,780	24,316
Other non current liabilities	17	58
Total non current liabilities	**259,472**	**300,625**
Current liabilities		
Loans	86,387	102,921
Trade payables	109,470	104,857
Tax liabilities	28,831	31,011
Provisions	1,542	7,179
Other current liabilities	43,098	26,211
Total current liabilities	**269,327**	**272,179**
Total shareholders' equity and liabilities	**686,221**	**727,344**

06 Additional Information

Warning

This document contains information and future estimates based on current expectations and management opinions deemed reasonable. Future estimates must not be considered consolidated facts and are subject to several unpredictable factors that may have an impact on future results.

Despite the fact that said estimates represent current expectations, investors, analysts and all those who may make use of this document are warned that future information is subject to uncertain factors and risks, of which many are difficult to forecast. All readers are warned not to attribute inappropriate importance to future estimates and information.

We exempt ourselves of any responsibilities concerning any future estimates or information.

Inapa is admitted to trading on the Euronext Stock Exchange.

Information about the company shares may be checked under the ticker INA or on the ISIN PTINA0AP0008.

INVESTOR RELATIONS

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