# Miquel y Costas & Miquel, S.A.
# and subsidiaries

Auditor´s report
Consolidated Annual Accounts and
Consolidated Directors' Report
as at December 31, 2019

**This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation**

# Independent auditor´s report on the consolidated annual accounts

To the shareholders of Miquel y Costas & Miquel, S.A.:

## Report on the consolidated annual accounts

### Opinion

We have audited the consolidated annual accounts of Miquel y Costas & Miquel, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognised income and expenses, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Recognition of sales revenue** | |
| As detailed in note 18 to the accompanying consolidated annual accounts, the Group operates on the domestic and international market, the latter accounting for the largest volume of sales in terms of amount and number of orders.<br><br>Although the recognition and evaluation of net turnover is not especially complex, we focused our analysis on its recognition mainly due to the significance of this component within the accompanying consolidated annual accounts taken as a whole and, therefore, on the increased concentration therein of the inherent risk of material misstatement. | We gained an understanding of the accounting policies for recognising business revenues. In this respect, we assessed the design of the key internal controls related to revenue recognition and tested the operational efficiency of key controls.<br><br>We carried out tests of detail on a sample of sales recorded and verified the evidence of the existence and recognition of the transaction.<br><br>For a sample of sales transactions, we verified the appropriate cut-off of operations at the year end, in order to corroborate the correct accrual.<br><br>We have also verified whether the information disclosed in the accompanying consolidated annual accounts on the recognition of revenue is reasonable.<br><br>As a result of our audit procedures, no essential observations have been revealed. |

## Other information: Consolidated directors' report

Other information comprises only the consolidated directors' report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation governing the audit practice, which distinguishes two different levels of responsibility:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, which solely requires that we verify whether the aforementioned information has been included in the consolidated directors' report or, where applicable, that the directors' report includes a reference to a separate statement of non-financial information as stipulated under prevailing regulations, and if not, we are obliged to disclose that fact.

b) A general level applicable to the rest of the information included in the consolidated directors' report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of this part of the consolidated directors' report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above has been provided in the consolidated directors' report and that the rest of the information contained in the consolidated directors' report is consistent with that contained in the consolidated annual accounts for 2019 and its content and presentation are in accordance with the applicable regulations.

## Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

## Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

## Report on other legal and regulatory requirements

### Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated April 8, 2020.

### Appointment period

The General Ordinary Shareholders' Meeting held on June 20, 2019 appointed us as auditors for the year ended December 31, 2019.

Previously, we were appointed by resolutions of the General Extraordinary Shareholders' Meeting on December 17, 2002 for an initial period of three years and we have audited the accounts continuously since the year ended December 31, 2002.

### Services provided

Services provided to the Group, for services other than the audit of the accounts, are described in note 28 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Juan Bautista Álvarez López

April 8, 2020

miquel y costas & miquel, s.a.
y sociedades dependientes

# MIQUEL Y COSTAS & MIQUEL, S.A.
# AND SUBSIDIARY COMPANIES

**CONSOLIDATED ANNUAL ACCOUNTS AND**
**CONSOLIDATED DIRECTORS' REPORT FOR 2019**

*(Free translation from Spanish)*

miquel y costas & miquel, s.a.
y sociedades dependientes

Mr Emilio Coco Foriscot with Tax Identity Card No. 36.956.151-G in his capacity as the non-voting Secretary of the Board of Directors of the trading company Miquel y Costas & Miquel, S.A., with registered office at calle Tuset, nº 10, Barcelona, with TIN A-08020729,

**CERTIFIES**

That in its meeting of 31 March 2020, the Board of Directors, formed by Mr Jorge Mercader Miró, Mr Jorge Mercader Barata, Mr Javier Basañez Villaluenga, Mr Joaquín Coello Brufau, Mr Alvaro de la Serna Corral, Mr Eusebio Díaz-Morera Puig-Sureda, Mr Joaquín Faura Batlle, Ms Marta Lacambra Puig and Joanfra, S.A. represented by Ms Bernadette Miquel Vacarisas, in the absence of Mr Claudio Aranzadi Martínez for reasons of health, and which was held via conference call, as provided in article 41 of Royal Decree Law 8/2020, of 17 March, with the Board members in attendance having the necessary means and the Secretary having identified them, unanimously authorised the accompanying Consolidated Annual Accounts and Consolidated Management Report for 2019 for issue. The Consolidated Annual Accounts and Consolidated Management Report (which includes as Appendix II the Non-financial Information Statement) have been printed in one copy of 149 pages, made up of the front-cover, sheets of official stamped paper number 000544218 to number 000544273 (back-cover) and number 000544280 to 000544218 (front) as “Appendix I” to the Consolidated Management Report, the Annual Corporate Governance Report, made up of 62 pages.

That as provided in article 366 of the Mercantile Registry Regulations, it is placed on record that the lack of the Directors’ signature of the Consolidated Annual Accounts and Consolidated Management Report mentioned above, is due to the heath crisis triggered by the COVID -19 outbreak and the declaration of the state of emergency through Royal Decree 463/2020, of 14 March (and its extension which was approved subsequently).

And in witness whereof, I issue this certificate on 8 April 2020

Approved

| | |
|---|---|
| The Chairman | The Secretary |
| Signed Mr Jorge Mercader Barata | Mr Emilio Coco Foriscot |

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**

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*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated Balance Sheet
at 31 December 2019
(In thousand Euro)

| | | In thousand Euro | |
|---|---|---|---|
| **ASSETS** | **Note** | **2019** | **2018** |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 167,946 | 159,737 |
| Intangible assets | 5 | 2,537 | 1,632 |
| Non-current financial assets | 6,21 | 45,450 | 51,421 |
| - At fair value through other comprehensive income | | 14,535 | 18,776 |
| - At amortised cost | | 30,915 | 32,645 |
| Deferred income tax assets | 17.3 | 3,043 | 3,575 |
| Current tax assets | 17.4 | 1,783 | - |
| **Total non-current assets** | | **220,759** | **216,365** |
| **Current assets** | | | |
| Inventories | 7 | 93,045 | 82,039 |
| Trade receivables | 8,21 | 42,460 | 46,993 |
| Sundry receivables | 9 | 238 | 286 |
| Current financial assets | 9 | 37,366 | 36,277 |
| - At amortised cost | | 37,366 | 36,277 |
| Other current financial assets | 9 | 3,227 | 6,060 |
| Current tax assets | 17.2 | - | - |
| Cash and cash equivalents | 10 | 6,947 | 17,005 |
| **Total current assets** | | **183,283** | **188,660** |
| **TOTAL ASSETS** | | **404,042** | **405,025** |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated Balance Sheet
at 31 December 2019
(In thousand Euro)

| | | In thousand Euro | |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | **Note** | **2019** | **2018** |
| Total Equity | | 280,580 | 269,905 |
| Share capital | 11 | 62,000 | 62,000 |
| Own shares | 11 | (21,483) | (10,339) |
| Share premium | 11 | 40 | 40 |
| Retained earnings for the period | 11 | 39,218 | 37,277 |
| Other reserves | 11 | 197,605 | 173,494 |
| **Shareholders' funds** | | **277,380** | **262,472** |
| **Items not reclassified to results for the period:** | | | |
| a) Equity instruments through other comprehensive income | 11 | 3,200 | 7,433 |
| **Items that may not be reclassified subsequently to results for the year** | | - | - |
| **Accumulated other comprehensive income** | | **3,200** | **7,433** |
| **Non-current liabilities** | | | |
| Borrowings | 12,21 | 54,489 | 66,145 |
| Deferred income tax liabilities | 17.3 | 2,811 | 3,072 |
| Other non-current liabilities | 14 | 3,439 | 3,579 |
| **Total non-current liabilities** | | **60,739** | **72,796** |
| **Current liabilities** | | | |
| Borrowings | 12,21 | 15,879 | 8,741 |
| Trade creditors and other accounts payable | 15,21 | 32,435 | 39,406 |
| Current tax liabilities | 17.2 | 299 | 773 |
| Current provisions | 16 | 1,760 | 1,468 |
| Other current liabilities | 16 | 12,350 | 11,936 |
| **Total current liabilities** | | **62,723** | **62,324** |
| **TOTAL EQUITY AND LIABILITIES** | | **404,042** | **405,025** |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated Income Statement for the years ended at
31 December 2019
(In thousand Euro)

| In thousand Euro | Note | 2019 | 2018 |
|---|---|---|---|
| Net turnover | 18 | 262,633 | 259,257 |
| Variation in inventories | | 15,661 | 13,695 |
| Own work capitalised | 4,5 | 1,670 | 1,419 |
| Supplies | 7 | (101,357) | (101,895) |
| Other operating income | 18 | 4,027 | 2,651 |
| Staff costs | 19 | (45,048) | (42,420) |
| Other operating expenses | 20 | (71,492) | (69,093) |
| Amortisation and depreciation | 4,5 | (17,584) | (15,703) |
| Charge to non-financial fixed asset grants | 14,26 | 1,777 | 703 |
| Provision excess | | 66 | 8 |
| Impairment and profit/ loss on fixed asset disposals | | - | 7 |
| Negative differences on business combination | 2.3 | - | 1,171 |
| **Operating profit / (loss)** | | **50,353** | **49,800** |
| Financial income | 21 | 2,069 | 2,694 |
| Financial expenses | 21 | (560) | (838) |
| Exchange differences | 21 | (813) | (2,008) |
| Impairment and profit/loss on disposal of financial instruments | 21 | - | - |
| **Net financial results** | 21 | **696** | **(152)** |
| Share of results of associates | 6 | 17 | 6 |
| **Profit / (loss) before tax on activities** | | **51,066** | **49,654** |
| Corporate income tax | 17.2 | (11,848) | (12,377) |
| **Profit / (loss) for the year on activities** | | **39,218** | **37,277** |
| **Profit / (loss) attributable to holders of equity instruments of the parent Company** | | **39,218** | **37,277** |
| **Earnings per share basic and diluted (Euro)** | 22 | **1,30** | **1,21** |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

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y sociedades dependientes

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated statement of recognised income and expenses
at 31 December 2019
(In thousand Euro)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Consolidated profit for the year** | | **39,218** | **37,277** |
| Attributed to equity holders of the parent Company | | 39,218 | 37,277 |
| **Other comprehensive income- items that are not reclassified to results for the period** | | **(4,112)** | **2,153** |
| From actuarial gains and losses and other adjustment | 13 | 161 | (28) |
| Changes in fair value of investments at fair value through other comprehensive income | 6 | (4,233) | 2.174 |
| Tax effect | 13, 17 | (40) | 7 |
| **Transfer to the consolidated income statement** | | **-** | **-** |
| From Exchange rate differences | | - | - |
| Profit/loss on financial assets available for sale | 6 | - | - |
| **TOTAL RECOGNISED INCOME AND EXPENSES** | | **35,106** | **39,430** |
| Attributed to equity holders of the parent Company | | 35,106 | 39,430 |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated statement of changes in equity for the year ended
at 31 December 2019
(In thousand Euro)

| Thousand Euro | Share capital and own shares (Note 11.1) | Share premium (Note 11.1) | Other reserves (Notes 11.2 and 11.3) | Retained earnings for the period (Note 11.3) | Other equity instruments (Note 11.3) | Total net equity |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **6,391** | **40** | **210,562** | **37,073** | **118** | **254,184** |
| Initial impact hyperinflation Argentina | - | - | 1,401 | - | - | 1,401 |
| **Balance at 1 January 2018** | **6,391** | **40** | **211,963** | **37,073** | **118** | **255,585** |
| Profit / (loss) recognized for the year | - | - | 2,153 | 37,277 | - | 39,430 |
| Capital Increases / Reductions | 57,736 | - | (57,736) | - | - | - |
| Acquisition/amortization of own shares | (12,466) | - | - | - | - | (12,466) |
| Conversion differences | - | - | (48) | - | - | (48) |
| Dividends distribution and investments returns | - | - | (12,700) | - | - | (12,700) |
| Other equity movements | - | - | 37,062 | (37,073) | 115 | 104 |
| **Balance at 31 December 2018** | **51,661** | **40** | **180,694** | **32,277** | **233** | **269,905** |
| Profit / (loss) recognized for the year | - | - | (4,112) | 39,218 | - | 35,106 |
| Capital Increases / Reductions | - | - | - | - | - | - |
| Acquisition/amortization of own shares | (11,144) | - | - | - | - | (11,144) |
| Conversion differences | - | - | (29) | - | - | (29) |
| Dividends distribution and investments returns | - | - | (13,350) | - | - | (13,350) |
| Other equity movements | - | - | 37,247 | (37,277) | 122 | 92 |
| **Balance at 31 December 2019** | **40,517** | **40** | **200,450** | **39,218** | **355** | **280,580** |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Consolidated cash flow statement for the year ended
at 31 December 2019
(In thousand Euro)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **A) CASH FLOWS FROM OPERATIONS** | | **43,735** | **30,399** |
| **1. Cash flow generated from operations** | **23** | **55,479** | **40,317** |
| **2. Other cash flows from operations,** | | **(11,744)** | **(9,918)** |
| - Interest payments (-), | | (523) | (832) |
| - Receipts of interest (+), | | 2,385 | 2,804 |
| - Payments (receipts) for income tax (-/+), | | (13,387) | (11,117) |
| - Other receipts/(payments) from operations (-/+) | | (219) | (773) |
| **B) CASH FLOWS FROM INVESTMENT ACTIVITIES** | | **(25,556)** | **5,184** |
| **1. Amounts paid on investments (-)** | | **(88,688)** | **(47,682)** |
| (-) Group companies and associates | | (17) | (7) |
| (-) Property, plant and equipment and intangible assets | **4 and 5** | (26,942) | (17,730) |
| (-) Other financial assets | **6 and 9** | (61,729) | (29,945) |
| **2. Amounts collected from divestments (+)** | | **63,132** | **52,866** |
| (+) Group companies and associates | | 55 | 337 |
| (+) Property, plant and equipment and intangible assets | | 1,456 | 760 |
| (+) Other financial assets | **6 and 9** | 61,621 | 51,769 |
| **C) CASH FLOWS FROM FINANCING ACTIVITIES** | | **(28,237)** | **(28,452)** |
| **1. Collections and payments for equity instruments** | | **(11,032)** | **(12,466)** |
| (-) Acquisition of own shares | **11.1** | (11,144) | (12,466) |
| (+) Disposals | **11.1** | 112 | - |
| Grants, donations and bequests received | | 112 | - |
| **2. Collections and payments for financial liability instruments** | | **(3,855)** | **(4,729)** |
| (+) Receipts from loans | **12** | 28,863 | 25,644 |
| (-) Redemption and amortisation of loans | **12** | (32,718) | (30,373) |
| **3. Dividend payments** | **11** | **(13,350)** | **(11,257)** |
| **D) NET INCREASE (DECREASE) IN CASH OR CASH EQUIVALENTS** | | **(10,058)** | **7,131** |
| **E) Cash or cash equivalents at beginning of the year** | **10** | **17,005** | **9,874** |
| **F) Cash or cash equivalents at end of the year** | **10** | **6,947** | **17,005** |

Notes from pages 11 to 108 are an integral part of the consolidated annual accounts.

*(Free translation from Spanish)*

**MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES**
Notes to the annual accounts for the year 2019
(In thousand Euro)

## 1 GROUP ACTIVITIES AND CONSOLIDATION SCOPE

### 1.1 Companies forming part of the Group and consolidation scope

Miquel y Costas & Miquel, S.A. (hereon "the parent Company") is an industrial company with registered office in calle Tusset, nº 8-10, 7th floor, 08006 Barcelona, which at the 2017 year-end is the parent Company of a group (hereon, the Group) comprising: Miquel y Costas & Miquel, S.A., parent Company, and its subsidiary companies (see shareholding details and other information in Appendix I).

The parent Company, which bears Taxpayer ID nº A08020729, was incorporated in 1879 and became a public limited company in 1929. It is mainly engaged in the manufacture and trading of all types of paper. It is recorded in the Mercantile Registry of Barcelona on sheet B-85067, folio 139, volume 8686, inscription 1$^{st}$ and the last statutory modification is recorded as inscription 340.

The parent Company carries out its paper activity within the field of thin and special lightweight paper, especially for the tobacco industry.

On 25 July 2018 the Group acquired all the shares of the Spanish company Clariana, S.A., the leading manufacturer of coloured paper in Spain and its investee company Boncompte-Sierra, S.L.U. The operation was carried out through the parent Miquel y Costas & Miquel, S.A. and the subsidiary Sociedad Anónima Payá Miralles.

On 27 August 2019 the public document relating to the merger of Boncompte-Sierra S.L.U (absorbed company) into Clariana S.A.(acquiring company) was registered in the Mercantile Register of Castellón, and 1 January 2019 was established as the date from which the operations of the absorbed company would be understood to have been performed by the acquiring company for accounting purposes.

The following subsidiary companies make up the consolidated Group:

- S.A. Paya Miralles established at San Antonio, No. 18, 46920 Mislata, Valencia, its corporate purpose, among others, is activities related to industrial and commercial exploitation of business papermaking and production of all kinds of manipulated cigarette paper, and the purchase, sale and rental of all types of movable property and buildings for business. It has leased its industrial facilities to Miquel y Costas & Miquel S.A.

- Celulosa de Levante, S.A., established at the C-42, Km 8.5, 43500 Tortosa, Tarragona; its corporate purpose is manufacturing and marketing of pulp and its derivatives in various forms and qualities. Under this purpose, the company manufactures pastas from hemp, flax, sisal, hemp, jute, cotton and other plants.

- Papeles Anoia, S.A., established in Carrer Tuset No. 8, 08006 Barcelona; its corporate purpose is mainly processing, finishing, handling, processing, marketing, exporting and importing papers of all kinds and all kinds of snuff related products, and simple and complex compounds of cellulose, paper, plastic, aluminium paraffins and other materials of different origin. Additionally, its corporate purpose contemplated business activities related to real estate industry.

- Desvi, S.A., established in Carrer Tuset, No. 10, 08006 Barcelona; its corporate purpose ranges from the commercial distribution of all kinds of products and technologies from third parties linked to the role of all types, creation, promotion, protection, exploitation and trading of distinctive signs, patents and other assets owned industry and investment in promotion and development of industrial or commercial enterprises.

- Miquel y Costas Argentina, S.A., established in Argentina; its principal activity is the manufacturing, transformation, handling and commercialization of smoking paper booklets and many other types of paper, cardboard and related products, for example machinery and equipment for manufacturing such products.

- Sociedad Española Zig Zag, S.A., established in Carrer Tuset No. 10, 08006 Barcelona; its corporate purpose is selling all kinds of paper, especially smoking paper, in addition to articles related to the paper and tobacco industry.

- M.B. Papeles Especiales, S.A., established in Barcelona; its corporate purpose is the manufacturing, marketing, promotion, distribution, import and export of paper of all kinds of papers, including special papers and processing and handling of papers.

- Miquel y Costas Energía y Medio Ambiente, S.A., established in Carrer Tuset 8-10, 08006 Barcelona; its corporate purpose consists of the management and supervision of industrial, energy and environmental facilities and the construction, management, operation and leasing of power generation plants. Currently the company has leased a cogeneration plant to MB Papeles Especiales, S.A.

- Miquel y Costas Tecnologías, S.A., established in Carrer Tuset, No. 8-10 08006 Barcelona; its corporate purpose includes, among others, the activities of design and installation of products, solutions, applications and systems, industrial technology, performing all sorts of projects and consultancy organization, industrial, R & D, quality and environment.

- Terranova Papers, S.A., established in calle Tuset, no. 10 08006 Barcelona; its corporate purpose includes the manufacturing, marketing, promotion, distribution, import and export of special papers industry sectors such as food and filtration, amongst others.

- Miquel y Costas Chile, S.R.L., established in Santiago de Chile (Chile); its corporate purpose consists of domestic and foreign trade, brokerage and representation of all related paper and tobacco industry and food products.

- Miquel y Costas Deutschland, GmbH, established in Cologne, Kaiser-Wilhelm Ring 3-5 (Germany); its corporate purpose consists of domestic and foreign trade, brokerage and representation of all related paper and tobacco industry and food products.

- Miquel y Costas Logística S.A., established in Carrer Tuset number 10 08006 Barcelona; its corporate purpose includes the rendering of logistics services for storage, transport and distribution of goods, raw materials, products and machinery, in addition to advice and technical assistance in the provision of these services.

- Clariana, S.A. with registered office at avenida Alemania 48 Vila-Real (Castellón). Its corporate purpose consists of the production and marketing of paper and in general of goods for the stationery industry: the promotion, management and development of all kinds of real estate and urban operations, the disposal and exploitation, even under lease, of properties, buildings, housing and premises and constructions in general, irrespective of their use, resulting from that activity. On 27 August 2019 the public document relating to the merger of Boncompte-Sierra S.L.U (absorbed company) into Clariana S.A (acquiring company) was registered in the Mercantile Register of Castellón.

- Fourtube, S.L., associate company established in Seville, in which the Group has a shareholding of 40% since the end of the year 2011; its main corporate purpose is the manufacturing and marketing of paper and cardboard.

All the Group companies have closed their accounting year at 31 December 2019.

The parent Company has subsidiary entities over which it exercises control, except for the associated company Fourtube, S.L., over which has significant influence, either directly or indirectly, which is why there is a group for the purposes of the preparation of these consolidated annual accounts in accordance with International Financial Reporting Standards and to its deposit in the Mercantile Register of Barcelona. The accounting principles applied to the preparation of the Group's consolidated annual accounts are set out in Note 2.3.

### 1.2 Variations in the consolidation scope

On 25 July 2018, as mentioned in Note 1.1, the Group acquired all the shares of the Spanish company Clariana, S.A. the leading manufacturer of coloured paper in Spain and simultaneously, the sole shareholder of the company Boncompte-Sierra, S.L.U. In 2019, in order to simplify the Group's structure, the company Boncompte-Sierra, S.L.U was merged into Clariana S.A.

## 2 MAIN ACCOUNTING POLICIES SUMMARY

The main accounting policies adopted for the preparation of these consolidated annual accounts are set out below. They have been applied on a consistent basis with previous years.

### 2.1 Basis of presentation

2.1.1 General Information

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (hereon, IFRS) adopted for use in the European Union and approved by the Regulations of the European Commission in force at 31 December 2019.

As per IFRS-EU, these consolidated annual accounts for 2019 include, for comparative purposes, the figures for the prior year.

As explained below, during 2019 new accounting standards (IAS/IFRS) and interpretations (IFRIC) came into force. Additionally, at the issuance date of these consolidated annual accounts, new accounting standards (IAS/IFRS) and interpretations (IFRIC) have been published and are due to come into effect for the accounting periods commencing on or after 1 January 2020.

**Standards, amendments and interpretations mandatory for all years beginning in January 1, 2019**

IFRIC 23 “Uncertainty over income tax treatments” The interpretation provides additional requirements to those of IAS 12 “Income taxes”, specifying how to recognise the effects of uncertainty in income tax accounting. This interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied when there is uncertainty over income tax accounting treatments.

*IFRS 16 "Leases"*

IFRS 16 Leases came into effect on 1 January 2019 and introduced changes in the accounting policies that had been applied to leases until that time.
IFRS 16 establishes that companies acting as lessees should recognise all leased assets and liabilities in the consolidated balance sheet. The lessee may opt not to apply the general criteria to short-term leases and leases of low value assets.

(In thousand Euro)

The Group is the lessee under a limited number of lease contracts for assets, mainly vehicles, computer equipment, offices and other assets. Under previous legislation, a significant part of these leases were classified as operating leases and the corresponding expenses were recognised on a straight-line basis over the term of the lease.

The standard provides two transition options: the full retrospective approach with restatement of comparative information for each period and another retrospective approach, the cumulative effect of initially applying IFRS 16 being recognized the date of transition. The Group has opted to apply this second method. Therefore the comparative figures for 2018 have not been restated (i.e. they are prepared in accordance with the previous accounting standard IAS 17 Leases)

In 2018 the Group carried out an initial approximation of the estimated impact of the application of this standard on the consolidated annual accounts for that year (between Euro 150 thousand and Euro 200 thousand). This estimate only included those lease contracts which the Group was required to comply with (excluding those that could be cancelled with prior notice). However, in accordance with the final application of the standard in 2019, all existing leases have been included based on the understanding that because of their nature, they will be complied with in full.

The amendments introduced by IFRS 16 have had the following impact on the Group's consolidated annual accounts on the date of adoption:

a) Opening balance of rights of use at 1 January 2019

| | **Total** |
|---|---|
| Computer equipment | 23 |
| Offices | 27 |
| Vehicles | 155 |
| Other operational elements | 750 |
| Total rights of use | **955** |

b) Opening balance relating to lease providers at 1 January 2019 (Notes 14 and 15)

| | **Short-term payable** | **Long- term** |
|---|---|---|
| Computer equipment | 12 | 11 |
| Offices | 23 | 4 |
| Vehicles | 60 | 95 |
| Other operational elements | 305 | 445 |
| Total payable | **400** | **555** |

Note 14 sets out more details of long-term payables at year end 2019 (Euro 621 thousand). Note 15 sets out more details of short-term payables (Euro 462 thousand).

The impact on the Group's consolidated income statement in 2019 amounted to Euro 3 thousand in the year as a result of the decrease in lease costs amounting to Euro 509 thousand, offset by an increase of Euro 501 thousand in depreciation and Euro 11 thousand in financial expense.

Additionally, the following amendments and interpretations have been made that have not had an impact on these consolidated annual accounts. IFRS 9 (Amendment) "Prepayment features with negative compensation", IAS 28 (Amendment) "Long-term interests in Associates and Joint Ventures", IAS 19 (Amendment) "Amendment, Curtailment or Settlement", and Annual Improvements of IFRS. Cycle 2015- 2017.
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***Standards, amendments and interpretations approved by the European Union and effective in the years starting on or after 1 January 2020***

IFRS 9 (Amendment),IFRS 7 (Amendment) and IAS 39 (Amendment) "Interest Rate Benchmark Reform", IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of materiality" and IAS 1(Amendment) "Classification of liabilities as current and non-current ".

The Group is in the process of assessing the above amendments although they are not expected to have a significant impact on its consolidated annual accounts.

**Standards, amendments and interpretations mandatory for all years beginning in January 1, 2018**

*IFRS 9, "Financial instruments*

IFRS 9 came into effect on 1 January 2018 and established a new accounting framework for the recognition, classification, measurement and derecognition of financial instruments, impairment of financial assets and hedge accounting.

The main accounting policies, considered to be significant under the framework of IFRS 9 and applied in relation to the Group's financial instruments, are as follows:

- Financial assets are mostly measured at amortised cost because the Group's business model consists of holding such assets to maturity and collecting the related contractual cash flows.

- Equity instruments and derivatives are measured at fair value.

- Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less the provision for impairment. Nonetheless, trade receivables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

With respect to impairment of financial instruments in accordance with IFRS 9 in 2019:

- For financial assets and trade receivables, the Group applies the simplified approach to assess the expected loss. The Group has calculated the future expected loss on such financial assets and trade receivables which is not significant (approx. 0.19% of total financial assets and approx. 0.02% of trade receivable balances) and has therefore not recognised any impact on the consolidated annual accounts.

- Value changes in equity instruments are recognised as a change in equity in Other comprehensive income.

- Derivatives are measured by an independent expert at year end. Changes in fair value are recognised through consolidated profit or loss.

*IFRS 15 "Revenue from contracts with customers"*

Following the analysis of contracts with customers, no post sales services, additional services or contracts giving rise to more than one obligation have been detected.

a) As may be observed in Note 18 to the consolidated annual accounts for the year ended 31 December 2019 and 2018, most of the Group's sales are made abroad. Within the framework of IFRS 15, the Group considers that it transfers control of goods sold and therefore recognises revenue at the time the obligations inherent in the goods are transferred to the customer. That time depends on the commercial terms of sale (delivery at a specific location) applicable in each case (performance obligation), as has been taken into account by the Group in its revenue recognition criterion to date within the framework of IAS 18. Therefore there are no impacts at the time of revenue recognition as a result of the application of IFRS 15.

(In thousand Euro)

b) There is no financing element component given that sales are made under very short -term credit terms consistent with market practice. The Group has no contracts where there is more than one year between the transfer of the promised goods or services to the customer and payment by the customer. Therefore the Group makes no adjustments to transaction prices due to the time value of money.

*IAS 29 – "Changes in policy for the presentation of the effects on equity of hyperinflation"*

**Hyperinflation in Argentina**

The Argentinian economy has been considered hyperinflationary since 2018 and the Group applies inflation adjustments to the company whose functional currency is the Argentinian peso in order to present financial information for the periods ended since 1 July 2018.

At 1 January 2018 the total impact on consolidated equity amounted to an increase of Euro 1,401 thousand (see consolidated statement of changes in equity) and included the transfer of Euro 6,945 thousand of translation differences prior to the country being considered hyperinflationary as a result of the full retroactive application of IAS 29.
The main impacts of the application of adjustments for hyperinflation in Argentina on the Group's consolidated annual accounts for 2019 and 2018 are summarised below:

| **Impact of the application of hyperinflation adjustments.** | | |
|---|---|---|
| | Thousand euros 2019 | Thousand euros 2018 |
| Sales and services rendered | 798 | 760 |
| Profit before taxes | (350) | (1,574) |
| Profit after taxes | (499) | (1,832) |
| Equity | 688 | 1,243 |
| Non-current assets | 71 | 1,267 |

***Standards, amendments and interpretations applied to existing standards that cannot be adopted in advance or have not been adopted by the European Union***

As of the date of signature of these consolidated annual accounts, the IASB and IFRIC had published the standards, amendments and interpretations described below, which have not yet been endorsed by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associates or joint ventures”), IFRS 17 "Insurance contracts, IFRS 3 (Amendment) “Definition of a business”.

As mentioned above, the Group has not considered early adoption of the above Standards and interpretations and is in any event analysing the impact that these new standards/amendments / interpretations may have on its consolidated accounts if they are adopted by the European Union.

The preparation of consolidated annual accounts under IFRS requires the use of certain critical accounting estimates. The application of IFRS also requires management to exercise judgement in the process of applying the Group’s accounting policies. Note 2.5 discloses the areas that require a higher level of judgement or entail greater complexity, and the areas where the assumptions and estimates are significant for the consolidated annual accounts.

The consolidated annual accounts comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity and the consolidated cash flow statement and notes to the consolidated accounts, and the consolidated directors’ report are presented in thousand euro (exceptions will be indicated as appropriate). The Group’s functional and presentation currency in these consolidated annual accounts is the euro. The consolidated annual accounts were drawn up by the parent company's Board of Directors on 30 March 2020 and are expected to be approved by the General Shareholders’ Meeting without changes.

2.1.2 Accounting policies

The accounting policies described in the following paragraphs have been applied uniformly in the periods presented in these consolidated financial statements.

The consolidated financial statements were prepared, in general, under the historical cost method, except when relating to the revaluation of derivative instruments and derivative financial assets at fair value generating a profit or loss, and the valuation of equity instruments recognised at fair value through other comprehensive income (note 2.3).

The profit and loss account is structured according to the nature of the costs.

Variations in trade provisions, income from grants, own work capitalised and the transfer to results for the year of capital grants are included in the consolidated income statement under Other operating income, own work capitalised and Other operating expenses.

There are no discontinued operations in the companies of the group.

2.1.3 Comparability

The figures in the consolidated balance sheet and the consolidated income statement for 2018 and 2019 are considered comparable except for those headings in the consolidated income statement and consolidated balance sheet affected by the first application of IFRS 16 (permitting the financial statements for 2018 not to be restated), as described in note 2.1.1, IFRS 16 - “Leases”.

### 2.2 Consolidation criteria

Subsidiaries are all entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, which generally means a shareholding of more than half of the voting rights. When assessing if the Group controls another entity, the following conditions should be met:

(1) It should exercise power over the investee
(2) It should have exposure or rights to variable returns from involvement with the investee and
(3) It should have the ability to use its power over the investee to affect the amount of the investor’s return.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date that control ceases.

Associates are all entities over which the Group has significant influence but not control, generally accompanying an ownership interest of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's stake in the results obtained by the investee after the acquisition date. The Group’s investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but remains significant influence, only the proportionate share of the amounts recognized in other comprehensive income are reclassified to results when appropriate.

The Group's participation of gains or losses after acquisition of their associates is recognized in the income statement, and participation in post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share in the losses of an associate equals or exceeds its interest in the entity, including any other unsecured receivables, the Group does not recognize further losses, unless it had incurred legal or constructive obligations or made payments on behalf of the associate.

At each reporting date of financial information, the Group determines whether there is any objective evidence of impairment in the associate valuation. In this case, the Group estimates the amount of the impairment loss as the difference between the recoverable amount of the associate and its carrying amount and recognizes the amount as "the share of profit / (loss) of an associate" in the income statement.

Gains and losses from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent corresponding to the shares of other investors in the non-associated investors. Unrealised losses are eliminated unless the transaction provides evidence of an impaired asset transferred. The accounting policies of associates have been changed when has been necessary to ensure consistency with the policies adopted by the Group.

Gains and losses arising on dilution of investments in associates are recognized in the income statement.

All subsidiaries in which Miquel y Costas & Miquel, S.A. holds, directly or indirectly, the majority of the voting rights and, therefore, has appointed most members of the Board of Directors, have been consolidated in these years by the global integration method.

Appendix I to these notes breaks down all subsidiaries and associated entities included in the consolidation scope. Subsidiaries consolidated by global integration method and associated company Fourtube S.L. is consolidated under the equity method.

There are no minority interests, since the parent Company holds, directly or indirectly 100% of the shares of all entities fully consolidated.

Group Companies close their accounts at 31 December, and the accounts at this date are those used in the consolidation.

In order to present the different items in the accompanying consolidated annual accounts homogeneously, all the companies in the consolidation scope have applied the accounting policies of the parent Company.

All subsidiary companies in the Group have adopted IFRS for consolidation purposes on the same date as the parent Company.

During the prior year the Group acquired all shares of the Spanish company Clariana, S.A., the leading manufacturer of coloured paper in Spain and sole shareholder of Boncompte-Sierra, S.L.U. In order to account for business combinations, the Group applies the acquisition method. During 2019 Boncompte.Sierra, S.L.U was merged into Clariana S.A.. See Note 2.3 “Business combinations”.

### 2.3 Accounting policies

<u>PROPERTY, PLANT AND EQUIPMENT</u>

Property, plant and equipment are stated at acquisition cost, revaluated in 1996 as permitted by legislation, less accumulated depreciation and accumulated impairment losses, except in case of land, which is presented net of impairment losses.

The historic cost includes expenses directly attributable to the acquisition of the assets.

As a result of the first consolidation process, certain lands belonging to the subsidiary company S.A. Payá Miralles are stated at market value at the time of acquisition of the respective shareholding in said company, as determined by an independent expert. The revaluated amount resulting from the consolidation for the reasons indicated above totals Euro 848 thousand at 31 December 2019 and 2018.

In 2002, when the remaining 50% interest in MB Papeles Especiales, S.A. was purchased, certain assets (property, plant and equipment) were stated at their market value. The revaluated amount of these assets in the consolidation process at 31 December 2019 and 2018 amounts to 842 thousand Euro and 842 thousand Euro respectively.

Land is not depreciated. Depreciation of property, plant and equipment is calculated on a straight-line basis using updated cost values and their estimated useful lives are as follows:

| | Years of useful life |
|---|---|
| Buildings and other constructions | 33-50 |
| Plant and machinery | 7-20 |
| Other plant, tooling and furniture | 6-20 |
| Vehicles | 6-14 |
| Computer equipment | 4-7 |

The residual values and useful lives of tangible assets are reviewed and adjusted, if necessary, at each balance sheet date.

If an asset's carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount.

Land and buildings mainly relate to those used in the business activity.

Repairs and maintenance expenses which do not improve or extend the useful lives of the related assets are expensed when incurred and charged to the income statement when they are generated.

Capitalised costs on the improvement of fixed assets include the costs of manufacturing and installing fixed asset elements incurred by the Group, effectively accrued and charged to each of the projects, up to a maximum limit of the market value or the revenue expected from these assets.

Losses and gains on the sale of PPE are calculated by comparing the revenue obtained to their carrying value, and they are included in the income statement.

INTANGIBLE ASSETS

Intangible assets are stated at cost of acquisition or direct cost of production, as appropriate, net of corresponding accumulated amortisation and impairment losses in accordance with the following criteria:

- Licences and trademarks acquired to third parties are carried at acquisition cost. Beginning in 2016, these assets are amortized, and their amortization is calculated using the straight-line method, with an estimated useful life of 20 years except for the case of the subsidiary Miquel y Costas Argentina, SA, in which the acquired trademarks have a defined useful life of 10 years and were already amortized in previous years. The patent box is also amortized within 10 years.

- The costs incurred in development projects (related to the design and testing of new or improved products) are recorded as intangible assets when it is probable that the project will be a success, taking into account its technical and commercial feasibility and when its costs can be reliably estimated. Other development costs are recognised as expenses when incurred. Development costs previously recognised as expense are not subsequently capitalised. Capitalised development costs with a defined useful life are amortised from the beginning of the commercial production of the product on a straight-line basis over a period no longer than three years in which is expected that they will generate profits.

- Computer software is stated at their acquisition cost or production cost and amortised on a straight-line basis over a useful life of three years.

- Greenhouse gas emission rights are stated at the price of acquisition. When rights are acquired free of charge, acquisition price is considered to be their market value at the time of acquisition with a balancing entry under grants. Emission allowances are not amortised and are taken to results for the year as the gas emissions they cover are emitted. They are derecognised as a balancing entry for the provision for the costs generated by the emissions when they are handed over to the Administration in order to settle the obligations assumed

ASSET IMPAIRMENT LOSSES

The Group evaluates at each year end whether there are any indications of asset impairment. If so, it estimates the recoverable amount of the asset.

Assets being depreciated and those non-depreciable are tested for impairment provided that an internal, external event or change in circumstances indicates that the book value cannot be recovered (in the case of non-depreciable assets are tested for impairment annually). An impairment loss is recognised in the part of book value that exceeds the recoverable amount. The recoverable amount is the higher of the fair value of the asset minus the costs of sale, or the use value in use obtained from the discounting of future cash flows. In order to evaluate impairment losses, assets are grouped at the lowest level for which there are identifiable separate cash flows (cash generating units).

NON-CURRENT INTEREST COSTS

The interest expense incurred in the financing of the construction of any qualifying asset is capitalised during the period of time necessary to complete or prepare the asset for its intended use. Other interest costs are expensed.

CURRENT AND NON-CURRENT FINANCIAL ASSETS

In order to prepare the consolidated annual accounts, investments in group companies and associates are consolidated in accordance with criteria set out in Note 2.2.

The Group has set up the appropriate control processes to identify events of potential impairment.

The Group classifies its financial assets in the following measurement categories:

- those assets which are subsequently measured at fair value (through profit or loss or other comprehensive income) and
- those that are measured at amortised cost.

The classification depends on the entity's business model to manage financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses are recognised in the consolidated income statement or consolidated statement of other comprehensive income. For investments in equity instruments that are not held for trading, it will depend on whether the Group irrevocably elected at the time of initial recognition to recognise equity investments at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing these assets changes.

- Financial assets at amortised cost:

The Group classifies its financial assets at amortised cost only if the following two criteria are met:

- the assets are managed within a business model whose objective is to collect contractual cash flows and
- the contractual terms give rise to cash flows that are only payments of principal and interest.

- Loans and accounts receivable:

  Loans and accounts receivable are non-derivative financial assets with fixed payments or payments that can be determined and are not listed on an official stock exchange. They arise when the Group provides money, goods or services directly to a debtor without the intention of negotiating with the debtor. These accounts are included in current assets unless they mature in more than 12 months as from the date of the balance sheet, in which case they are classified as non-current assets. Loans and accounts receivable are included in Trade receivables and other receivables of the balance sheet. They are measured at amortised cost.

  The Group has used the simplified approach to assess expected credit losses over the term of the contract.

- Investments in debt instruments:

  Investments in debt instruments held to collect contractual cash flows when these cash flows are solely payments of principal and interest on the principal are measured at amortised cost. Interest income on these financial assets is included in financial income based on the effective interest method. Any gain or loss arising on derecognition is recognised directly in the income statement for the year and is presented in other gains /(losses). Impairment losses are presented separately in the income statement.
  These financial assets are included in non-current assets, except for those maturing in less than 12 months of the balance sheet date that are classified as current assets

  When estimating possible impairment of financial assets, measured at amortised cost, the Group applies the expected loss model.

  The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) during which the entity is exposed to credit risk.

- Financial assets at fair value through other comprehensive income

  Financial assets at fair value through other comprehensive income are investments over which the Group does not have significant influence or control. They are measured at fair value, the gain or loss being recognised in recognised income and expense in the consolidated statement of comprehensive income.

Impairment losses (and reversals) on equity investments measured at fair value through other comprehensive income are not presented separately from other changes in fair value. Dividends from all investments continue to be recognised in the income statement for the year as financial income when the Company's right to receive payment is established.

Regular purchases and sales of financial assets are recognised on the trade-date, ie the date on which the Group undertakes to purchase or sell the asset. Investments are recognised initially at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets measured at fair value through profit or loss are initially recognised at their fair value and the transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive the attendant cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards inherent to their ownership. In the event of the disposal of these assets, the profit or loss on the sale is recognised in Other comprehensive income, as established under new legislation.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value at the date on which the derivative contract is arranged and subsequently are remeasured at their fair value. The method for recognising the gains and losses obtained depends on whether the derivative is designated as a hedging instrument, and, in this case, on the nature of the asset that it hedges.

Group uses financial instruments to hedge risks related to fluctuations in exchange rates on future commercial transactions, and assets and liabilities recognised, denominated in a functional currency that is not the Group's functional currency. These derivatives do not usually qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the consolidated income statement.

INVENTORIES

Inventories are stated at cost of acquisition or production as follows:

- Raw materials and other materials supplied are stated at cost of acquisition, on a first-in, first-out basis (FIFO).

- Finished goods and work in progress are stated at standard cost of raw and other materials consumed on a FIFO basis, including the applicable portion of direct and indirect labour costs and other manufacturing overheads.

- Commercial inventories: at acquisition cost, determined in accordance with the average price method.

The Group calculates a provision for the depreciation of inventories when cost exceeds net realizable value. The net realization value is the estimated sale price in the normal course of business, less the variable costs of sales applicable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits with credit institutions.

SHARE CAPITAL

Ordinary shares are classified as equity. The incremental costs directly attributable to the issue of new shares are stated under equity as a net deduction, net of any tax effect, as the case may be.

OWN SHARES

The valuation of own shares acquired by the parent Company is made up of the amount paid, including the directly attributable incremental costs, and are stated decreasing equity attributable to the shareholders of the parent Company until they are cancelled, reissued or sold. When these own shares are cancelled, the nominal amount is recognised by decreasing share capital and the difference between the nominal and the cost in voluntary reserves. In the event that the shares are sold, any amount received, net of any directly attributable incremental cost, and the respective tax effect on the capital gains is included in equity attributable to the equity holders of the parent Company.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to the equity shareholders of the parent Company is recognised as a liability in the consolidated annual accounts of the Group in the year in which the dividends are approved by the Company's shareholders.

GOVERNMENT GRANTS

Non-refundable capital grants, when there is reasonable assurance that the grant will be collected, and that Group will meet all conditions established, are recorded as liabilities in the balance sheet at the original amount granted (at fair value). Income from capital grants is recorded in the income statement on a straight-line basis over the useful lives of the fixed assets for which grants have been received.

BORROWINGS

Borrowed funds are initially recognised at their fair value, which is equal to the fair value of the amount received adjusted by directly attributable transaction costs. Interest accrued is subsequently recorded at amortised cost in the income statement using the effective interest rate method.

Subsidized or nil interest borrowings are initially recognised at fair value, which is equal to the present value at market interest. The difference between loan's nominal value and its present value is considered an official subsidy.

The Group derecognises a financial liability (or part of one) when, and only when, it has been extinguished, i.e. when the obligation specified in the related contract has been discharged or cancelled, or it has expired.

An exchange of debt instruments between a lender and the related borrower, provided that the instruments have substantially different conditions, is recognised as a cancellation of the original financial liability and the subsequent recognition of a new financial liability. Similarly, a substantial amendment to the conditions of a financial liability or part of one (regardless of whether it is attributable to the debtor's financial difficulties), is recognised as a cancellation of the original financial liability and the subsequent recognition of a new financial liability.

The difference between the carrying amount of the financial liability (or part of one), cancelled or transferred to a third party and the consideration paid, which will include any non-cash asset transferred or liabilities assumed, is recognised in results for the year.

Borrowings are classified as non-current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. If not, they are classified as current liabilities.

Fees paid on the arrangement of loans are recognised as loan transaction costs provided that it is probable that part or all the facility will be used. In these cases fees are deferred until the facility is used. If there is no evidence that all or part of the credit facility will be used in full or part, the fees are capitalised as an advance payment for liquidity services and amortised over the period during which the credit facility is available.

TRADE PAYABLES

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

CORPORATE INCOME TAX AND DEFERRED TAXES

Consolidated corporate income tax includes all domestic and foreign taxes on taxable profit. Corporate income tax also includes other taxes, such as tax on the repatriation of profit, as well as any other tax that is based on the calculation of accounting profit.

Corporate income tax expense accrued and carried in the consolidated annual accounts is calculated by aggregating the expenses recorded by each company in the consolidation scope, adjusted, as the case may be, by the tax effect of the adjustments to accounting consolidation, and the temporary differences arising from the tax bases of assets and liabilities and their carrying values in the consolidated annual accounts.

Corporate income tax expense for the year includes the deferred and current income tax. Corporate income tax expense is recognised in the income statement, except in those cases in which it is related to items that are recorded directly in equity, in which case the tax effect is also recorded in equity.

Deferred tax is determined using the liability method. According to this method, deferred income tax assets and liabilities are recorded based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, applying the tax rates estimated for when the assets and liabilities are to be realised, using tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The deferred income tax assets and liabilities arising from movements in equity are charged or credited directly to equity. Deferred tax assets and tax credits are recognised when the probability of their future realisation is reasonably assured, and they are subsequently adjusted if it is not probable that tax profits will not be obtained in the future.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) on the balance sheet. The deferred tax recorded is reviewed at each accounting closing period.

The difference between the corporate income tax expense recorded at the previous year end and the corporate income tax expense resulting from the definitive tax returns filed constitutes a change in accounting estimates and is recorded as an expense/income in the current year.

By meeting all requirements laid down under the Group Companies Tax Regime as per Chapter VI of title VII of Law 27/2014 of 27 November, of Corporate Income Tax, Miquel y Costas & Miquel, S.A. and the subsidiary companies S.A. Payá Miralles, Celulosa de Levante, S.A., Papeles Anoia, S.A., Desvi, S.A., Sociedad Española Zig-Zag, S.A., MB Papeles Especiales, S.A., Miquel y Costas Tecnologías, S.A., Miquel y Costas Energía y Medio Ambiente, S.A. and Terranova Papers, S.A. and Miquel y Costas Logística S.A..

The company Clariana, S.A. which was acquired by the group on 25 July 2018 was added to the Tax Group on 1 January 2019 (Note 1).

When there is a change in tax rates, the amounts of deferred tax assets and liabilities are re-estimated. These amounts are charged or credited against income or in equity, depending on the account that was charged or paid the original amount.

EMPLOYEE BENEFITS

a) Pension obligations

The Group has different pension commitments based on its work centres and companies:

- Defined contribution commitments:

  The Group has two defined contribution schemes as result of agreements with the workers' representatives for their retirement at the age 65. The commitment of the Company is only to make annual contributions of a predetermined amount. Since 2002 there are collective insurance policies through which the insurer guarantees that the employees will receive a certain return on the contributions made by the Group.

  There is also insurance made up of defined contributions in favour of the executive directors, subject to certain conditions, and the Group's senior management personnel.

- Defined benefit commitments:

  The other commitments of the Group as defined benefit are insured through collective insurance policies.

  The commitments with the passive personnel are annuities for a closed group of pensioners.

  Commitments to the active staff (workers) are capitals upon retirement at age 63 under the state collective agreement in the paper, pulp and paper sector.

  The liability recognised in the balance sheet is net of the difference between the obligation accrued for past services and any costs for past services not recognised, minus the value of the insurance policy, determined by the value of the insured obligations.

The obligation accrued is calculated annually by an independent actuary using the "projected credit unit" actuarial method. The present value of the obligation is determined using actuarial calculation methods and financial and actuarial assumptions unbiased and mutually compatible.

The accounting policy for the recognition of actuarial gains and losses arising from historical experience adjustments and changes in actuarial estimates are included in the statement of recognized income and expenses included in equity in the corresponding period.

The past service costs are recognized immediately in the income statement, except in the case of revocable rights, in which case, they are recognized in the income statement linearly over the period remaining until the rights of past service are irrevocable. However, if an asset arises, revocable rights recognized in the income statement immediately, unless the emergence of a reduction in the present value of benefits that can be returned to the Group in the form of direct refunds or lower contributions future, in which case, what is imputed immediately in the profit and loss is the excess of such a reduction.

b) Severance indemnities

Except in the case of justifiable cause, Group companies are liable for the payment of indemnities to employees whose services are terminated. In the absence of any foreseeable need for abnormal termination of employees' services and because indemnities are not payable to those employees who retire or voluntarily leave their services, indemnity payments, if they arise, are expensed when the decision to terminate employment is taken.

SHARE BASED COMPENSATION

The Group has a compensation plan with management consisting of stock options, payable solely in shares of Miquel y Costas & Miquel, S.A. The plan is valued at fair value on initial recognition using a generally accepted financial calculation method.

The obligation is recognized in the consolidated income statement as a personnel expense based on the years that make up the vesting period of the option, against equity reserves. Each closing date, the Group reviews the original estimates of the number of options that are expected to become exercisable and records, if applicable, the impact of this review in the consolidated income statement with the corresponding adjustment to equity.

PROVISIONS FOR EMISSION RIGHTS

As from 2005 Spanish group companies emitting $CO_2$ as a result of their production must hand over emission rights equal to the emissions produced in the first few months of the following year.

The obligation to hand over emission rights for the $CO_2$ emissions produced during the year are recorded as provisions under “Other current liabilities” in the consolidated balance sheet, having recorded the respective cost under “Other operating expenses” in the consolidated income statement (Note 20).

OTHER PROVISIONS

Provisions for environmental restoration, restructuring costs and litigation are recognized when: the Group has a present obligation, either legal or implicit as a result of past events, it is probable that will involve an outflow of resources required to settle the obligation; and the amount has been reliably estimated.. Provisions are not recognized for future operating losses.

Where a number of similar obligations exist, the probability that an outflow is needed to settle the obligation is determined by considering the class of obligations as a whole. A provision is recognized even though the probability of an outflow with respect to any item included in the same class of obligations may be not significant.

Provisions are measured at the present value of expected outflow to be required to settle the obligation using a pre-tax rate that reflects current market valuation of money temporary value and the specific risks to the obligation. The increase in provision due to the terms and conditions is recognized as interest expense.

REVENUE RECOGNITION

Ordinary income includes the fair value of the sale of goods and services, net of value added tax, returns and discounts, after eliminating intra-Group sales.

The Group recognises revenues from sales of goods when control of the products has been transferred, i.e. when the products have been made available to the customer, the customer has accepted the products and the collectability of the related receivables is reasonably assured.

Sales of services are recognised in the accounting year in which they are rendered, when there are no outstanding percentages to be realised on service operations.

Interest income is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive the dividend is established.

LEASES

As described in note 2.1, the Group changed is accounting policy for leases when the Group is the lessee. Note 2.1 describes the impact of the change.

Until 31 December 2018 leases in which a significant part of the rewards and benefits of ownership were not transferred to the Group as the lessee were classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) were charged to the income statement on a straight-line basis over the lease term.

Following application of IFRS 16, starting on 1 January 2019 leases are recognised as a right-of-use asset along with the corresponding liability on the date on which the leased asset is made available for use by the Group.

Lease assets and liabilities are initially measured based on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any lease incentive receivable
- variable lease payments that depend on an index or rate, initially valued in accordance with the index or rate at inception.
- amounts that are expected to be payable by the Group under a residual value guarantee
- the exercise price of a purchase option if the Group is reasonably certain that that option will be exercised, and
- payments of penalties due to the termination of the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Lease payments to be made when it is reasonably certain that the extension option will be exercised are also included in the measurement of the liability.

Lease payments are discounted using the interest rate implicit in the lease. Given the difficulty in determining it, the Group uses the incremental rate that it would have to pay in order to borrow the necessary funds to obtain an asset with a similar value to the right -of -use asset in a similar economic environment under similar terms, guarantees and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-assessed and adjusted against the right-of-use asset.

Lease payments are allocated between the principal and financial expense. The financial cost is charged to the income statement over the term of the lease such that a constant periodic interest rate on the remaining balance of the liability is produced for each period.

Right-of-use assets are measured at cost that comprises the following:

- amount of lease liability at initial recognition
- any lease payment made on or before commencement of the lease, less any lease incentive received
- any initial direct cost and
- restoration costs.

Right-of - use assets are amortised on a straight-line basis over the lower of the useful life of the asset and the lease term.

Short-term lease payments and all leases for low value assets are recognised on straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

ENVIRONMENT

Costs arising from business activity related to the protection and improvement of the environment are expensed for the year in which they are incurred. Capitalisation as tangible or intangible fixed assets is subject to the same criteria used for the other fixed assets.

TRANSACTIONS IN NON-EURO CURRENCIES

a) Functional and presentation currency

The figures included in the annual accounts of each Group entity are denominated in the currency of the major economic market in which the entity operates (functional currency). The consolidated annual accounts are stated in Euro, which is the Group’s presentation currency, although, for presentation purposes, they are stated in Thousand Euro (except when otherwise indicated).

b) Transactions and balances

Transactions in non-Euro currencies are recorded at their equivalent value in Euro, at the exchange rate in force during the periods in which they are realized. The profit or loss on exchange differences arising from the cancellation of balances from foreign currency transactions are taken to the consolidated income statement when occur.

The balances in non-Euro currencies relating to treasury, accounts receivable and accounts payable at the year end are stated in Euro at the exchange rates at the year end, and any gains or losses are taken to the income statement.

c) Group entities

The group companies with a functional currency which differs from the presentation currency are:

- Miquel y Costas Chile, S.R.L. The results and financial position of are translated into the presentation currency as follows:

  - The assets and liabilities on the balance sheet are translated at the exchange rate on the balance sheet date.
  - Income and expenses of each income statement are translated at the average exchange rates for the year.
  - Equity (excluding results) is translated at the historical exchange rate.

The resulting exchange differences are recognised as a separate component in equity under “Cumulative translation differences” line.

- Miquel y Costas Argentina, S.A. Due to the consideration of Argentina as a hyper-inflationary country since July 2018, and with retroactive effect at 1 January that year, the year -end exchange rate has been used in the translation. see Note 2.1.1 IAS 29. “Consolidated translation differences” in Argentina were reclassified to reserves as indicated in Note 2.1.

(In thousand Euro)

BUSINESS COMBINATIONS

In 2018 the Miquel y Costas Group completed the business combination associated with the acquisition of the Clariana Group, summarised as follows:

***Acquisition of Clariana Group***

On 25 July 2018 the Miquel y Costas Group through the companies Miquel y Costas & Miquel, Sociedad Anónima and Sociedad Anónima, Payá Miralles acquired all the shares of Clariana, S.A. On that date, Clariana, S.A owned all shares in Boncompte-Sierra, S.L.U. (hereinafter both companies jointly, the Clariana Group). The assets, liabilities, income and expenses of these companies were fully consolidated from the date on which control was acquired.

The Clariana group is a paper maker focused on the manufacture and industrial sale of cardboard, paper for publishers, packaging paper and paper for industrial use. The Clariana Group's head office is located in Villareal (Spain) where it also has its logistics- production units.

The table below summarises the total consideration for the transaction and the fair values of the assets/ liabilities assumed as well as the resulting negative difference on the business combination (profit):

***Consideration***

| | **Thousand euros** |
|---|---|
| Initial payment in cash | 800 |
| Fair value of contingent consideration | 120 |
| **Total consideration to be transferred** | **920** |
| Fair value of the net assets acquired | 2,091 |
| **Negative difference on business combination (profit)** | **(1,171)** |

The consideration for the transaction relates to an initial cash payment of Euro 800 thousand (pending payment at the date of issue of these consolidated annual accounts) and contingent consideration that may amount to Euro 1.2 million.

The method employed to determine the fair value of the contingent consideration (determined at Euro 120 thousand) has consisted of weighting the scheduled payments, discounted at the discount rate associated with the valuation of the business as a whole.

(In thousand Euro)

The assets and liabilities at fair value arising on the acquisition of the Clariana Group are as follows:

| | Value acquired (effect 25 July 2018) | | |
|---|---|---|---|
| *Thousand euro* | **Fair value** | **Carrying amount** | **Restatement** |
| Cash and cash equivalents | 281 | 281 | - |
| Property, plant and equipment and intangible assets (Notes 4 and 5) | 10,360 | 9,627 | 733 |
| Financial assets | 492 | 492 | - |
| Inventories | 2,248 | 2,093 | 155 |
| Remaining working capital | (2,908) | (3,462) | 554 |
| Short-term payables and non-current liabilities | (8,250) | (7,545) | (705) |
| Deferred tax assets and liabilities (Note 17.3) | (132) | 52 | (184) |
| **Total identifiable net assets acquired** | **2,091** | **1,538** | **553** |

The fair value at that acquisition date of the assets and liabilities of the business acquired was mainly determined using measurement techniques in accordance with the methodology defined in IFRS 13. These measurements are within level 3 in the hierarchy established in IFRS 3.

As a result of this measurement, items of property, plant and equipment (valued by an independent expert) have been identified with a fair value which is Euro 733 thousand higher than their carrying amount.  The remaining restatements basically relate to variations in working capital and deferred taxes associated with the restatements as a whole.

In accordance with IFRS 3 (concerning a bargain purchase), the Miquel y Costas Group recognised as profits for the year Euro 1,171 thousand, recognising the positive difference between the amount of the assets and liabilities assumed at fair value and total expected  consideration.

The contribution of the Clariana Group to consolidated profit for the year ended 31 December 2018 amounted to Euro 4 thousand, including the negative difference on the business combination, its contribution to the Group’s profits and the expenses related to the transactions (recognised under “Other operating expenses”).

On 27 August 2019 Boncompte-Sierra S.L.U (the absorbed company) was merged into Clariana S.A.(the acquiring company). For accounting purposes, the operations of the absorbed company would be understood to have been carried out by the acquiring company as from 1 January 2019.

DISTRIBUTION OF RESULTS

The results for 2019 for Miquel y Costas & Miquel, S.A. will be distributed as agreed by their respective General Meeting of Shareholders.

The parent Company plans to submit the following proposal for distribution of profit to its General Meeting of Shareholders, based on the Spanish Chart of Accounts currently in effect:

| **Thousand Euro** | **2019** |
|---|---|
| **Basis of distribution** | |
| Profit for the year (Profit) | 39,218 |
| **Total** | **39,218** |
| **Application** | |
| Legal reserve | - |
| Dividends | 13,700 |
| Voluntary reserves | 24,652 |
| Capitalisation reserve | 866 |
| **Total** | **39,218** |

The distribution of dividends to the shareholders of the parent Company is recognised as a liability in the consolidated annual accounts of the Group in the year in which the dividends are approved by the shareholders of the parent Company.

### 2.4 Financial segment reporting

An operating segment is a part of the Group:

a) that carries out business activities that can generate income and incur expenses.

b) whose operating income and expenses are examined at regular intervals by the highest decision-making bodies of the Group (Board of Directors) in order to decide on the resources that must be assigned and to evaluate their return, and

c) in relation to which there is differentiated financial information.

(In thousand Euro)

Reporting basis and methodology for the information:

The primary segment of the Group is determined by the different business lines that group different assets and operations.

The segment denominated "Tobacco Industry" obtains its results from the sale of paper pulp and paper related to the tobacco industry. The segment denominated "Industrial Products" obtains its results from those products with an industrial application.

In the "Others" line is included the information related to other business activities and the segments for which information disclosure is not required separately. This segment obtains its results from the services rendered and others.

- Income by segment, and sales to third parties of each segment made during 2019 are as follows:

| | Tobacco industry | Industrial products | Others | **Consolidated Group** |
|---|---|---|---|---|
| Segment turnover | 199,520 | 85,394 | 31,509 | **316,423** |
| Sales to other segments | (34,675) | (9,763) | (9,352) | **(53,790)** |
| **Consolidated Sales** | **164,845** | **75,631** | **22,157** | **262,633** |

- Results by segment, for the year ended at 31 December 2019 are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Operating results by segment | 41,840 | 7,255 | 1,507 | (249) | **50,353** |
| Net finance results and participation of income of associates (non-distributable profit) | | | | | **713** |
| **Profit before tax** | | | | | **51,066** |
| Income tax | | | | | **(11,848)** |
| **Profit for the year** | | | | | **39,218** |

The segment result is determined by the difference between the ordinary income and the production and operating expenses, including the depreciation cost. Financial income and expenses are not included.

(In thousand Euro)

- Assets by segment, at 31 December 2019, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Distributable assets by segments | 176,561 | 105,605 | 26,553 | (2,732) | **305,987** |
| Non-distributable assets | | | | | **98,055** |
| **Total assets** | | | | | **404,042** |
| **Investments*** | **17,951** | **4,431** | **1,959** | **-** | **24,341** |

Investments*: Additions in tangible and intangible assets for the year (CO2 gas emission rights not included).

Non-distributable assets correspond to non-current financial assets, other current assets and other receivables.

- Liabilities by segment, at 31 December 2019, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Distributable liabilities | 26,311 | 14,152 | 4,806 | (16,313) | **28,956** |
| Non-distributable liabilities | | | | | **94,506** |
| Equity | | | | | **280,580** |
| **Total liabilities and equity** | | | | | **404,042** |

Non-distributable liabilities mainly relate to current and non-current loans and provisions.

(In thousand Euro)

- Amortization and depreciation of tangible and intangible assets by segment, at 31 December 2019, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| **Amortisation and depreciation** | 9,147 | 6,411 | 1,773 | 253 | **17,584** |

- Information about geographical areas for the year ended at 31 December 2019:

| | External turnover |
|---|---|
| Domestic market | 31,277 |
| Other countries | 231,356 |
| **TOTAL** | **262,633** |

| | Assets |
|---|---|
| Spain | 395,739 |
| Other countries | 8,303 |
| **TOTAL** | **404,042** |

Assets located in other countries correspond mainly to Miquel y Costas Argentina, S.A., Miquel y Costas Chile, S.R.L., and Miquel y Costas Deutschland, GmbH.

- Information about the main customers for the year ended at 31 December 2019:

The percentage, over the consolidated turnover, for the main customers is as follows:

| | Percentage | Ordinary income | Segment |
|---|---|---|---|
| 1 | 11.2% | 28,717 | Tobacco industry |
| 2 | 8.2% | 20,938 | Tobacco industry |

(In thousand Euro)

Sales by country in 2019 and 2018 are as follows:

| | 31/12/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| **COUNTY** | **Amount> 2% revenue** | **%** | **Amount> 2% revenue** | **%** |
| Switzerland | 33,500 | 12.76% | 28,931 | 11.2% |
| China | 6,728 | 2.56% | 8,259 | 3.2% |
| Germany | 14,208 | 5.41% | 18,401 | 7.1% |
| Spain | 31,277 | 11.91% | 27,888 | 10.8% |
| Italy | 13,118 | 4.99% | 13,944 | 5.4% |
| Japan | 10,460 | 3.98% | 13,352 | 5.2% |
| Poland | 14,544 | 5.54% | 15,592 | 6.0% |
| Russian Federation | 15,105 | 5.75% | 15,657 | 6.0% |
| USA | 13,029 | 4.96% | 12,485 | 4.8% |
| Indonesia | 8,772 | 3.34% | 7,508 | 2.9% |
| Paraguay | 5,157 | 1.96% | 6,479 | 2.5% |
| Turkey | 4,995 | 1.90% | 5,623 | 2.2% |
| Romania | 6,303 | 2.40% | 5,809 | 2.2% |
| Rest Centre and South America | 9,862 | 3.75% | 11,764 | 4.5% |
| Rest of Africa | 14,510 | 5.52% | 12,547 | 4.8% |
| Rest of South East Asia | 1,002 | 0.38% | 1,134 | 0.4% |
| Rest of Europe | 41,132 | 15.66% | 39,642 | 15.3% |
| Other | 18,931 | 7.21% | 14,243 | 5.5% |
| **Total** | **262,633** | **100.0%** | **259,257** | **100.0%** |

- Income by segment, and sales to third parties of each segment made during 2018 are as follows:

| | Tobacco industry | Industrial products | Others | **Consolidated Group** |
|---|---|---|---|---|
| Segment turnover | 195,392 | 91,354 | 26,828 | **313,574** |
| Sales to other segments | (34,791) | (10,003) | (9,523) | **(54,317)** |
| **Consolidated Sales** | **160,601** | **81,351** | **17,305** | **259,257** |

(In thousand Euro)

- Results by segment, for the year ended at 31 December 2018 are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Operating results by segment | 42,541 | 5,417 | 1,502 | 340 | **49,800** |
| Net finance results and participation of income of associates (non-distributable profit) | | | | | **(146)** |
| **Profit before tax** | | | | | **49,654** |
| Income tax | | | | | **(12,377)** |
| **Profit for the year** | | | | | **37,277** |

The segment result is determined by the difference between the ordinary income and the production and operating expenses, including the depreciation cost. Financial income and expenses are not included.

- Assets by segment, at 31 December 2018, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Distributable assets by segments | 157,483 | 106,304 | 29,071 | (2,457) | **290,401** |
| Non-distributable assets | | | | | **114,624** |
| **Total assets** | | | | | **405,025** |
| **Investments*** | **12,611** | **4,397** | **1,941** | **-** | **18,949** |

Investments*: Additions in tangible and intangible assets for the year (CO2 gas emission rights not included).

Non-distributable assets correspond to non-current financial assets, other current assets and other receivables.

(In thousand Euro)

- Liabilities by segment, at 31 December 2018, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| Distributable liabilities | 31,597 | 19,523 | 6,171 | (20,841) | **36,450** |
| Non-distributable liabilities | | | | | **98,670** |
| Equity | | | | | **269,905** |
| **Total liabilities and equity** | | | | | **405,025** |

Non-distributable liabilities mainly relate to current and non-current loans and provisions.

- Amortization and depreciation of tangible and intangible assets by segment, at 31 December 2018, are as follows:

| | Tobacco industry | Industrial products | Others | Consolidation adjustments | **Consolidated Group** |
|---|---|---|---|---|---|
| **Amortisation and depreciation** | 8,131 | 6,533 | 1,364 | (325) | **15,703** |

- Information about geographical areas for the year ended at 31 December 2018:

| | External turnover |
|---|---|
| Domestic market | 27,884 |
| Other countries | 231,373 |
| **TOTAL** | **259,257** |

| | Assets |
|---|---|
| Spain | 398,446 |
| Other countries | 6,579 |
| **TOTAL** | **405,025** |

Assets located in other countries correspond mainly to Miquel y Costas Argentina, S.A., Miquel y Costas Chile, S.R.L., and Miquel y Costas Deutschland, GmbH.

- Information about the main customers for the year ended at 31 December 2018:

The percentage, over the consolidated turnover, for the main customers is as follows:

| | Percentage | Ordinary income | Segment |
|---|---|---|---|
| 1 | 9.5% | 23,144 | Tobacco industry |
| 2 | 7.7% | 18,887 | Tobacco industry |

### 2.5 Accounting estimates and judgements

In the preparation of the consolidated annual accounts estimates made by the Directors of the Group companies have been used to quantify some assets, liabilities, income, expenses and commitments carried therein.

The estimates and judgements are evaluated continuously on the basis of historical experience and other factors, including the expectation of future events considered reasonable.

These estimates are basically used in:

- The valuation of assets to determine impairment as a result of the valuation of third-party experts.
- The useful life of plant, property and equipment and intangible assets, determined on the basis of the valuation of independent experts.
- The assumptions used to calculate the fair value of the financial instruments that have been determined by the different financial entities.
- The classification, measurement and impairment of financial assets.
- The probability of occurrence and the amount of indeterminate or contingent liabilities.
- The valuation of the pension obligations made on the basis of actuarial valuations prepared by independent third parties.
- Outstanding litigations have been evaluated by independent experts.
- The assumptions employed in the calculation of the business combination.

### 2.6 Cash Generating Units

The "Cash Generating Units" identified meet with the profitability requirements necessary to determine that they have not been impaired, and, therefore, there has been no need to record an impairment loss. Likewise, no individual assets have been identified as having been impaired.

The Group has identified the following Cash Generating Units for the different production centres:

| CGU | Activity |
|---|---|
| Production centre in the province of Barcelona | Manufacture of paper for the tobacco industry |
| Production centre in the province of Barcelona | Transformation of paper for the tobacco industry |
| Industrial plant in the province of Tarragona | Manufacture of special paper pulp |
| Industrial plant in the province of Valencia | Manufacture of paper for the tobacco industry and writing paper |
| Industrial plant in the province of Barcelona | Paper handling |
| Industrial plant in the province of Barcelona | Manufacture of special papers |
| Industrial plant in the province of Barcelona | Manufacture of special papers of high technology |
| Industrial plant in Argentina | Transformation of paper for the tobacco industry |
| Industrial plant in Villlareal | Manufacture of paper and in general of goods for the stationery sector |

## 3 FINANCIAL RISK MANAGEMENT

The activities of the Group are exposed to different financial risks that are managed through the application of identification, evaluation and hedging systems. The Group's overall risk management programme focuses on minimizing the potential adverse effects on the Group's financial performance.

Risk management in Miquel y Costas Group is managed by the Audit Committee, Managing Commission and Corporate Finance Department in accordance with the internal risk management standards in force. These departments identify and evaluate the financial risks in collaboration with the Group's operating units. The internal management standards and practices provide written policies on overall risk management, as well as on specific areas, such as exchange rate risk, credit risk, liquidity risk and interest rate risk.

### 3.1 Exchange rate risk

The Group operates internationally, and, therefore, is exposed to exchange rate risks for operations in foreign currency; especially the US Dollar, which represents approximately 90% of the foreign exchange transactions. The exchange rate risk arises from future commercial transactions, recognised assets and liabilities denominated in a functional currency other than the Group's functional currency.

The effects of the fluctuations in currencies are partially offset by monetary flows generated by imports with those that are generated by exports. Resulting net positions are generally hedged. When there is an export position, a 10% decrease in the USD/EUR exchange rate at the year end would have a negative impact on the consolidated income statement of approximately Euro 642 thousand (Euro 322 thousand in 2018).

Moreover, the Group has various investments in foreign operations, whose net assets are exposed to the risk of foreign currency translation. The exchange rate risk on net assets of the foreign operations of the Group is managed primarily through borrowings denominated in the relevant foreign currencies.

### 3.2 Commercial credit risk

The Group's trade receivables relate to debtors located in different geographic areas and although there is a significant concentration of sales, there is a deep knowledge of these that enables the Group to anticipate to a great extent possible risk situations.

However, the key for the Group is proper control of commercial credit risk and, accordingly, the Group has implemented internally a credit policy that includes, in addition to a preliminary analysis of the debtor, external insurance in certain situations of the main risks.

### 3.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, availability of funding through sufficient committed credit facilities, and the ability to close out market positions.

(In thousand Euro)

The forecast cash flow takes place from the parent Company of the Group. The Corporate Finance Department follows and monitors the forecasts of the Group's liquidity needs, to ensure it has sufficient cash to meet operational needs. These predictions take into account the financing plans for the Group. In this respect, the estimation of cashflow payments for loans and accounts payable is as follows:

| **At 31 December 2019** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 and 3 years** | **Between 3 and 5 years** | **More than 5 years.** |
|---|---|---|---|---|---|
| Loans | 2,336 | 13,585 | 31,326 | 19,284 | 4,739 |
| Trade payables and other payables | 39,773 | 2,010 | 1,907 | 204 | - |
| **At 31 December 2018** | | | | | |
| Loans | 878 | 7,295 | 30,772 | 25,188 | 11,632 |
| Trade payables and other payables | 44,711 | 3,995 | 2,047 | - | - |

The Corporate Treasury department invests surplus cash in financial instruments with adequate maturities or sufficient liquidity to provide the sufficient slack given by the above predictions framed in the financial investments policy, in low risk prevails over profitability and for which the credit rating or recognized creditworthiness of the issuers is verified.

With this objective, the Group has committed credit facilities to finance its variation in working capital. At the end of 2019 the use of these credit lines was 1.1% (3.4% in 2018) (Note 12).

### 3.4 Interest rate risk

The Group’s interest rate risk arises from long-term borrowings. The low level of leverage and internal controls to identify and evaluate risk means that is not necessary to arrange continuously supplementary interest rate hedge instruments.

Taking into account the level of bank borrowings for 2019, the effect of a 50 bp variation in the interest rate would have entailed an increase or decrease of approximately Euro 286 thousand in the Company’s financial expenses for the coming year (Euro 334 thousand in 2018).

### 3.5 Price risk

The main cost component in the Group's activity is the acquisition of paper pulp. The paper pulp suppliers are able to satisfy the present market demand and prices are directly related to the offer and demand in the market.

Considering that a variation of paper pulp prices occurred by 10%, the impact in the consolidated income statement would amount Euro 3,788 thousand approximately (Euro 4,367 thousand in 2018).

At the year end, there are no investments with impairment risk which are not adequately provided, no operations with derivatives that are not reasonably hedged, and the assets related to the pension plans are adequately insured.

### 3.6 Capital management

The Group's objectives in terms of capital management are to safeguard its capacity to continue as a going concern in order to ensure shareholder's return and to maintain an optimal capital structure.

The Group monitors its capital in accordance with the leverage index. This index is calculated as the net debt divided by total equity. Net debt is calculated as the total of debts to financial entities (including current and non-current borrowed funds, as shown in the consolidated balance sheet) less cash and cash equivalents and short-term investments.

The reduced leverage rate of the Group and high level of financial solvency draw the Group to be not much exposed to the impacts of the international financial crisis impacts.

The leverage ratio for both December 31, 2019 and December 31, 2018 is not applicable because the Group has a volume of available and realizable resources greater than the debt with credit institutions:

| In Thousand Euro | December 2019 | December 2018 |
|---|---|---|
| Total equity | 280,580 | 269,905 |
| Net borrowings: | | |
| Long-term borrowings | 54,489 | 66,145 |
| Short-term borrowings | 15,879 | 8,741 |
| Cash at banks and in hand and short-term investments | (44,313) | (53,282) |
| Long-term financial investments | (45,450) | (51,421) |
| Total net borrowings | (19,395) | (29,817) |
| Leverage index | Not applicable | Not applicable |

(In thousand Euro)

## 4 PLANT, PROPERTY AND EQUIPMENT

The balances and variations for the years ended at 31 December 2019 and 2018 of the accounts included under "Property, plant and equipment" are as follows:

| | Land, Buildings and other constructions | Plant and machinery and other fixed assets | Prepayments and assets under construction | Total |
|---|---|---|---|---|
| **Net book value at 31 December 2017** | 39,496 | 95,851 | 10,196 | 145,543 |
| Cost or valuation | 57,398 | 320,173 | 10,196 | 387,767 |
| Accumulated depreciation and impairment loss | (17,902) | (224,322) | - | (242,224) |
| **Net book value** | **39,496** | **95,851** | **10,196** | **145,543** |
| **Year ended 31 December 2018** | | | | |
| Opening book value | **39,496** | **95,851** | **10,196** | **145,543** |
| Exchange differences | (259) | (412) | - | (671) |
| Additions | 224 | 50 | 18,355 | 18,629 |
| Consolidation adjustments and other cost adjustments | 15 | (7) | - | 8 |
| Hyperinflation - cost | 1,029 | 1,248 | - | 2,277 |
| Disposals | (60) | (4,000) | 17 | (4,043) |
| Transfers | 2,067 | 14,945 | (17,012) | - |
| Business combination | 8,215 | 19,530 | - | 27,745 |
| Depreciation charge | (1,644) | (14,483) | - | (16,127) |
| Consolidation adjustments and other depreciation adjustments | 82 | 665 | - | 747 |
| Hyperinflation- depreciation | - | (1,033) | - | (1,033) |
| Write off of depreciation due to disposals | 60 | 3,844 | - | 3,904 |
| Depreciation exchange differences | - | 168 | - | 168 |
| Business combination | (79) | (17,331) | - | (17,410) |
| **Closing net book value** | **49,146** | **99,035** | **11,556** | **159,737** |
| **At 31 December 2018** | | | | |
| Cost or valuation | 68,629 | 351,527 | 11,556 | 431,712 |
| Accumulated depreciation and impairment loss | (19,483) | (252,492) | - | (271,975) |
| **Net book value** | **49,146** | **99,035** | **11,556** | **159,737** |
| **Year ended 31 December 2019** | | | | |
| Opening book value | **49,146** | **99,035** | **11,556** | **159,737** |
| Opening balance IFRS 16 | 27 | 928 | - | 955 |
| Exchange differences | (702) | (469) | - | (1,171) |
| Additions | 237 | 707 | 23,118 | 24,062 |
| Additions IFRS 16 | - | 633 | - | 633 |
| Consolidation adjustments and other cost adjustments | 24 | 313 | - | 337 |
| Hyperinflation - cost | 820 | 490 | - | 1,310 |
| Disposals | (255) | (8,338) | (60) | (8,653) |
| Transfers | 4,730 | 18,623 | (23,349) | 4 |
| Depreciation charge | (1,882) | (15,409) | - | |
| Additions for depreciation IFRS 16 | (23) | (479) | - | (502) |
| Consolidation adjustments and other depreciation adjustments | 171 | 101 | - | 272 |
| Hyperinflation depreciation | (160) | (380) | - | (540) |
| Write off of depreciation due to disposals | 265 | 8,071 | - | 8,336 |
| Depreciation exchange differences | 224 | 233 | - | 457 |
| **Closing net book value at 31 December 2019** | **52,622** | **104,059** | **11,265** | **167,946** |
| Cost or valuation | 73,511 | 364,415 | 11.265 | 449,190 |
| Accumulated depreciation and impairment loss | (20,888) | (260,356) | - | (281,244) |
| **Net book value** | **52,622** | **104,059** | **11,265** | **167,946** |

The additions in 2019 amounted to Euro 24,062 thousand (Euro 18,629 thousand in 2018) and relate mainly to constructions in progress resulting from continued investment in the Group's various production plants.

The additions for 2019 include Euro 1,592 thousand (Euro 1,321 thousand in 2018) relating to own work capitalised by the Group.

The consolidated income statement includes lease expenses relating to the rent of machinery and buildings amounting to Euro 50 thousand (Euro 86 thousand in 2018).

The Group has established proper controls to identify indications of possible impairment losses. In 2019 and 2018 no PPE items have been impaired.

In 1996 Miquel y Costas & Miquel, S.A. and the subsidiary companies S.A. Payá Miralles and Celulosa de Levante, S.A., which contributed 97% of the total property, plant and equipment to the consolidated Group, restated their balance sheets as per Royal Decree Law 7/1996, of 7 June, increasing the cost value of their property, plant and equipment by Euro 11,413 thousand using the updating rate tables published in Royal Decree 2607/1996, of 20 December. The net book value of the revaluated assets at 31 December 2019 totals Euro 580 thousand (Euro 597 thousand in 2018), and the depreciation charge for the year 2019 totals Euro 18 thousand (Euro 21 thousand in 2018).

The Group has taken out several insurance policies to cover the risks relating to its property, plant and equipment. The coverage of these policies is considered sufficient.

The Group’s tangible assets are not pledged as guarantees and there are no acquisition commitments uncancellable at the current or the prior year end.

(In thousand Euro)

The Group has property, plant, and equipment outside of Spain totalling a net book value of Euro 2,572 thousand in 2019 (Euro 1,991 thousand in 2018).

There have been no capitalised interests on the Group assets during 2019 and 2018.

There are no significant non-operating assets.

Any tangible asset under construction is classified according its nature, in the corresponding PPE or intangible asset account.

## 5 INTANGIBLE ASSETS

Balances and movements for the years ended 31 December 2019 and 2018 of the items included under "Intangible assets" are as follows:

| | Software | Industrial property | Development expenses | Gas emission rights | Intangible assets under construction | Total |
|---|---|---|---|---|---|---|
| **Al 31 December 2017** | 403 | 92 | 203 | 464 | 303 | 1,465 |
| Cost | 7,471 | 120 | 2,089 | 464 | 303 | 10,447 |
| Accumulated amortisation and impairment loss | (7,068) | (28) | (1,886) | - | - | (8,982) |
| **Net book value** | **403** | **92** | **203** | **464** | **303** | **1,465** |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book value | 403 | 92 | 203 | 464 | 303 | 1,465 |
| Exchange differences | (35) | (10) | - | - | - | (45) |
| Hyperinflation - cost | 91 | 40 | - | - | - | 131 |
| Additions | - | 2 | - | 752 | 318 | 1,072 |
| Disposals | - | - | - | (611) | - | (611) |
| Transfers | 272 | - | - | - | (272) | - |
| Business combination | 500 | - | - | 5 | - | 505 |
| Amortisation charge | (284) | (5) | (34) | - | - | (323) |
| Amortisation disposals | - | - | - | - | - | - |
| Business combination | (480) | - | - | - | - | (480) |
| Amortisation exchange differences | - | 26 | - | - | - | 26 |
| Hyperinflation - amortisation | - | (108) | - | - | - | (108) |
| **Al 31 December 2018** | **467** | **37** | **169** | **610** | **349** | **1,632** |
| Cost | 8,299 | 152 | 2,089 | 610 | 349 | 11,499 |
| Accumulated amortisation and impairment loss | (7,832) | (115) | (1,920) | - | - | (9,867) |
| **Net book value** | **467** | **37** | **169** | **610** | **349** | **1,632** |

(In thousand Euro)

| | Software | Industrial property | Development expenses | Gas emission rights | Intangible assets under construction | Total |
|---|---|---|---|---|---|---|
| Opening net book value | **467** | **37** | **169** | **610** | **349** | **1,632** |
| Exchange differences | (50) | (19) | - | - | - | (69) |
| Hyperinflation - cost | 110 | 18 | - | - | - | 128 |
| Additions | 3 | 1 | - | 2,044 | 309 | 2,357 |
| Disposals | - | - | - | (1,133) | - | (1,133) |
| Transfers | 280 | - | (3) | - | (277) | - |
| Business combination | - | - | - | - | - | - |
| Amortisation charge | (250) | (9) | (34) | - | - | (293) |
| Amortisation disposals | (9) | - | 3 | - | - | (6) |
| Business combination | - | - | - | - | - | - |
| Amortisation exchange differences | (36) | - | (2) | - | - | (38) |
| Hyperinflation - amortisation | (143) | 101 | - | - | - | (42) |
| **Al 31 December 2019** | **373** | **129** | **133** | **1,521** | **381** | **2,537** |
| Cost | 8,642 | 152 | 2,086 | 1,521 | 381 | 12,782 |
| Accumulated amortisation and impairment loss | (8,269) | (23) | (1,953) | - | - | (10,245) |
| **Net book value** | **373** | **129** | **133** | **1,521** | **381** | **2,537** |

See comments on emission rights in Note 25.2 to these notes to the consolidated annual accounts.

The Group has intangible assets outside of Spain totalling a net book value of Euro 24 thousand at 31 December 2019 (Euro 58 thousand at 31 December 2018).

Additions for 2019 include Euro 78 thousand (Euro 98 thousand in 2018) relating to own work capitalised.

Additionally, the Group invested Euro 3,611 thousand in R&D-I in 2019 (Euro 3,272 thousand in 2018).

The Group's intangible assets are not pledged as guarantees and there are no acquisition commitments at the current or the prior year end.

(In thousand Euro)

## 6 NON-CURRENT FINANCIAL ASSETS AND INVESTMENTS IN ASSOCIATES

The balances and movement for the years ended at 31 December 2019 and 2018 of the line "Non-current financial assets" are as follows:

| | Investments in associates | Other financial investments | Deposits and guarantees | Provisions for impairment | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **475** | **79,655** | **119** | **(1,215)** | **79,034** |
| Additions | - | 20,868 | 10 | - | 20,878 |
| Disposals | (54) | (25,208) | (4) | 1,215 | (24,051) |
| Fair value adjustments | - | 2,174 | - | - | 2,174 |
| Transfers (Note 9) | - | (26,620) | - | - | (26,620) |
| Share in profit/losses | 6 | - | - | - | 6 |
| **Balance at 31 December 2018** | **427** | **50,869** | **125** | **-** | **51,421** |
| Additions | - | 18,754 | - | - | 18,754 |
| Disposals | (55) | (7,224) | - | - | (7,279) |
| Fair value adjustments (Note 11.3) | - | (4,233) | - | - | (4,233) |
| Transfers (Note 9) | - | (13,230) | - | - | (13,230) |
| Share in profit/losses | 17 | - | - | - | 17 |
| **Balance at 31 December 2019** | **389** | **44,936** | **125** | **-** | **45,450** |

The heading "Shareholdings and loans – associates" includes a loan that the parent granted to the investee Fourtube, S.L. in 2017 amounting to Euro 275 thousand. During the current year a total of Euro 55 thousand was repaid (Euro 54 thousand in 2018), leaving a balance of Euro 138 thousand at 31 December 2019 (Euro 193 thousand in 2018).The loan bears interest of 3.5% and matures in 2022.

The 2019 item "Other financial investments" includes long-term investments maturing after 2020 and bearing interest at effective rates of between 0.18% and 4.75% (0.35% and 5.65% in 2018), which are not equivalent to the asset's yield. Also included are financial investments in listed shares of Iberpapel Gestión, S.A., representing a 5.08% shareholding at year-end 2019 (5.08% at end-2018), at a cost of Euro 10,947 thousand and a fair value of Euro 14,294 thousand (Euros 18,458 thousand at end-2018). Fair value adjustments are carried in the consolidated statement of recognised income and expense.

The breakdown of the items carried under investments in associates and provisions for impairment of these investments is as follows:

| | Shareholding | 2019 | 2018 |
|---|---|---|---|
| Fourtube, S.L. | 40% | 251 | 234 |
| **Total cost** | | **251** | **234** |
| **Net book value** | | **251** | **234** |

The Group's participation in results of the associated company (Fourtube, S.L.) and its main figures are as follows at 31 December 2019 and 2018:

2019

| Name | Registered office | Assets | Equity | Liabilities | Profit/(Loss) | Shareholding (%) |
|---|---|---|---|---|---|---|
| Fourtube, S.L. | Sevilla | 850 | 506 | 344 | 44 | 40% |
| | | **850** | **506** | **344** | **44** | |

2018

| Name | Registered office | Assets | Equity | Liabilities | Profit/(Loss) | Shareholding (%) |
|---|---|---|---|---|---|---|
| Fourtube, S.L. | Sevilla | 827 | 462 | 365 | 16 | 40% |
| | | **827** | **462** | **365** | **16** | |

## 7 INVENTORIES

The breakdown of inventories at 31 December 2019 and 2018, in thousand Euro, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Commercial products | 2,984 | 2,750 |
| Raw materials and other supplies | 25,235 | 30,651 |
| Finished goods and work in progress | 64,023 | 48,362 |
| Prepayments to suppliers | 803 | 276 |
| **TOTAL** | **93,045** | **82,039** |

T

(In thousand Euro)

The cost of inventories recognised as an expense and included in the cost of sales totals Euro 101,357 thousand in 2019 (of which Euro 96,175 thousand relate to purchases and Euro 5,182 thousand to the negative variation in inventories) and Euro 101,895 thousand in 2018 (of which Euro 110,211 thousand relate to purchases and Euro 8,316 thousand to the negative variation in inventories).

The breakdown of purchases by currency (Euro) is as follows:

| | **2019** | **2018** |
|---|---|---|
| Euro | 60,576 | 61,250 |
| USD | 34,060 | 47,583 |
| Other currencies | 1,539 | 1,378 |
| **Total** | **96,175** | **110,211** |

The Group has recorded impairment losses on the inventory, whose amount for impairment registered in the income statements for the year 2019 totals Euro 792 thousand (Euro 538 thousand in 2018).

There are no purchase commitments with suppliers at 31 December 2019 and 2018.

The Group has taken out several insurance policies to cover the risks to which inventories are exposed. The coverage of these policies is considered sufficient.

## 8 TRADE AND OTHER RECEIVABLES

The fair value of Trade receivables does not differ from their accounting value.

The balances for the years ended at 31 December 2019 and 2018 of trade receivables for sales and services are as follows:

| | **2019** | **2018** |
|---|---|---|
| Trade receivables | 42,460 | 46,993 |
| Doubtful debtors | 451 | 1,768 |
| Less: Provision for impairment of accounts receivable | (451) | (1,768) |
| **Balance at 31 December** | **42,460** | **46,993** |

(In thousand Euro)

The carrying values (in Euro) of trade receivables are denominated in the following currencies:

| | 2019 | 2018 |
|---|---|---|
| Euro | 34,067 | 36,037 |
| USD | 7,401 | 10,035 |
| GBP | 9 | 115 |
| Other currencies | 983 | 806 |
| **Total** | **42,460** | **46,993** |

The Group has a significant concentration of credit in certain accounts receivable. In order to minimise the risk, the Group has set up policies that guarantee the assignment of credit limits to customers with an appropriate credit record. The Group also takes out credit insurance policies for certain customers. The percentage of customers accounting for 75% of net sales by segment is as follows:

| | |
|---|---|
| Tobacco industry | 4.4% |
| Industrial products | 14.6% |
| Other | 9.3% |

At 31 December 2019, accounts receivable that are not due total Euro 33,642 thousand (Euro 39,929 thousand in 2018).

The Group considers that accounts receivable, except for the impaired amount by Euro 451 thousand in 2019 (Euro 1,768 thousand in 2018), included in this note, have not suffered any impairment.

The breakdown by ageing of these due accounts is as follows:

| | 2019 | 2018 |
|---|---|---|
| Less than 3 months | 7,553 | 6,780 |
| Between 3 and 6 months | 731 | (95) |
| More than 6 months | 534 | 379 |
| **Total** | **8,818** | **7,064** |

(In thousand Euro)

The movement in the accounts receivable under bad debt provisions for the years 2019 and 2018 has been as follows:

| | 2019 | 2018 |
|---|---|---|
| **Balance at 1 January** | **1,768** | **255** |
| Business combination | - | 1,454 |
| Charge for the year (Note 20) | 149 | 92 |
| Recoveries of balances provided for (Note 20) | (6) | (5) |
| Write off of balances provided for | (1,460) | (28) |
| **Balance at 31 December** | **451** | **1,768** |

The recognition and reversal of the provisions for impairment of accounts receivable have been included in the income statement. Amounts charged to the impairment provision are eliminated when there is no expectation that more cash will be collected.

## 9 OTHER CURRENT FINANCIAL ASSETS

The accounting values of “Other current financial assets” do not differ from their fair value.

The balances for the years ended at 31 December 2019 and 2018 of other current financial assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Sundry receivables | 238 | 286 |
| Public Administrations | 3,114 | 5,954 |
| Current financial asset investments | 37,366 | 36,277 |
| Accruals | 113 | 106 |
| | **40,831** | **42,623** |

The breakdown of accounts with Public Administrations for the years 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Public Treasury (VAT receivable) | 2,410 | 4,602 |
| Other taxes refundable | 704 | 1,352 |
| | **3,114** | **5,954** |

(In thousand Euro)

The movement in current financial asset investments for 2019 and 2018 has been as follows:

| | 2019 | 2018 |
|---|---|---|
| **Balance at 1 January** | **36,277** | **27,975** |
| Additions | 42,975 | 9,564 |
| Transfers (Note 6) | 13,230 | 26,620 |
| Disposals | (55,116) | (27,882) |
| **Balance at 31 December** | **37,366** | **36,277** |

The short-term financial investments registered at the end of 2019 total 36,976 thousand Euro (35,237 thousand Euro in 2018), as well as the accrued financial interests in 2019 of 390 thousand Euro (1,040 thousand Euro in 2018), maturing within twelve months and paying an effective interest rate that varies within a range of 0.34% to 4.88% for the year 2019 (0.72% to 4.62% in 2018) which is not equal to the return on assets.

## 10 CASH AND OTHER CASH EQUIVALENTS

The balances for the years ended at 31 December 2019 and 2018 of cash and other cash equivalents are as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash at banks and in hand | 6,947 | 17,005 |
| | **6,947** | **17,005** |

There are no restrictions with respect to cash and / or cash equivalents. The average remuneration obtained on those balances has been immaterial.

## 11 EQUITY

### 11.1 Share capital, own shares and share premium

The breakdown of share capital at 31 December 2019 and 2018 is as follows:

| | **Number of shares (thousand)** | **Nominal Value of Ordinary shares (thousand Euro)** |
|---|---|---|
| Balance at 31 December 2018 | 31,000 | 62,000 |
| Balance at 31 December 2019 | 31,000 | 62,000 |

<u>SHARE CAPITAL</u>

The reconciliation between the number of shares (in thousand) in circulation at the beginning and end of the year is as follows:

| | **2019** | **2018** |
|---|---|---|
| **Balance at 1 January** | **30,400** | **19,413** |
| Capital increase and reduction, acquisition and allocation due to exercise of options on treasury shares | (697) | 10,987 |
| **Balance at 31 December** | **29,703** | **30,400** |

At 31 December 2019, the share capital is represented by 31,000,000 ordinary shares (31,000,000 shares in 2018), supported by entries of Euro 2.00 each one, fully subscribed and paid.

The shares of the parent Company are listed on the Barcelona, Madrid, Bilbao and Valencia stock exchanges and integrated in the inter-connected trading board (SIBE-Smart).

All shares have the same economic and voting rights, and there are no legal restrictions nor statutory for the shares acquisition or transmission in the share capital.

The Board of Directors, under the resolution adopted by the Ordinary and Extraordinary General Meeting held in June 22, 2016, is authorized to issue fixed-income securities, both simple and convertible and / or exchangeable for company shares, in a maximum amount of Euro 100,000 thousand in one or several times within five years. On 2018 and 2019, the Board of Directors did not use the aforementioned authorization.

(In thousand Euro)

In June 20, 2018, the Ordinary and Extraordinary General Meeting of shareholders of Miquel and Costas & Miquel, SA agreed to reduce the Company's share capital by Euro 2,550 thousand by amortizing 1,275,000 shares of 2.00 euro in nominal value each of them, being the social capital fixed in Euro 38,750 thousand. It is stated that the purpose of the reduction of capital was amortized by shares, previously acquired by the Company. In October 3, 2018, it was registered in the Mercantile Register of Barcelona.

The aforementioned Extraordinary General Shareholders'' Meeting also agreed to increase share capital against freely available reserves, specifically, by charge to voluntary reserves, up to an amount of Euro 62,000 thousand, through the issue and circulation of 11,625,000 new shares with the same par value, of the same series and carrying the same rights as those currently in circulation, represented by book entries and which were assigned gratuitously to the Company's shareholders. This increase was entered in the Commercial Register of Barcelona on 30 November 2018.

There was no movement in 2019.

At the dates of December 31, 2019 and 2018, in accordance with the notifications received by Company submitted by natural and legal persons holding rights of direct and indirect vote by a percentage equal to or greater than 10% Company are as follows:

| | **% interest** | |
|---|---|---|
| | **2019** | **2018** |
| Jorge Mercader Miró | 14.82 | 14.39 |
| Mª del Carmen Escasany Miquel | 11.67 | 11.67 |
| Bernadette Miquel Vacarisas | 11.45 | 11.35 |

OWN SHARES

The General Shareholders' Meeting held in June 26, 2016 authorized the Company to acquire treasury shares up to 10% of the share capital for a term of five years. The General Shareholders' Meeting held on 20 June 2018 again authorised the Company to acquire treasury shares under the same terms.

By virtue of the resolutions adopted at such General Meetings, the Board of Directors, at meetings held on the same dates, agreed to approve the treasury share policy within the authorized limits and subject to the Internal Rules of Conduct.

The breakdown and movement of own shares in equity for the years 2019 and 2018, is as follows:

| Description | Number of shares | Value of the operation (Thousand Euro) | Average price (Euro) | Nominal value (Thousand Euro) |
|---|---|---|---|---|
| **Balance at 31-12-2017** | **1,236,498** | **34,909** | **28.23** | **2,473** |
| Acquisition of own shares | 513,679 | 12,466 | 24.27 | 1,027 |
| Subscription and acquisition on capital increase | 125,016 | - | - | 250 |
| Capital decrease | (1,275,000) | (37,036) | 29.05 | (2,550) |
| **Balance at 31-12-2018** | **600,193** | **10,339** | **17.23** | **1,200** |
| Acquisition of own shares | 696,817 | 11,144 | 15,99 | 1,394 |
| Subscription and acquisition on capital increase | - | - | - | - |
| Capital decrease | - | - | - | - |
| **Balance at 31-12-2019** | **1,297,010** | **21,483** | **16,56** | **2,594** |

During 2019, the Company acting within the framework approved, has acquired 696,817 shares (513,679 shares in 2018) worth 11,144 thousand Euro (12,466 thousand Euro in 2018).
Treasury shares held at 31 December 2019, after the operations carried out during the year, amount to 1,297,010 (600,193 shares in 2018).

SHARE PREMIUM

The balance and variations for the years ended at 31 December 2019 and 2018 are as follows:

| | Share Premium |
|---|---|
| Balance at 31 December 2018 | 40 |
| Balance at 31 December 2019 | 40 |

The share premium is subjected to the same restrictions and may be used for the same purposes as the voluntary reserves of the parent Company, including conversion into share capital.

(In thousand Euro)

### 11.2 Cumulative translation differences

The cumulative translation differences in 2019 and 2018 are as follows:

| | **Cumulative translation differences** |
|---|---|
| **Balance at 31 December 2017** | **(6,967)** |
| Initial impact hyperinflation in Argentina (Note 2.2.1) | 6,945 |
| **Balance at 1 January 2018** | **(22)** |
| Movement for the year 2018 | (48) |
| **Balance at 31 December 2018** | **(70)** |
| **Balance at 1 January 2019** | **(70)** |
| Movement for the year 2019 | (29) |
| **Balance at 31 December 2019** | **(99)** |

The breakdown of the cumulative translation differences at the 2019 and 2018 year-end, relates to Miquel y Costas Chile, S.R.L. Translation differences in Miquel y Costas Argentina, S.A., have been reclassified to reserves as explained in Note 2.1.1 IAS 29 “Hyperinflation”.

### 11.3 Retained earnings and other reserves

The balances for the years ended 31 December 2019 and 2018 in the items forming “Retained earnings, other reserves and other equity instruments” are set out below:

| | Legal reserves of the parent company | Other reserves of the parent company | Reserves in fully consolidated companies | Cumulative conversion differences | Interim dividend | Results for the year | Other equity instruments | Value adjustment (Note 6) | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2018 | 8,260 | 97,076 | 74,195 | (70) | (6,200) | 37,277 | 233 | 7,433 | 218,204 |
| Balance at 31 December 2019 | 12,400 | 111,392 | 80,157 | (99) | (6,600) | 39,218 | 355 | 3,200 | 240,023 |

LEGAL RESERVE

The parent Company is obliged to transfer a minimum of 10% of the profit for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital by applying the part exceeding 10% of the share capital already increased.

As a result of the capital increase in the parent in 2018, when distributing the Company's profit for that year, it was proposed to fund the legal reserve up to the 20% limit of share capital following the increase.

Accordingly, the legal reserve was set up pursuant to Article 274 of the Spanish Companies Act, which stipulates that the Company is required to transfer at least 10% of profits for the year to a reserve until the reserve balance reaches at least 20% of share capital.

The balance in the reserve, up to 20% of share capital, is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

OTHER RESERVES OF THE PARENT COMPANY

This line includes the voluntary reserves of the parent Company, which are freely available for distribution. However, under current mercantile law, the distribution of profit is not permitted until the research and development expenses recorded under assets in the individual annual accounts as per the GAAP of the parent Company are fully amortised, unless the amount of the available reserves is at least equal to the amount of non-amortised expenses. These expenses were fully amortized as of December 31, 2015.

RESERVES IN FULLY CONSOLIDATED COMPANIES

These reserves relate to the difference between the carrying value of the shareholding in consolidated companies and the attributable portion of net book value. This line includes Euro 1,738 thousand relating to the legal reserve (Euro 2,103 thousand in 2018), which are subject to the same restrictions as those mentioned in the section "Legal reserves" above.

According to the provisions laid down by mercantile law, some of the Group companies restated the values of certain PPE at 31 December 1996, which generated a revaluation reserve totalling at December 31, 2019 and 2018 Euro 5,411 thousand. The balance of this account can be used, free of tax, to:

- Offset losses.
- Increase share capital.
- Distributable reserves, as from 31 December 2006.

As reported in previous years, the requirements set out in Royal Decree-Law 7/1996 of June 7 have been met, so that the Company can proceed with the transfer of the reserve revaluation to voluntary reserves.

However, the balance of the Revaluation Reserve Royal Decree-Law 7/1996 cannot be distributed, directly or indirectly, until the assets have been written off for accounting purposes or have been disposed of or derecognised.

INTERIM DIVIDEND

The dividend distribution policy consists of four payments, of which three are on account and one which is complementary.

In accordance with the resolutions of the Board of Directors, approved the distribution of interim dividends in 2019 which are listed below:

- By charge to 2018 profits:

    - Resolution dated 25 March: it was agreed to distribute a third interim dividend out of 2018 profits amounting to Euro 3,100 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.10300775 per share. As it was paid after the year end 2018, this distribution met the relevant regulatory requirements as regards profits and liquidity.

- By charge to 2019 profits:

    - Resolution dated 30 September: it was agreed to distribute a third interim dividend out of 2019 profits amounting to Euro 3,300 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.11095544 per share.

- Resolution dated 25 November: it was agreed to distribute a second dividend out of 2019 profits amounting to Euro 3,300 thousand which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.11103727 per share.

All of them have been realized in 2019.

During 2018 the Board of Directors agreed to distribute the following interim dividends:

- By charge to 2017 profits:

    - Resolution dated 19 March: it was agreed to distribute a third interim dividend out of 2017 profits amounting to Euro 3,000 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.15508100 per share (Euro 0.09692562 per share, as adjusted for the capital increase of November 2018).

- By charge to 2018 profits:

    - Resolution dated 1 October: it was agreed to distribute an initial interim dividend out of 2018 profits amounting to Euro 3,100 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.16159426 per share. (Euro 0.10099641 per share, as adjusted for the capital increase carried out in November 2018).

    - Resolution dated 22 November: it was agreed to distribute a second interim dividend out of 2018 profits amounting to Euro 3,100 thousand which, in gross unit terms, with the allocation of the proportional part of the dividend rights of the treasury shares held, amounted to Euro 0.10164948 per share, subsequent to the capital increase of November 2018.

All of them have been realized in 2018.

(In thousand Euro)

The amounts distributed as the sum of interim dividends and supplementary dividends as detailed in the following paragraph, did not exceed the results obtained since the end of last year, less estimated corporate income tax payable on these results, in line with the provisions of Article 277 of the Spanish Capital Companies Act 1/2010 of 2 July 2010.

| | 2019 | 2018 |
|---|---|---|
| Dividends | 13,350 | 12,700 |
| Tax effect | (1,533) | (1,443) |
| **Total** | **11,817** | **11,257** |

Of the gross amount of dividends paid, all shares which represent more than 5% of total shares and with a length equal to or exceeding one year, have enjoyed the right not to withhold tax pursuant to art. 21.1 a). of Law 27/2014 of 27 November related to Corporate Income Tax, in accordance with the exoneration of withholding tax rule provided by Article 128.4.d) of that Law.

The provisional accounting statement prepared in accordance with legal requirements and which revealed the existence of sufficient liquidity for the distribution of such dividends, are set out below:

- Provisional resolution of 30 September, 2019 to distribute a first interim dividend of the profits from 2019 of a total amount of 3,300 thousand Euro:

| | 2019 |
|---|---|
| Profit distribution forecast | |
| Expected net results after tax at 30 September 2018 | 20,126 |
| Maximum amount to be distributed as interim dividend | 20,126 |
| Interim dividend distributed | 3,300 |
| Treasury forecast for the period between 26 September 2018 and 26 September 2019: | |
| Treasury balances at 26 September 2018** | 107,042 |
| Forecast receipts | 174,900 |
| Forecast payments (including interim dividend) | (178,210) |
| Forecast treasury balances at 26 September 2019 | **103,732** |

** Includes unused credit facilities with financial institutions.

(In thousand Euro)

- Provisional resolution of 25 November, 2019 to distribute a second interim dividend of the profits from 2019 of a total amount of 3,300 thousand Euro:

| | **2019** |
|---|---|
| Profit distribution forecast: | |
| Profit for the period 1 January to 31 December 2018 | 30,520 |
| Forecast profit for the period 1 January to 25 November 2019 | 28,830 |
| Maximum amount to be distributed as interim dividend | 59,350 |
| Interim dividends paid by charge to 2018 | 12,950 |
| Interim dividends paid by charge to 2019 | 3,300 |
| Proposed dividends by charge to 2019 | 3,300 |
| Treasury forecast for one year from the date of agreement for interim distribution | |
| Available liquidity at the date of agreement for distribution of interim dividend* | 101,680 |
| Forecast receipts | 166,200 |
| Projected payments (including dividends) | (169,134) |
| **Projected cash and bank balances at 25 November 2020** | **98,746** |

**Includes unused credit facilities with financial institutions

SUPPLEMENTARY DIVIDEND

Under the resolution adopted by the General Shareholders Meeting dated in June 20, 2019, approved the distribution of dividends for the year, together with the ratification of payments and the agreement of payment of a complementary dividend for the results of 2018 amounting to Euro 3,650 thousand.

Under the resolution adopted by the General Shareholders Meeting dated in June 20, 2018, approved the distribution of dividends for the year, together with the ratification of payments and the agreement of payment of a complementary dividend for the results of 2017 amounting to Euro 3,500 thousand.

RETAINED EARNINGS

Relates to the earnings obtained in each year by the companies in the consolidation scope at 31 December 2019 and 2018.

OTHER EQUITY INSTRUMENTS

Relates to the amount recorded as a balancing item for staff costs arising from the "Stock Option Plan 2011" formalized in 2012, which expired in January 2017, and the new stock option plan arranged in 2017. At 31 December 2019 this amounts to 355 thousand Euro (Euro 233 thousand in 2018).

- "2016 Stock option plan" - The General Shareholders' Meeting of the Parent Company held in June 22, 2016 approved a new stock option plan, applicable to those executive directors and executives of the Parent Company and Group companies that the Board of Directors appointed. The plan was developed, defined and drawn up by the Board of Directors in its meeting on 30 January 2017, drawing on the powers granted by the General Meeting. The plan states that each option carries one share and allocates 525,000 options of which 491,500 were in effect at the year end, increasing to 786,400 following the capital increase carried out in November 2018.

  The options are subject to certain conditions and the parent company is not under any legal or constructive obligation to buy back or settle the options in cash, since they will be settled using the parent's treasury shares.

  Based on the aforementioned agreements, the option exercise price was established at Euro 22.21 per share, Euro 13.88 following the adjustment relating to that capital increase, determined by the average share exchange rate for the preceding quarter less 5%.

  The plan includes the following phases:

  - Vesting phase: It begins on 7 February 2017 and lasts for five years.

  - Exercise phase: It begins on the day following the end of the vesting phase and lasts for three years. This phase marks the start of the period in which the beneficiaries may exercise the options.

(In thousand Euro)

The weighted average fair value of the stock options at the award date, determined using the Black-Scholes/Merton method, is as follows:

| Due Date | Option value |
|---|---|
| 27/01/2025 | 1.25 |

The main model inputs were the share price, the above-mentioned strike price, the standard deviation from the expected yield, a dividend yield, the option's expected life and an annual risk-free interest rate. Estimated volatility in the standard deviation from the expected share price performance is based on statistical analyses of daily share prices.

The value is taken to the income statement as a staff cost for the year, on an accrual basis, with a balancing item in equity. The amount of Euro 124 thousand was charged to the income statement at 31 December 2019 (115 thousand at 31 December 2018).

## 12 BORROWINGS

The breakdown of the current and non-current financial debt for the years ended at 31 December 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Non-current** | | |
| Bank loans | 54,489 | 66,145 |
| | **54,489** | **66,145** |
| **Current** | | |
| Bank loans | 15,519 | 7,718 |
| Credit facilities | 274 | 974 |
| Interest accrued | 86 | 49 |
| | **15,879** | **8,741** |
| **Total borrowings** | **70,368** | **74,886** |

(In thousand Euro)

The movement of short and long-term loans during 2019 and 2018 is the following:

| | Long-term Borrowings | Short-term Borrowings |
|---|---|---|
| **Balance at 31-12-17** | **61,373** | **8,671** |
| Obtaining financing and value update | 32,167 | - |
| Amortization | (19,677) | (8,671) |
| Transfers from long to short term | (7,718) | 7,718 |
| **Balance at 31-12-18** | **66,145** | **7,718** |
| Obtaining financing and value update | 28,863 | - |
| Amortization | (25,000) | (7,718) |
| Transfers from long to short term | (15,519) | 15,519 |
| **Balance at 31-12-19** | **54,489** | **15,519** |

The maturities of non-current borrowings are as follows:

| | 2019 | 2018 |
|---|---|---|
| Up to 1 year | 15,879 | 8,741 |
| Between 1 and 3 years | 30,765 | 29,909 |
| Between 3 and 5 years | 19,066 | 24,769 |
| More than 5 years | 4,658 | 11,467 |
| | **70,368** | **74,886** |

During 2019 the Group has received 6 loans from credit institutions, 5 of them granted by the Centre for the Development of Industrial Technology (CDTI) and 1 by financial institutions, for a total of Euro 28,836 thousand, with repayment terms of 5 to 12 years including grace periods ranging from 1 year to 4 years.

During 2018 the Group had received 10 loans from credit institutions, 3 of them granted by the Centre for the Development of Industrial Technology (CDTI) and 7 by financial institutions, for a total of Euro 32,080 thousand, with repayment terms of 4 to 12 years including grace periods ranging from 0 year to 5 years.

(In thousand Euro)

The Group at December 31 2019 has loans at a zero interest rate with an outstanding capital of 5,687 thousand Euro (5,888 thousand Euro at December 31, 2018).

The rate of non-subsidized loans is fixed.

Of total loans at 31 December 2019, Euro 2,140 thousand relates to loans secured through a bank guarantee (Euro 2,371 thousand at 31 December 2018).

The parent company has contracted lines of short-term financing (credit facilities) to interest rate market with various financial institutions for a limited amount of 26,170 thousand Euro (28,130 thousand Euro in 2018) of which at the end of 2019 and 2018 had provided 274 thousand Euro and 974 thousand Euro, respectively. Credit lines with a maturity of less than one year are subject to upcoming renovations in the year 2020.

The carrying value (in Euro) of the Group's bank loans is denominated in the following currencies:

| | **2019** | **2018** |
|---|---|---|
| Euro | 70,094 | 74,750 |
| AUD | 204 | 131 |
| JPY | - | 5 |
| GBP | 65 | - |
| USD | 5 | - |
| **Total borrowings** | **70,368** | **74,886** |

## 13 PENSION COMMITMENT LIABILITIES

The Group has different pension commitments based on its work centres and companies (see note 2.3).

### 13.1 Defined contribution commitments

The Group has two defined contribution plans as a result of the agreements with representatives of the workers at the Besos and Mislata work centres. The amount recorded during the year as staff costs in the income statement relates to the contributions made in the year 2019 which totals Euro 48 thousand (Euro 50 thousand in 2018) (Note 19).

There are also three other defined contribution plans for the companies Miquel y Costas & Miquel, S.A., MB Papeles Especiales, S.A., and Celulosa de Levante, S.A., for the executive Directors and Senior Management (Notes 24.3 and 24.4).

### 13.2 Defined benefit commitments

The other pension commitments of the Group are defined benefit contribution plans of the following two types:

- Commitments with retired personnel

  Miquel y Costas & Miquel, S.A., has payment commitments for pensions with a group of retired employees that increase annually on the basis of the increase in the remuneration agreed in the collective agreement for the paper, pulp and cartonboard industry. These commitments since 2002 have been transferred and insured through respective collective insurance policies.

- Commitment with current personnel

  Under the collective agreement for the paper, pulp and cartonboard industry, the Group bears an obligation with their current employees who can claim early retirement to pay them the retirement bonuses set down in the aforementioned collective agreement. This commitment is exteriorized and secured through a group insurance contract. In addition, the Group, at the time of the entry into force in January 1, 2013 of the Law 27/2011, of August 1, on updating, adapting and modernizing the Social Security system, becomes obliged under the same agreement, with part of their employee to grant early retirement at age 63. This is not a new pension commitment, but a collective increase of employees eligible for a retirement bonus. The insurance contracts were entered into in 2013 in order to meet the outsourcing of pension commitments, and they have been extended in 2016.

(In thousand Euro)

The breakdown of the amounts recognised in the balance sheet for long-term employee benefit obligations and the related charges in the income statement for the different types of defined benefit liabilities that the Group has with its employees is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Charges in the consolidated income statement:** | | |
| - Financial restatement (Financial expenses) (Note 21.4) | 1 | 2 |
| - Current services costs (Note 19) | 10 | 16 |
| - Expected return on plant-related assets (Note 21.4) | (1) | (1) |
| | **10** | **17** |
| **Charges/(credits) in Equity:** | | |
| - Actuarial gains and losses | 161 | (28) |
| - Tax effect | (40) | 7 |
| | **121** | **(21)** |

The amounts recognised in the balance sheet are determined as follows:

| | 2019 | 2018 |
|---|---|---|
| Current value of committed liabilities | (512) | (592) |
| Fair value of plan-related assets | 228 | 272 |
| **Liabilities on the balance sheet (Note 14)** | **(284)** | **(320)** |

The movement in the fair value of the plan related assets has been as follows:

| | 2019 | 2018 |
|---|---|---|
| **Opening balance** | **272** | **245** |
| Expected return on plan-related assets | 1 | 1 |
| Actuarial gains / (losses) | 36 | 42 |
| Contributions paid net of returned premiums | (9) | (16) |
| **Closing balance** | **228** | **272** |

(In thousand Euro)

The movement in the fair value of the committed liabilities:

| | 2019 | 2018 |
|---|---|---|
| **Opening balance** | **592** | **517** |
| Interest costs | 1 | 1 |
| Current services costs | 10 | 16 |
| Past service cost | 109 | - |
| Actuarial (gains) / losses | (197) | 70 |
| Contributions paid | (3) | (12) |
| **Closing balance** | **512** | **592** |

- Valuation of defined benefit commitments:

  Group management has engaged an independent actuary to prepare an actuarial valuation at 31 December 2019 and 2018 of each pension plan mentioned above, in accordance with the criteria and methodology generally accepted for IFRS purposes.

  The main actuarial assumptions applied have been as follows:

| | |
|---|---|
| Interest rate for valuing liabilities with current personnel at 31/12/2018 | 0.172% |
| Interest rate for valuing liabilities with current personnel at 31/12/2019 | 0.000% |
| Interest rate for valuing liabilities with retired personnel at 31/12/2018 | 0.172% |
| Interest rate for valuing liabilities with retired personnel at 31/12/2019 | 0.000% |
| Expected return on assets with current personnel | 0.172% |
| Expected return on assets with retired personnel | 0.172% |
| Annual growth in pensions at the beginning of 2019 | 0.25% |
| Annual growth in pensions at the end of 2019 | 0.25% |
| Mortality tables | PERMF2000P |
| Hypothesis of permanence | EHA/3433/2006COD21 |
| Retirement age | 63 years |

(In thousand Euro)

The interest rates used have been determined at market rates, on the balance sheet date, for the issues of high grade corporate bonds or debentures. Both the currency and the maturity of the bonds relates to the current and terms of payment estimated for the liabilities borne by the Group. In addition, the current labour regulation relating to retirement age has been considered.

The valuation method used has been the “projected credit unit”. This system consists in proportionally accrediting the present value of the future expected benefits on the basis of past service at any time.

To determine the value of the net liability recognized in the commitments, the insurance policies arranged as affected asset have been considered, with their valuation determined by the amount of the secured obligations. This means that the commitments for retirement bonuses, being matched to the Group benefits and obligations, the value of the insurance policy is equal to the accrued obligations, resulting in a zero net value for all defined benefit obligations without assumption of permanence. For other commitments, the insurer has provided the valuation of the affected asset.

## 14 OTHER NON-CURRENT LIABILITIES

The breakdown of this account at the 2019 and 2018 year end is as follows:

| | **2019** | **2018** |
|---|---|---|
| Grants | 1,351 | 1,459 |
| Long-term staff liabilities (Note 13.2) | 284 | 320 |
| Deposits and guarantees | 23 | 23 |
| Other | 1,781 | 1,777 |
| | **3,439** | **3,579** |

(In thousand Euro)

a) Grants

The detail and movement of grants is as follows:

| | Government grants | Subsidised interest rate | Emission rights (Note 25.2) | Total |
|---|---|---|---|---|
| **Balance at 31-12-2017** | **1,341** | **259** | **(8)** | **1,592** |
| Increases | 9 | 173 | 642 | 829 |
| Business combination | - | - | 5 | 5 |
| Transferred to income statement | (186) | - | (517) | (703) |
| Decreases not affecting income statement | - | (259) | - | (259) |
| **Balance at 31-12-2018** | **1,164** | **173** | **122** | **1,459** |
| Increases | 138 | 146 | 1,558 | 1,842 |
| Business combination | (194) | - | (1,583) | (1,777) |
| Transferred to income statement | | | | |
| Decreases not affecting income statement | - | (173) | - | (173) |
| **Balance at 31-12-2019** | **1,108** | **146** | **97** | **1,351** |

Income relating to grant released to results for the year are carried under "Charge to non-financial fixed assets grants" in the consolidated income statement.

Grants awarded to the Company are non-repayable since all the necessary conditions attached to the grants for them to be considered non-repayable have been met.

(In thousand Euro)

Government grants at 31 December 2019 and 2018 include the capital grants from the Government of Catalonia, Energy Agency of Valencia, the C.D.T.I. and the ICAEN, mainly for the Group investments in environmental investigation for improving energy efficiency.

b) Long-term staff liabilities

The movement of long-term staff liabilities during 2019 and 2018 is as follows:

| | |
|---|---|
| **Balance 31-12-17** | **272** |
| Provisions (Note 13) | 16 |
| Payments | 5 |
| Applications | 27 |
| **Balance 31-12-18** | **320** |
| Provisions (Note 13) | 10 |
| Payments | 6 |
| Applications | (52) |
| **Balance 31-12-19** | **284** |

The Group has recorded at 2012 year end a provision amounting to Euro 400 thousand, as a result of the implementation of Law 27/2011, of August 1 on updating, improvement and modernization of the Social Security system and came into force 1 January 2013, resulting in an increase in employees entitled to early retirement during 2016 This provision totals Euro 284 thousand as of 31 December 2019 (Euro 320 thousand in 2017).

c) Others

A provision of Euro 259 thousand was posted to cover possible third-party liability as a lucrative participant in the current procedure against directors of Mutua Universal Mugenat and against it as a secondarily liable party, which is maintained in 2018 and 2019.

There is also a provision to cover risks related to the Group’s operation amounting to Euro 8 thousand in 2019 and 30 thousand in 2018.

Additionally, this heading includes Euro 628 thousand relating to lease liabilities as a result of the application of IFRS 16 (Euro 0 thousand in 2018).

Provisions have also been included in the amount of Euro 866 thousand (Euro 1,488 thousand in 2018) that have a long-term maturity, for variable remuneration, associated with objectives and established and agreed with the employees involved. The short-term amount is included in “Accrued wages and salaries” (See Note 16).

## 15 TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE

This section only reflects the balance at 31 December 2019 and 2018 of trade creditors and payables. Of Euro 32,435 thousand in this balance at 31 December 2019, 4,149 thousand relate to trade creditors in foreign currency, basically US Dollars, translated into Euro (In 2018, of Euro 39,406 thousand in this balance at 31 December 2018, 7,400 thousand relate to trade creditors in foreign currency, basically US Dollars, translated into Euro).

The book value recognised does not differ from the fair value of balances under trade creditor and other accounts payable.

Additionally, the balance of Euro 32,435 thousand includes short-term fixed asset creditor balances amounting to Euro 3,479 thousand in 2019 (Euro 2,956 thousand in 2018).

According to the Resolution of 29 January 2016, of the Institute of Accounting and Auditing, on the information to be included in the notes to the financial statements in relation to the average payment period, it is reported that as of December 31 2019 and 2018 it is as follows:

| | **31/12/2019** | **31/12/2018** |
|---|---|---|
| | **Days** | **Days** |
| Average payment period to creditors | 32 | 31 |
| Ratio of operations paid | 33 | 32 |
| Ratio of operations pending payment | 15 | 21 |
| | **Thousands of Euro** | **Thousands of Euro** |
| Total payments made | 115,417 | 104,452 |
| Total outstanding payments | 8,744 | 10,172 |

(In thousand Euro)

## 16 SHORT TERM PROVISIONS AND OTHER CURRENT LIABILITIES

The fair value of short term provisions and other current liabilities does not differ from their accounting value. This heading breaks down as follows:

| | 2019 | 2018 |
|---|---|---|
| Non-trade creditors | 6,255 | 4,251 |
| Accrued salaries | 4,991 | 5,523 |
| Provision for gas emission rights (note 25.2) | 1,577 | 633 |
| Other current provisions | 183 | 835 |
| Acquisition Clariana Group pending disbursement (Note 2.3) | - | 800 |
| Accrual | - | 50 |
| Advance payments from customers | 643 | 1,312 |
| Other liabilities | 461 | - |
| | **14,110** | **13,404** |

Provisions for variable compensation and associated objectives established and agreed with the staff concerned are included under the heading of accrued salaries. In 2019 and 2018 a portion of these variable compensation is classified in the long term because it has a maturity of more than 1 year.

The Group has not received guarantees associated with these liabilities. Of the total of "Short-term provisions" and "current liabilities" of the Group at 31 December 2019, an amount of 299 thousand Euro are in non-euro currency (264 thousand Euro in 2018).

“Other liabilities” relate to the short-term amount as a result of the application of IFRS 16 ( see note 2.1.1 “IFRS 16 Leases”).

The information related to gas emission rights is disclosed in Note 25.2 of these consolidated financial statements.

a) Non-trade creditors

| | 2019 | 2018 |
|---|---|---|
| Taxes payable to Public Administrations | 5,365 | 3,162 |
| Social Security | 870 | 1,079 |
| Other taxes payable | 20 | 10 |
| | **6,255** | **4,251** |

The balance of creditor Treasury at year-end 2019 and 2018 includes essentially the amounts provided in respect of Income Tax of Physical Persons Tax and Value Added.

b) Other current provisions.

The Group records short-term provisions amounting to Euro 183 thousand (Euro 835 thousand in 2018), that mainly include contingent liabilities amounting to Euro 145 thousand relating to the business combination with Clariana, S.A. (Euro 705 thousand in 2018). The provision was partly reversed due to the time-bar of the contingency or new assessment by Management.

## 17 TAX SITUATION

### 17.1 Consolidated tax regime

The parent Company, since it is the parent Company of a Group, is taxed in Spain for corporate income tax under the Consolidated Tax Regime. The consolidated tax group includes Miquel y Costas & Miquel, S.A., as the parent Company, while those Spanish companies that meet the requirements set down in tax legislation on the taxation of the consolidated profit of groups of companies, are classified as the subsidiary companies.

The companies in the tax consolidated group at 31 December 2018 were as follows:

Miquel y Costas & Miquel, S.A. (Parent Company)
Celulosa de Levante, S.A.
S.A. Payá Miralles
MB Papeles Especiales, S.A.
Miquel y Costas Energía y Medio Ambiente S.A.
Papeles Anoia, S.A.
Sociedad Española Zig-zag, S.A.
Miquel y Costas Tecnologías, S.A.
Desvi, S.A.
Terranova Papers, S.A.
Miquel y Costas Logística S.A.

Clariana, S.A. which was acquired by the Group on 25 July 2018 was added to the Tax Group on 1 January 2019 (Note 1).

The subsidiary companies Miquel y Costas Argentina, S.A., Miquel y Costas Chile, S.R.L. and Miquel y Costas Deutschland, GmbH file individual tax returns under the tax legislation of Argentina, Chile and Germany, respectively.

(In thousand Euro)

### 17.2 Corporate income tax

Corporate income tax on Group profit before taxes differs from the amount that would have been obtained using the weighted average tax rate applicable to the profit of the consolidated companies as follows:

| | **2019** | **2018** |
|---|---|---|
| Profit before tax | 51,066 | 49,654 |
| Elimination of results of foreign companies for non-tax group consolidation* | 614 | 733 |
| Adjustments to taxable income | (1,573) | (2,241) |
| Taxable income | 50,107 | 48,146 |
| Result of tax rate on taxable income | 12,527 | 12,037 |
| Deductions and credits | (715) | (653) |
| Tax consolidation group | 11,812 | 11,384 |
| Corporate income tax expense for the year – non tax group * | 290 | 648 |
| Shortfall / excess corporate income tax expense for the previous year and other adjustments | 4 | 360 |
| IAS / IFRS adjustments and others | (258) | (15) |
| Tax expense | 11,848 | 12,377 |

*Included effect of hyperinflation in subsidiary Miquel y Costas Argentina, S.A. See Note 2.1.

During the current year the Group applied the reduction to the corporate income tax base amounting to Euro 866 thousand (Euro 0 thousand in 2018) as a capitalization reserve. Since the company is taxed through a consolidated tax regime and in accordance with Article 62 of Law 27/2014 of income tax, the calculation of the reserve was made at the Group tax level and its provision has been made for each company depending on the increase in equity each company contributed to the group.

The average tax rate for 2019 is 23.2% against 24.9% in the prior year.

Adjustments to taxable income relate mainly to the allocation to the pension fund, accelerated depreciation of assets and other items. The IFRS adjustments are mainly generated by the revaluation in accordance with Law 16/2012, of 27 December, which the parent Company and certain subsidiaries of the Group (Papeles Anoia, S.A., Celulosa de Levante, S.A., MB Papeles Especiales, S.A., Miquel y Costas Tecnologías, S.A., and S.A. Payá Miralles) have performed

(In thousand Euro)

The companies not included in the tax group in 2018 are the foreign subsidiaries and Clariana, S.A. and Boncompte-Sierra, S.L.U. In January 2019 Clariana, S.A. was added to the Tax Group and on 27 August Clariana, S.A. was merged with Boncompte-Sierra, S.L.U. (Note 1).

The Group has applied in the calculation of income tax for 2019 tax incentives amounting to Euro 715 thousand (Euro 653 thousand in 2018) mainly relating to deductions for the environment, research and development and technological innovation.

The Group applied EUR 88 thousand of tax losses of Clariana, S.A. in 2006.

The Group's tax loss carryforwards at 31 December 2019 amount to Euros 488 thousand, all of which were generated in 2018.

The Group has no unused tax credits in 2019 and 2018.

The net tax payable (receivable) over corporate income tax is charged to each of the Group companies on the date of payment of the tax.

| | **2019** | **2018** |
|---|---|---|
| Net tax payable | | |
| From Miquel y Costas & Miquel, S.A. | 535 | 671 |
| From subsidiaries consolidated for tax purposes | | |
| Sociedad Española Zig-Zag, S.A. | 1 | 2 |
| S.A. Payá Miralles | 15 | 37 |
| Papeles Anoia, S.A. | 87 | 84 |
| MB Papeles Especiales, S.A. | 275 | 256 |
| Miquel y Costas Tecnologías, S.A. | (71) | (5) |
| Celulosa de Levante, S.A. | (147) | (70) |
| Desvi, S.A. | (50) | 27 |
| Miquel y Costas Logística S.A. | 21 | 28 |
| Miquel y Costas Energía y Medio Ambiente , S.A. | 38 | 30 |
| Terranova Papers, S.A. | (444) | (287) |
| Clariana, S.A. | 39 | - |
| Total | **299** | **773** |

(In thousand Euro)

### 17.3 Deferred income tax assets and liabilities

The deferred income tax assets and liabilities are stated in the consolidated balance sheet without being offset.

The overall effect of the recognition of the deferred tax for 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Deferred income tax assets:** | | |
| - Deferred income tax assets to be recovered in more than 12 months | 2,847 | 2,989 |
| - Deferred income tax assets to be recovered in 12 months | 196 | 586 |
| | **3,043** | **3,575** |
| **Deferred income tax liabilities:** | | |
| - Deferred income tax liabilities to be paid in more than 12 months | 2,486 | 2,745 |
| - Deferred income tax liabilities to be paid in 12 months | 325 | 327 |
| | **2,811** | **3,072** |

The breakdown of deferred income tax assets and liabilities for 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Deferred income tax assets:** | | |
| Pension premiums | 27 | 72 |
| Elimination of margin not realized | - | 10 |
| Limitation on the deduction of depreciation | 1,022 | 1,115 |
| Revaluations RD 16/2012 | 864 | 1,262 |
| Accruals | 913 | 919 |
| Business combination | 36 | 176 |
| Other | 181 | 22 |
| | **3,043** | **3,575** |

(In thousand Euro)

| | 2019 | 2018 |
|---|---|---|
| **Deferred income tax liabilities:** | | |
| Profit generated by business combinations | 212 | 212 |
| Accelerated tax depreciation | 1,888 | 2,169 |
| Business combination | 200 | 209 |
| Hyperinflation | 438 | 450 |
| Other | 73 | 32 |
| | **2,811** | **3,072** |

The movements in deferred income tax assets and liabilities for 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Opening balance** | **503** | **977** |
| Business combination | (164) | (33) |
| Charged in the income statement | (62) | (448) |
| Charged directly to equity | (45) | 7 |
| **Closing balance** | **232** | **503** |

On November 27, 2014 the Law 27/2014 was approved establishing a decrease in the overall rate of corporation tax to 25% for the year 2016. However, such a reduction of the tax rate does not apply to the reversal of the limitation of 30% nor to the reversal of the balance sheet revaluation (both measures stated under Law 16/2012 of December 27). The tax rate is 25% for 2018 and 2019.

### 17.4 Years open to inspection

On 24 July 2017, the parent company and one of its subsidiaries received notification of the start of tax inspections on the following taxes and periods:

- Corporate income tax: 2012 to 2015
- Value added tax: 07/2013 to 12/2015
- Withholdings/payments on account of earned income/professional fees: 07/2013 to 12/2015

(In thousand Euro)

Subsequently, on 30 November 2017, an inspection of another of the parent's subsidiaries commenced on the same taxes and periods.

On 20 March 2019 the assessments documenting the results of the tax inspection were signed, the Group disagreeing with certain aspects.

In September 2019 the Group was notified of the tax assessment resulting from the tax inspection. According to the assessment, Euro1,851 thousand is payable to the tax authorities which was placed on deposit by the Company on 5 November 2019. In accordance with their advisors' opinion, the Directors have solid arguments to consider that following the submission of the relevant appeals, this amount will not give rise to a liability for the Group and they have therefore recognised a long-term current tax asset of Euro 1,782 thousand in respect of this payment.

At the date of preparation of these annual accounts, the Group's returns for corporate income tax and the other main taxes to which it is subject are open to inspection since 2016. The Directors do not expect any additional significant liabilities to arise in the event of a tax inspection of these years.

## 18 NET TURNOVER AND OTHER OPERATING INCOME

Net turnover of the Group in 2019 and 2018 has totalled Euro 262,633 thousand and Euro 259,257 thousand, respectively, and relate to the sales of paper for cigarettes, paper for industrial use and printing and special pulp.

Furthermore, net turnover in 2019 includes Euro 45,049 thousand relating to sales in foreign currency (Euro 48,475 thousand in 2018).

Net turnover and other operating income by product lines in 2019 and 2018 have been as follows:

| | **2019** | **2018** |
|---|---|---|
| Sales | 262,633 | 259,257 |
| Operating grants | 856 | 454 |
| Other sales and other ordinary income | 3,171 | 2,197 |
| Total | **266,660** | **261,908** |

(In thousand Euro)

Net turnover by geographic area in 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Domestic market | 31,277 | 27,884 |
| Exports | | |
| European Union | 84,382 | 89,164 |
| OECD countries | 70,358 | 66,309 |
| Other countries | 76,616 | 75,900 |
| Total | **262,633** | **259,257** |

## 19 STAFF COSTS

Staff costs of the Group in 2019 and 2018 have been as follows:

| | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 34,130 | 32,508 |
| Social Security | 10,315 | 8,931 |
| Contribution to pension fund (Note 13.1 and 13.2) | 58 | 66 |
| Long-term benefits to staff equity instruments (Note 11.3) | 124 | 117 |
| Severances | 421 | 798 |
| **TOTAL** | **45,048** | **42,420** |

The average number of employees in 2019 and 2018 has been as follows:

| **Professional category** | **2019** | **2018** |
|---|---|---|
| Members of the Boards of Directors (executives) | 3 | 3 |
| Senior Management | 6 | 6 |
| Executives | 25 | 25 |
| Managers and Middle Management | 110 | 99 |
| Administrative and Technical personnel | 181 | 171 |
| Production staff | 577 | 583 |
| **TOTAL** | **902** | **887** |

(In thousand Euro)

The breakdown by gender and category at the 2019 and 2018 year end, is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Professional category** | **Men** | **Women** | **Men** | **Women** |
| Members of the Boards of Directors (executives) | 3 | - | 3 | - |
| Senior Management | 5 | 1 | 5 | 1 |
| Executives | 24 | 1 | 24 | 2 |
| Managers and Middle Management | 102 | 8 | 88 | 10 |
| Administrative and Technical personnel | 80 | 101 | 75 | 98 |
| Production staff | 436 | 136 | 447 | 144 |
| **TOTAL** | **650** | **247** | **642** | **255** |

The average number of employees during the year of the companies included in the consolidation scope, with disabilities equal to or greater than 33%, by gender and category, is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Professional category** | **Men** | **Women** | **Men** | **Women** |
| Managers and Middle Management | 1 | - | 1 | - |
| Administrative and Technical personnel | 1 | 1 | 1 | 1 |
| Production staff | 3 | - | 5 | - |
| **TOTAL** | **5** | **1** | **7** | **1** |

(In thousand Euro)

## 20 OTHER OPERATING EXPENSES

Other operating expenses at 31 December 2019 and 2018 break down as follows:

| | 2019 | 2018 |
|---|---|---|
| Leases and royalties | 180 | 212 |
| Independent professional services | 3,818 | 4,607 |
| Transport | 8,919 | 9,493 |
| Insurance premiums | 1,056 | 919 |
| Repairs and maintenance | 5,157 | 6,006 |
| Travel, publicity and advertising | 4,805 | 4,258 |
| Supplies | 23,590 | 22,724 |
| Subcontracted work | 17,393 | 17,362 |
| Other operating expenses | 4,824 | 2,963 |
| Variation in trade provisions (Note 8) | 158 | 87 |
| Provision for gas emission allowances | 1,592 | 462 |
| **Total other operating expenses** | **71,492** | **69,093** |

“Other operating expenses” include an amount by Euro 3,188 thousand relating to transactions in non-Euro currencies. The currencies of the mentioned transactions are mainly the dollar and relate to the subsidiaries located in Argentina and Chile (Euro 3,131 thousand in 2018).

(In thousand Euro)

## 21 FINANCIAL INSTRUMENTS AND NET FINANCIAL RESULTS

### 21.1 Financial instruments by categories

The net book value of each category for the financial instruments at 31 December 2019 and 2018, are as follows:

| Financial Assets at 31 December 2019 | Deposit and guarantees (Note 6) | Trade accounts receivable (Note 8) | Shareholdings and loans associates (Note 6) | Other debtors (Note 9) | Other financial investments (Notes 6 and 9) |
|---|---|---|---|---|---|
| Investments held to maturity | 125 | - | 389 | - | 30,401 |
| Financial assets available for sale | - | - | - | - | 14,535 |
| Loans and receivables | - | - | - | - | - |
| **Total Non- Current Financial Assets** | **125** | **-** | **389** | **-** | **44,936** |
| Investments held to maturity | - | - | - | - | 37,366 |
| Financial assets available for sale | - | 42,460 | - | 238 | - |
| **Total Current Financial Assets** | **-** | **42,460** | **-** | **238** | **37,366** |

| Financial Assets at 31 December 2018 | Deposit and guarantees (Note 6) | Trade accounts receivable (Note 8) | Shareholdings and loans associates (Note 6) | Other debtors (Note 9) | Other financial investments (Notes 6 and 9) |
|---|---|---|---|---|---|
| Investments held to maturity | 125 | - | 427 | - | 32,093 |
| Financial assets available for sale | - | - | - | - | 18,776 |
| Loans and receivables | - | - | - | - | - |
| **Total Non- Current Financial Assets** | **125** | **-** | **427** | **-** | **50,869** |
| Investments held to maturity | - | - | - | - | 36,277 |
| Financial assets available for sale | - | 46,993 | - | 286 | - |
| **Total Current Financial Assets** | **-** | **46,993** | **-** | **286** | **36,277** |

(In thousand Euro)

| Financial Liabilities at 31 December 2019 | Banks Loans (Note 12) | Trade payables (Note 15) | Other payables (Note 16) |
|---|---|---|---|
| Liabilities at fair value with changes in results | - | - | - |
| Hedging derivatives | - | - | - |
| Other Financial Liabilities at amortized cost | 54,489 | - | - |
| **Total Non – Current Financial Liabilities** | **54,489** | **-** | **-** |
| Liabilities at fair value with changes in results | - | - | - |
| Hedging derivatives | - | - | - |
| Other Financial Liabilities at amortized cost | 15,879 | 32,435 | 643 |
| **Total Current Financial Liabilities** | **15,879** | **32,435** | **643** |

| Financial Liabilities at 31 December 2018 | Banks Loans (Note 12) | Trade payables (Note 15) | Other payables (Note 16) |
|---|---|---|---|
| Liabilities at fair value with changes in results | - | - | - |
| Hedging derivatives | - | - | - |
| Other Financial Liabilities at amortized cost | 66,145 | - | - |
| **Total Non – Current Financial Liabilities** | **66,145** | **-** | **-** |
| Liabilities at fair value with changes in results | - | - | - |
| Hedging derivatives | - | - | - |
| Other Financial Liabilities at amortized cost | 8,741 | 39,406 | 1,312 |
| **Total Current Financial Liabilities** | **8,741** | **39,406** | **1,312** |

Income and expenses arising from financial instrument category for 2019 and 2018 are as follows:

| | **2019** | **2018** |
|---|---|---|
| Investment held to maturity (Note 21.4) | 1,635 | 2,102 |
| Other financial liabilities at amortized cost (Note 21.4) | (558) | (772) |
| **Total net** | **1,077** | **1,330** |

Income from held-to-maturity investments is included under the heading of financial income while the costs of other financial liabilities at amortized cost are included under the heading of financial expenses (see Note 21.4).

In order to evaluate the credit quality of the cash in bank accounts and short and long-term deposits, the Financial Department uses the credit qualification ("rating") given by external entities.

Regarding the evaluation of the credit quality for customers, the Group Credits-Clients department, together with Group senior management, asks for the credit qualification to an external insurance company and the coverage limit for each customer is individually settled.

### 21.2 Financial derivatives

The Group uses the financial instruments described below to hedge exchange rate fluctuation risk on its future commercial transactions, and recognised assets and liabilities, denominated in a functional currency that is not the functional currency of the Group.

The breakdown of the hedged exchange rate positions at 31 December 2019 is as follows:

| **Currency** | **Maturity** | **Nominal *** | **Profit/ (loss)** |
|---|---|---|---|
| USD | 2020 | 6,817 | 106 |
| NOK | 2020 | 674 | (1) |
| AUD | 2020 | 329 | (2) |
| **Total (Loss) / Profit** | | | **(103)** |

*Expressed in Thousand Euro

The breakdown of the hedged exchange rate positions at 31 December 2018 is as follows:

| **Currency** | **Maturity** | **Nominal *** | **Profit/ (loss)** |
|---|---|---|---|
| USD | 2019 | 7,845 | (44) |
| NOK | 2019 | 324 | 1 |
| JPY | 2019 | (32,592) | 6 |
| GBP | 2019 | 48 | - |
| AUD | 2019 | 213 | 1 |
| **Total (Loss) / Profit** | | | **36** |

*Expressed in Thousand Euro

The profit or loss in the fair value of the financial instruments is recorded as financial income or expense in the consolidated income statement.

Fair value is the amount for which an asset could be exchanged for or a liability settled for between a buyer and a seller adequately informed and in a situation where both are independent. The valuations arise from financial entities own models based on financial principles and reasonable estimations related to future market conditions.

The derivatives held for trade are classified as current assets or liabilities. The total fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is greater than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. All financial instruments contracted by the Group relate to current assets and liabilities.

### 21.3 Fair value estimation

The table below provides an analysis of financial instruments that are measured at fair value classified by valuation method. The different levels are defined as follows in accordance with IFRS 13:

- Level 1: Trading prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Trading prices other than those included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) should reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

The following table presents the Group's assets and liabilities measured at fair value at December 31, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets | 14,535 | - | - | 14,535 |
| **Liabilities** | | | | |
| Financial liabilities | - | 104 | - | - |

The following table presents the Group's assets and liabilities measured at fair value at December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets | 18,776 | - | - | 18,776 |
| **Liabilities** | | | | |
| Financial liabilities | - | 11 | - | - |

For financial liabilities tied to variable interest rate, the Group has estimated that its carrying amount does not differ materially from its fair value due to the initial conditions of the Group's credit risk and counterparty having not been modified.

The fair value of financial instruments traded in active markets is based on market trading prices at the balance sheet date. A market is considered active if trading prices are readily and regularly available from an exchange, financial intermediaries, a sector institution, pricing service or regulatory agency, and those prices represent actual market transactions that regularly occur between parties that operate at arm's length. The market trading price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on conditions existing at each balance sheet date. The valuation techniques maximize the use of observable market data available and rely as little as possible on entity specific estimates. If all significant data required to calculate the fair value of an instrument is observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific techniques for measuring financial instruments include:

- Market trading prices or prices set by financial intermediaries for similar instruments.
- Other techniques, such as analysis of discounted cash flows, are used to analyse the fair value of other financial instruments.

(In thousand Euro)

### 21.4 Net financial results

The summary of the financial results at 31 December 2019 and 2018 is as follows:

| | **2019** | **2018** |
|---|---|---|
| **Financial income:** | | |
| - Other interest and income from cash and other cash equivalents | 433 | 591 |
| - Investments held to maturity | 1,635 | 2,102 |
| - Expected return from pension-related assets | 1 | 1 |
| Total Financial Income | 2,069 | 2,694 |
| **Financial expenses:** | | |
| - Other financial liabilities at amortized cost- Bank Interest | (558) | (772) |
| - Other Bank Interest | (1) | (64) |
| - From restatement of provisions for employee benefits | (1) | (2) |
| Total financial expenses | (560) | (838) |
| **Exchange differences:** | | |
| - Exchange losses | (3,093) | (4,062) |
| - Exchange gains | 2,280 | 2,054 |
| Total exchange differences | (813) | (2,008) |
| **Impairment and result from disposal of financial instruments** | | |
| - Investments in capital | | - |
| Total impairment and result from disposal of financial instruments | | - |
| **Net financial results** | **696** | **(152)** |

## 22 EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the profit attributable to the shareholders of the parent Company by the average weighted number of ordinary shares in circulation during the year, excluding the parent Company's own shares.

| | **2019** | **2018** |
|---|---|---|
| Profit attributable to the Group's shareholders (in Euro thousands) | 39,218 | 37,277 |
| Weighted average number of ordinary shares in circulation (thousands)* | 30,099 | 30,925 |
| Basic earnings per share (Euro) | 1,30 | 1.21 |

* For 2018, the capital reduction and increase that took place in that year have been taken into account.

Diluted earnings per share are equal to basic earnings, since only one type of shares has been issued and there are no potential diluted shares or instruments on which they are based with a relevant impact.

(In thousand Euro)

## 23 CASH FLOW GENERATED BY OPERATIONS

| | 2019 | 2018 |
|---|---|---|
| **Profit for the year before tax** | **51,066** | **49,654** |
| **Adjustments:** | **14,750** | **12,930** |
| – Depreciation of property, plant and equipment (Note 4) | 17,291 | 15,380 |
| – Amortisation of intangible assets (Note 5) | 293 | 323 |
| – (Profit)/loss on sale of fixed assets | - | (7) |
| – Valuation corrections due to impairment | 418 | 136 |
| – Impairment and result from disposal of financial instruments (Note 21) | - | - |
| – Variation in provisions | (1,153) | (7) |
| – Release of grants (Note 26) | (194) | (185) |
| – Financial income (Note 21) | (2,069) | (2,694) |
| – Financial expenses (Note 21) | 560 | 838 |
| – Net exchange differences (Note 21) | (396) | 2,008 |
| – Negative difference business combination (Note 2.3) | - | (1,171) |
| – Others | - | (1,419) |
| **Variations in working capital:** | **(10,337)** | **(22,267)** |
| – Inventories | (11,266) | (19,598) |
| – Trade receivables | 7,979 | (4,350) |
| – Other current financial assets | (6) | (63) |
| – Trade and other payables | (7,238) | 1,841 |
| – Other current liabilities | 194 | (97) |
| – Other non-current assets and liabilities | - | - |
| **Cash generated from operations** | **55,479** | **40,317** |

Cash generated from operations at 31 December 2019 has increased by Euro 15,162 thousand in respect last year.

(In thousand Euro)

## 24 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

### 24.1 Information on related parties

All transactions and balances of the parent Company with other group companies are eliminated in the process of preparing the consolidated annual accounts.

Furthermore, in accordance with the information received from the related parties during 2019 and 2018, no transactions have been undertaken and no outstanding balances exist between related parties and the parent Company (except for the investments detailed in Note 6). The parent Company, as per IAS 24, has identified the Board of Directors, Senior Management personnel, shareholders with a significant interest and the family members of the above-mentioned groups as related parties.

**<u>Conflict of interest situations of the Board of Directors</u>**

In the duty to avoid conflict with the interests of the Parent Company during the financial year the individuals who have occupied roles on the Board of Directors have complied with the obligations under Article 228 of the revised text of the Corporations Act. Also, they and those related to them, have refrained from engaging in the alleged conflict of interest under section 229 of the Act.

### 24.2 Control of the Board of Directors on the share capital of the parent Company

The members of the Board of Directors holding shares in the Company in 2019 are as follows:

| Name of registered name of the board members | Office | Direct number of shares | Indirect number of shares | % share capital |
|---|---|---|---|---|
| Mr. Jordi Mercader Miró | Chairman | 278,949 | 4,316,337 | 14.824% |
| Mr. Eusebio Díaz-Morera Puig-Sureda | Director | 28,380 | 10,954 | 0.127% |
| Mr. Álvaro de la Serna Corral | Director | 30,800 | 752 | 0.102% |
| Mr. Javier Basañez Villaluenga | Director | 82,600 | - | 0.266% |
| Joanfra, S.A. | Director | 2,460,000 | - | 7.935% |
| Mr. Joaquin Faura | Director | 8,536 | - | 0.028% |
| Mr. Jorge Mercader Barata | Vice Chair | 145,000 | - | 0.468% |
| **Total** | | **3,034,265** | **4,328,043** | **23.749%** |

(In thousand Euro)

The members of the Board of Directors holding shares in the Company in 2018 are as follows:

| Name of registered name of the board members | Office | Direct number of shares | Indirect number of shares | % share capital |
|---|---|---|---|---|
| Mr. Jordi Mercader Miró | Chairman | 220,000 | 4,240,000 | 14.387 % |
| Mr. Antonio Canet Martínez | Director | 38,888 | 181,104 | 0.710% |
| Mr. Eusebio Díaz-Morera Puig-Sureda | Director | 28,380 | 10,954 | 0.127% |
| Mr. Álvaro de la Serna Corral | Director | 30,800 | 752 | 0.102% |
| Mr. Carles Gasòliba Böhm | Director | 60,000 | - | 0.194% |
| Mr. Javier Basañez Villaluenga | Secretary | 82,600 | - | 0.266% |
| Joanfra, S.A. | Director | 2,443,200 | - | 7.881% |
| Mr. Joaquin Faura | Director | 8,536 | - | 0.028% |
| Mr. Jorge Mercader Barata | Vice Chair | 145,000 | - | 0.468% |
| **Total** | | **3,057,404** | **4,432,810** | **24.162%** |

### 24.3 Remuneration of the Board of Directors

The members of the Board of Directors receive, pursuant to the authorisation granted by the General Shareholders' Meeting:

a) Board members who are directors of the Company have received for their executive duties during the year 2019, through fixed compensation, expenses and other items, 1,079 thousand Euro (1,062 thousand in 2018) and variable remuneration amounting to 898 thousand Euro (990 thousand in 2018). During 2018, variable remuneration the amount accrued under the 2016-2018 three year plan totalling Euro 143 thousand and the long-term savings systems under the 2016 – 2018 Employee Welfare Plan, totalling Euro 262 thousand this being the last year of the three year period. Additionally, during 2017 upon the termination of the previous plan, the "2016 Stock Option Plan" was formalised which at year end 2019 is in the "vesting phase". This phase will last for five years and will subsequently give rise to the start of the "Exercise Phase" which will last for three years. This phase will market the tart of the period during which the beneficiaries may exercise the options.

b) The members of the Board of Directors receive, in accordance with the authorization granted by the Shareholders a total compensation equivalent to 5% of the net profits of the company Miquel y Costas & Miquel, S.A. The amount accrued for this concept in the years 2019 and 2018 amounted to Euro 1,516 and 1,526 thousand, respectively, which is reflected in the chapter on Other operating expenses in the income statement and are usually settled in the following year, after fulfilling the requirements laid down in Articles 217 and 218 of the Companies Act and the Articles of Association.

The Parent Company has established a guarantee for liability coverage for its directors amounting to 15,000 thousand Euro for which a premium of Euro 18 thousand has been paid in the current year (18 thousand Euro in 2018).

Except for the abovementioned concepts there is no receivable or payable balance to the members of the Board of Directors a 31 December 2019 and 2018.

Except for the executive Directors, who have a contract with guarantee clause for cases of dismissal and the President and the General Manager, in case of change of control, the Company has not established any compensation agreement with other Directors in the event of resignation or termination for any reason.

During 2019 and 2018 no advances or loans have been granted to the Directors.

(In thousand Euro)

### 24.4 Remuneration paid to the members of Senior Management

The total fixed, variable and other items of remuneration of senior management personnel who are not executive directors during the year 2019 was 1,475 thousand Euro (2,391 thousand in 2018). This remuneration included in 2018 an indemnity and the amounts under the three year plan and Employee Welfare Plan.

During 2017 the “2016 Stock Option Plan” was formalised. At year-end 2019 it is in the “Vesting Phase”. This phase will last for five years and will subsequently give rise to the start of the “Exercise Phase”, which will last for three years. This phase will mark the start of the period in which beneficiaries may exercise the options (Note 11.1).

The Group has no agreements with the members of Senior Management differing from those established in the Spanish Labour Act or Senior Management Decree 1382/1985 establishing the indemnities in the event of resignation or unlawful dismissal or if the labour relationship terminates as a result of a takeover bid.

Members of senior management who are not executive directors are:

| **Name** | **Position** |
|---|---|
| Mr. Ignasi Nieto Magaldi | Deputy Managing Director |
| Mr. José Maria Masifern Valón | Factory Manager (Besós) |
| Mr. Josep Payola Bassets | Director of MB Papeles Especiales, S.A. |
| Mr. Javier Ardiaca Colomer | Factory Manager (Mislata) |
| Mrs. Marina Jurado Salvado | Sales Manager of the smoking division |
| Mr. Javier García Blasco | Sales Manager of the booklets division |

## 25 ENVIRONMENTAL POLICY

### 25.1 Environmental assets and expenses

The Group allocates major investment resources to the environmental improvement of its plants through an ongoing policy of action plans in its factories that include the reduction of water and energy consumption and selective waste collection, and manages evaluation, treatment and elimination through authorized entities.

With respect to environmental management, during the first half of 2018 the Miquel y Costas Group obtained the Environmental Management System certificate under ISO 14001:2015, mainly incorporating the life cycle perspective into its environmental impacts.

(In thousand Euro)

Total net investment after deducting grants received and tax deductions applied has totalled Euro 9,183 thousand in 2019 (Euro 5,199 thousand in 2018).

In 2019 the Group's main environmental investments in production processes focused on reducing energy consumption and preventing climate change.

With respect to investments other than those in production processes resources were primarily aimed at reforming old structures in a responsible manner, at projects to guarantee and improve the drying of sludge from the treatment plant and the optimisation and renewal of electricity and steam generators, the latter two looking to reduce the consumption of natural resources (water and fuel).

Total expenses allocated to the protection and improvement of the environment, deducting the income obtained on the sale of byproducts, have totalled Euro 3,754 thousand in 2019 (Euro 3,492 thousand in 2018), of which there are not any unusual items, and relate basically to the local taxes for the use of water in the Regions, consumption of raw materials and energy in environmental protection equipment and other waste treatment.

There are no contingencies related to the protection and improvement of the environment of which the Group is aware at this date, in addition, no risks have been transferred to other entities. Additionally, the Group is the policyholder of insurance covering potential contingencies deriving from its actions in environmental policy.

### 25.2 Greenhouse gas emissions allowances

Under IAS 20 the gas emission allowances received free of charge have been recorded as intangible assets at their fair value.

The breakdown of the movement during 2019 and 2018 of this intangible asset is as follows:

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 633 | 467 |
| Increase due to new emissions | 1,583 | 517 |
| Return of emission rights from last year | (639) | (501) |
| Business combination | - | 150 |
| **Closing balance** | **1,577** | **633** |

(In thousand Euro)

The movement in 2019 and 2018 under emissions allowances (Note 14) is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Thousand Euro** | **Tn CO2** | **Value** | **Tn CO2** | **Value** |
| Opening balance | 14,826 | 122 | (1,236) | (8) |
| Rights granted | 62,372 | 1.558 | 82,872 | 642 |
| Consumption for the year | (73,536) | (1,583) | (66,816) | (517) |
| Business combination | | | - | 5 |
| **Closing balance** | **3,662** | **97** | **14,826** | **122** |

The Group has not sold emission allowances in 2019 or 2018.

## 26 INVESTMENT GRANTS OF NON-FINANCIAL ASSETS

The income transferred to the consolidated income statement has been as follows:

| | **2019** | **2018** |
|---|---|---|
| Capital grants transferred to the income statement (Note 14) | 194 | 186 |
| Greenhouse gas emission allowances (Note 14) | 1,583 | 517 |
| Total | **1,777** | **703** |

## 27 CONTINGENCIES AND COMMITMENTS

### Contingencies

The parent company and the Group are involved in litigations and disputes in the ordinary course of business. The most significant events which took place during the year are as follows: (i) during the process involving the Company and the former commercial distributor in Italy, the most significant event was that the Company's claim was partly upheld in the judgement handed down in the first instance that, in addition, rejected the counter-claim filed by the other party; the defendant has appealed against this judgement; (ii) during the tax inspection relating to corporate income tax, following the notification of the inspection assessment agreement, the Company filed an administrative claim with the Central Economic -Administrative Tribunal.

The directors, in accordance with their advisors, continue to hold that, pursuant to current accounting legislation, the parent company should not include any additional amounts in its consolidated annual accounts pending the outcome of the new events.

The Group has contingent liabilities for bank guarantees and other guarantees related to the normal course of business which provides that no significant liability will arise. The Group has provided guarantees to third parties amounting to Euro 2,620 thousand at 2019 year-end (Euro 2,624 thousand in 2018), mainly responding to submissions for public contests, grants, proceedings in courts and tax authorities.

**Commitments**

The Group does not have signed purchase commitments at 2019 nor 2018 year end.

## 28 AUDITORS' REMUNERATION

The fees accrued to PricewaterhouseCoopers Auditores, S.L., for auditing (usual and exceptional) and other assurance services for the year 2019 total Euro 150 thousand (Euro 123 thousand in 2018) and Euro 1 thousand (Euro 20 thousand in 2018), respectively. Other assurance services include in 2019 and 2018 the issue of reports on agreed-upon procedures on the statement of packaging compliance and, in 2018, the verification of the non-financial information statement.

During 2019 Euro 0 thousand accrued in fees to other companies of the PwC network as a result of other services provided to the Group (Euro 55 thousand in 2018).

The fees accrued in 2019 by other auditors of subsidiaries (Miquel y Costas Argentina, S.A. for audit and other assurance services amounted to Euro 23 thousand in 2019 (Euro 32 thousand in 2018 de Miquel y Costas Argentina, S.A. y Clariana. S.A.). In 2019 this includes the verification of the non-financial information statement.

## 29 SUBSEQUENT EVENTS

No other events have occurred after the year end date that might significantly affect the information shown in the annual accounts authorised for issue by the directors on this same date or that warrant reporting because of their significance for the various Group companies or for the Group as a whole except for the COVID -19 outbreak.

Since December 2019, COVID-19, a new Coronavirus strain, has spread from China to other countries, including Spain. This has significantly affected global economic activity and as a result, could affect the Company's operations and financial results. The extent to which the Coronavirus could impact our results will depend on future developments that cannot be reliably foreseen, including the actions to contain the virus or treat it and mitigate its impact on the economies of the countries affected, among other things.

As a result of the exceptional circumstances occurring after the year end 2019 and in the period of preparation of these annual accounts, following the publication of Royal Decree 463/2020 on 14 March 2020 and subsequent amendments and Decree -Law 8/2020 of 17 March, under which the state of emergency was declared in order to manage the health crisis triggered by the coronavirus (Covid-19) outbreak, and which came into effect on 14 March, we declare that:

- The contingency plans envisaged for these circumstances have been activated which have permitted the continuity of the business, attempting as far as possible to approximate it to normality. In this respect, organizational measures to manage the crisis have been implemented on both an individual (management of situations of contagion or isolation) and collective basis.

- At the date of preparation of these annual accounts, all centres are continuing logistics and shipment activities, delivering on their commitments in this exceptional situation. However, some production assets have been impacted by contingencies caused by the force majeure event. Production employees have been affected by the complete territorial lockdown, decreed by the health authorities, which has led to temporary layoffs. Additionally, in other cases, the annual calendar has been changed, by mutual agreement with the workers' representatives.

- At the reporting date, the economic impacts of the general crisis are not known and therefore it is impossible to quantify them.

## APPENDIX I

**SUBSIDIARY COMPANIES IN THE CONSOLIDATION SCOPE 2019**

| Registered name | Registered office | Activity | Share capital (Thousand Euro) | Shareholding of the parent Company: Direct Shareholding | Shareholding of the parent Company: Indirect shareholding | Note |
|---|---|---|---|---|---|---|
| Celulosa de Levante, S.A. | Tarragona | Manufacture of paper pulp | 1,503 | 97.41% | 2.59% | 1 |
| Desvi, S.A. | Barcelona | Promotion and development of companies | 1,000 | 90.00% | 10.00% | 4 |
| Miquel y Costas Argentina, S.A. | Argentina | Manufacture and sale of paper | 1,565 | 0.00% | 100.00% | 2 |
| MB Papeles Especiales, S.A. | Barcelona | Manufacture and sale of special papers | 722 | 99.9958% | 0.0042% | 1 |
| Miquel y Costas Tecnologías, S.A. | Barcelona | Other technical services | 500 | 45.00% | 55.00% | 4 |
| Papeles Anoia, S.A. | Barcelona | Trading of all types of paper | 2,054 | 99.00% | 1.00% | 1 |
| Miquel y Costas Energía y Medio Ambiente, S.A. | Barcelona | Thermal electric plant | 766 | 0.00% | 100.00% | 4 |
| Payá Miralles, S.A. | Valencia | Industrial assets lease | 1,878 | 99,89% | 0.11% | 4 |
| Sociedad Española Zig-Zag, S.A. | Barcelona | Sale of paper | 60 | 93.47% | 6.53% | 4 |
| Terranova Papers, S.A. | Barcelona | Manufacture and sale of processed and handled paper | 12,000 | 41.17% | 58.83% | 1 |
| Miquel y Costas Deutschland, GMBH | Germany | Trading of all types of paper | 25 | 0.00% | 100% | 4 |
| Miquel y Costas Chile, SRL | Chile | Trading of all types of paper | 29 | 0.00% | 100% | 4 |
| Miquel y Costas Logística, S.A. | Barcelona | Logistics, storage, transport and distribution services | 100 | 50.00% | 50.00% | 4 |
| Fourtube, S.L. | Sevilla | Manufacture of paper | 350 | 0.00% | 40% | 3 |
| Clariana, S.A. | Vila-Real (Castellón) | Paper production and marketing | 157 | 60% | 40% | 1 |

All companies in the Group are fully consolidated, except for the company Fourtube, S.L. which is consolidated under the participation method.

Note 1: The companies marked with a reference (1) are audited by PricewaterhouseCoopers Auditores, S.L.
Note 2: The companies marked with a reference (2) are audited by P&A Consultores, S.A.
Note 3: The companies marked with a reference (3) are audited by Mazars Auditores S.L.P.
Note 4: The companies marked with a reference (4) are not audited

*(Free translation from Spanish)*

# MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES

Notes to the annual accounts for the year 2018
(In thousand Euro)

## APPENDIX I

**SUBSIDIARY COMPANIES IN THE CONSOLIDATION SCOPE 2018**

| | | | | Shareholding of the parent Company | | |
|---|---|---|---|---|---|---|
| **Registered name** | **Registered office** | **Activity** | **Share capital (Thousand Euro)** | **Direct Shareholding** | **Indirect shareholding** | **Note** |
| Celulosa de Levante, S.A. | Tarragona | Manufacture of paper pulp | 1,503 | 97.41% | 2.59% | 1 |
| Desvi, S.A. | Barcelona | Promotion and development of companies | 1,000 | 90.00% | 10.00% | 4 |
| Miquel y Costas Argentina, S.A. | Argentina | Manufacture and sale of paper | 1,565 | 0.00% | 100.00% | 2 |
| MB Papeles Especiales, S.A. | Barcelona | Manufacture and sale of special papers | 722 | 99.9958% | 0.0042% | 1 |
| Miquel y Costas Tecnologías, S.A. | Barcelona | Other technical services | 500 | 45.00% | 55.00% | 4 |
| Papeles Anoia, S.A. | Barcelona | Trading of all types of paper | 2,054 | 99.00% | 1.00% | 1 |
| Miquel y Costas Energía y Medio Ambiente, S.A. | Barcelona | Thermal electric plant | 766 | 0.00% | 100.00% | 4 |
| Payá Miralles, S.A. | Valencia | Industrial assets lease | 1,878 | 99,89% | 0.11% | 4 |
| Sociedad Española Zig-Zag, S.A. | Barcelona | Sale of paper | 60 | 93.47% | 6.53% | 4 |
| Terranova Papers, S.A. | Barcelona | Manufacture and sale of processed and handled paper | 12,000 | 41.17% | 58.83% | 1 |
| Miquel y Costas Deutschland, GMBH | Germany | Trading of all types of paper | 25 | 0.00% | 100% | 4 |
| Miquel y Costas Chile, SRL | Chile | Trading of all types of paper | 29 | 0.00% | 100% | 4 |
| Miquel y Costas Logística, S.A. | Barcelona | Logistics, storage, transport and distribution services | 100 | 50.00% | 50.00% | 4 |
| Fourtube, S.L. | Sevilla | Manufacture of paper | 350 | 0.00% | 40% | 3 |
| Clariana, S.A. | Vila-Real (Castellón) | Paper production and marketing | 157 | 60% | 40% | 5 |
| Boncompte-Sierra, S.L.U | Castellón | Exploitation of businesses | 3,337 | 0.00% | 100% | 4 |

All companies in the Group are fully consolidated, except for the company Fourtube, S.L. which is consolidated under the participation method.

Note 1: The companies marked with a reference (1) are audited by PricewaterhouseCoopers Auditores, S.L.
Note 2: The companies marked with a reference (2) are audited by P&A Consultores, S.A.
Note 3: The companies marked with a reference (3) are audited by Mazars Auditores S.L.P.
Note 4: The companies marked with a reference (4) are not audited
Note 5: The companies marked with reference 5 are audited by Moore Stephens, S.A.

## CONSOLIDATED RESULTS

The main results figures of the Miquel y Costas Group are shown below, expressed in thousands of euros.

| *Thousand Euro* | 2019 | 2018 | Variation |
|---|---|---|---|
| Net turnover | 262,633 | 259,257 | 1.3% |
| Gross operating profit (EBITDA)[1] | 67,937 | 65,503 | 3.7% |
| Operating profit | 50,353 | 49,800 | 1.1% |
| Profit before tax (PBT) | 51,066 | 49,654 | 2.8% |
| Profit after tax (PAT) | 39,218 | 37,277 | 5.2% |
| Cash-flow after tax (CFAT)[2] | 56,802 | 52,981 | 7.2% |

The total of consolidated net sales for the year amounted to 262,6 million Euro, 3.4 million more than the previous year.

By lines of business, the Tobacco Industry line grew sales during the year by Euro 4.2 million compared with the previous year. With respect to Industrial products, sales fell by Euro 5.7 million compared with the same period in the previous year due to the stoppage resulting from the investments in the Valencia factory and a fall in demand for special pulp which was to some extent partly offset by the inclusion of Clariana's packaging products and paper for the food industry.

Sales in Other amounted to Euro 4.9 million, up on the previous year due to the inclusion of the products marketed by Clariana, S.A. in this line.

Sales by the parent company amounted to Euro 168.8 million this year, down by 1.8% on the previous period. This fall is largely due to the stoppage brought about by the investment in the Valencia factory.

Consolidated profit before tax amounted to Euro 51.1 million, which was Euro 1.4 million up on the previous year, representing an increase of 2.8%. This result includes the effect of hyperinflation in the Argentinian subsidiary that had a negative impact on the consolidated income statement of Euro 0.4 million.

[1] Operating income plus depreciation.
[2] Profit after tax plus amortization.

All lines of business benefited from better pulp prices and the unfavourable development of energy prices. Specifically, profits in the Tobacco Industry line were slightly down on the previous year due to the product mix. The improvement in the Group's results is underpinned by the Industrial Product line and particularly, the performance of Terranova, whose results boosted the improvement in margins throughout the year compared with the previous year, as well as the improvement in operations. Results in Other remained on a level similar to the previous year.

EAT was up by 5.2% on the previous year amounting to Euro 39.2 million. The effective tax rate for the period amounted to 33.2%, which was less than the previous year due to the decrease in the effect of hyperinflation and the increase in the deduction associated with the capitalisation reserve.

In the Parent company, profits after tax this year amounted to Euro 30.3 million, in line with the previous year, while cash flow was 1.5% up on the same period.

## CONSOLIDATED BALANCE SHEET

The balance sheet of the consolidated Group has been prepared under IFRS in force.

The main variations (in thousand Euro) in comparison with the same period of prior year are summarized as follows:

| *In thousand Euro* | December 2019 | December 2018 |
|---|---|---|
| Net Fixed Assets[3] | 170,482 | 161,369 |
| NOF[4] | 92,588 | 81,795 |
| Other assets/Other liabilities Non-Current[6] | (1,885) | (3,076) |
| **Capital used** | **261,185** | **240,087** |
| Equity | 280,580 | 269,905 |
| Net Financial Debt[5] | (19,395) | (29,818) |

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[3] Property, plant and equipment and intangible assets - net.

[4] Inventories plus trade receivables, sundry receivables and non-current assets (Note 16), less current provisions, trade payables and other accounts payable, current tax liabilities, non-trade payables (Note 16), accrued wages and salaries and customer advances (Note 16).

[5] Current and non-current financial assets and other cash and equivalents less current and non-current borrowings with financial institutions

[6] Deferred tax assets and liabilities, non-current tax assets, other non-current liabilities and other lialbities (Note 16)

(IN THOUSAND EURO)

Fixed assets increased due to the investments made as a result of the contribution of assets of the companies Clariana, S.A. and Boncompte-Sierra, S.L.U. and were also affected by the hyperinflation in Argentina in accordance with IAS 29. The variation in operational needs for funds is attributable to the increase in inventories brought about by the addition of Clariana, S.A.to the Group and the increase in trade receivables linked to the growth in sales, partly offset by the increase in trade payables.

## FINANCIAL POSITION

The consolidated Group's financial position based on IFRS, compared to the previous year is as follows:

| *Thousand Euro* | December 2019 | December 2018 |
|---|---|---|
| Long-term borrowings | (54,489) | (66,145) |
| Short-term borrowings | (15,879) | (8,740) |
| Treasury and Current financial investments | 44,313 | 53,282 |
| Long-term financial investments[6] | 45,450 | 51,421 |
| **Total net financial position**[5] | **19,395** | **29,818** |
| **Equity** | **280,580** | **269,905** |
| Leverage index | n.a. | n.a. |

Consolidated cash flow after tax, less the effect of hyperinflation, amounted to Euro 56.8 million, up Euro 3.8 million on the previous year. The parent's net cash flow amounted to Euro 39.0 million, 1.5% up on the same period in 2018

The net financial position at the year end presents a debtor balance of Euro 19.4 million. The main applications of the funds generated and the variation in the net financial position relate to the investment in fixed assets amounting to more than Euro 24 million, the acquisition of treasury shares, amounting to Euro 11 million, payments in respect of dividends, amounting to Euro 13 million and the financing of working capital.

The average supplier payment period amounted to  32 days in (a breakdown is included in the notes)

(IN THOUSAND EURO)

## STOCK EXCHANGE INFORMATION

The parent's stock market activity in 2019 is reflected in the following figures:

| | |
|---|---|
| Trading days | 255 days |
| Nº shares traded | 4,522,721 shares |
| Value traded | Euro 71,931 thousand |
| Maximum quotation | Euro 17,68/ share |
| Minimum quotation | Euro 14,82 / share |
| Average quotation | Euro 15,91 / share |
| Final quotation | Euro 16.40 / share |

## TREASURY SHARES

During 2019 and using its authorisation to purchase treasury shares, granted by the General Shareholders' Meetings of 22 June 2016 and 20 June 2018, the parent company acquired 696,817 shares on the stock exchange, the total number of treasury shares held at the year end amounting to 1,297,010.

On 16 January 2020, pursuant to the recommendations of Spain's National Securities Market Commission, the Company communicated through a significant event reporting its intention to carry out a program to repurchase shares within the framework of its treasury share operations for a maximum of 620,000 shares and an amount of Euro 11 million to be completed within 12 months.

The 2016 Stock Option Plan which is current in effect showed no changes during the period.

## RELATED PARTIES OPERATIONS

During 2019, neither the parent Company nor the Group entities have made transactions, with other significant shareholders or related parties that must be reported under the OEHA 3050/2004, September 15.

During this period no relevant operations were performed by the parent and other Group companies with the directors or executives or with parties related to them, warranting disclosure in accordance with article 229.1a of the Spanish Companies Act, except for the dividends paid and the remuneration received by the directors and executives for their positions as such.

Except for the dividends paid, there were no significant operations between the group companies other than those that: i) forming part of the usual operation of the companies or entities in terms of their stated purpose and conditions, have been eliminated on consolidation; ii) in the ordinary course the Company's business, have been carried out on an arm's length basis and are scarcely relevant, meaning those that do not need to be reported in order to express fairly the Group's equity, financial position and performance.

## ENVIRONMENT

During 2019 the Group continued to deploy its environmental actions and the responsible use of natural resources and invested in this area in order to optimise energy and water consumption and reduce waste generated, promoting the circularity of its production processes.

The amount of financial resources earmarked for these activities totalled Euro 12.9 million.

## R&D&i ACTIVITY

In 2019 the Group assigned funds amounting to Euro 3.6 million to R&D+i activities. In this period, activities continued and focused mainly on lines of research aimed at obtaining new products and the innovation of production processes.

## PERSONNEL

The average number of employees of the Group was 902, slightly above that of the previous year.

During the period, Euro 1,762 thousand was assigned to health and safety and the prevention of occupational risks and Euro 151 thousand to sundry training programmes.

## MAIN RISKS AND OPPORTUNITIES

The international landscape in which the parent and most group companies operate means that they are exposed to the exchange rate risk affecting their functional currency. The effects of currency fluctuations on their commercial operations are to some extent mitigated by the cash outflows generated by imports. Additionally, given that in the aggregate, the Group is a net exporter, fluctuation risks are mitigated through hedging arrangements.

A circumstance to be taken into account is the Argentinean economy that has been considered hyperinflationary since 1 July 2018 given that three year cumulative inflation has exceeded the 100% limit established as the quantitative threshold in IAS 29. This has had an impact on results for last year and was sustained throughout 2019 generating uncertainty with respect to future results.

The business of the Group is developed in very diverse markets which expose it to risks of trade credit. To minimize them, the Group observes a strict internal credit policy and, additionally, protect its debts by credit insurance policies.

The Group, being demanding of energy sources, mainly electricity and gas, is affected by the volatility of the prices of these products. To reduce the effect of risk, the Group invest a significant part of its investments in technology to improve production returns and reduce energy consumption, in addition to ensuring efficient management of these resources.

The parent company and its subsidiaries present a strong balance sheet structure that provides them with the strength and capacity to finance future operations. The reduced level of leveraging and internal controls in place to identify and assess the risk means there is no need to arrange complementary interest rate hedging on a regular basis. When it is considered that there is objective evidence of the appropriateness of adjusting the value of a financial asset, the valuation is made based on the estimates and judgments derived from the information prepared by independent third parties.

The maintenance of a continuous research, development and innovation effort, essential in a global and competitive market, allows the Group to have state-of-the-art technology, in many cases exclusively, to maintain and increase the productivity and production of its product range as well to obtain new ones that can satisfy the highest demands of quality, their consistency and those of future needs.

The parent company and the Group are involved in litigations and disputes arising in the ordinary course of business. During the period there have been no significant changes as regards the last information published other than the fact that Group has filed an administrative appeal against the assessment raised by the tax inspectorate in relation to corporate income tax.. The Directors, in accordance with their advisors, continue to hold that, pursuant to current accounting legislation, the parent company should not record any amount in its consolidated annual accounts pending the outcome of new events.

## SUBSEQUENT EVENTS

No other events have occurred after the year end date that might significantly affect the information shown in the annual accounts authorised for issue by the directors on this same date or that warrant reporting because of their significance for the various Group companies or for the Group as a whole except for the COVID -19 outbreak. The situation at the date hereof is that all centres are continuing logistics and shipment activities, delivering on their commitments in this exceptional situation. However, some production assets have been impacted by contingencies caused by the force majeure event. Production employees have been affected by the complete territorial lockdown, decreed by the health authorities, which has led to temporary layoffs. Additionally, in other cases, the annual calendar has been changed, by mutual agreement with workers' representatives.

## OUTLOOK

Since December 2019, COVID-19, a new Coronavirus strain, has spread from China to other countries, including Spain. This has significantly affected global economic activity and as a result, could affect the Company's operations and financial results. The extent to which the Coronavirus will impact our results will depend on future developments that cannot be reliably forecast, including the actions to contain the virus or treat it and mitigate its impact on the economies of the countries affected, among other things.

## ANNUAL CORPORATE GOVERNANCE REPORT

Attached as Appendix I is the "Corporate Governance Report" as an integral part of this Directors' Report.

## NON FINANCIAL-INFORMATION

In accordance with the provisions of Law 11/2018, of December 28, on non-financial information and diversity, the Miquel and Costas Group has prepared the document "Non-financial information" for the year 2019, which is part, according to what is established in article 44 of the Commercial Code, of this report and that is attached as a document (Annex II).

**ANNEX I**

# ANNUAL CORPORATE GOVERNANCE REPORT PUBLIC LIMITED COMPANIES

## ISSUER IDENTIFICATION

ENDING DATE OF REFERENCE FINANCIAL YEAR: 31/12/2019

TAX IDENTIFICATION CODE A-08020729

REGISTERED NAME:

**MIQUEL Y COSTAS & MIQUEL, S.A.**

REGISTERED ADRESS:

**TUSET, 10, BARCELONA**

(Free translation from the original in Spanish)

# MODEL OF ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

## A. OWNERSHIP STRUCTURE

**A.1.** Fill in the following table on the company's share capital:

| Date of last change | Share Capital (€) | Number of shares | Nº of voting rights |
|---|---|---|---|
| 30/11/2018 | 62,000,000 | 31,000,000 | 31,000,000 |

Please indicate whether or not there are different types of shares with different rights associated:

[ ] Yes
[✓] No

**A.2.** List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

| Name or company name of shareholder | % voting rights attributed to the shares | | % voting rights through financial instruments | | % of total voting rights |
|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | |
| INSINGER DE BEAUFORT ASSET MANAGEMENT N.V. | 0.00 | 4.16 | 0.00 | 0.00 | 4.16 |
| MRS.BERNADETTE MIQUEL VACARISAS | 0.15 | 11.31 | 0.00 | 0.00 | 11.46 |
| MRS. MARIA DEL CARMEN ESCASANY MIQUEL | 3.35 | 8.32 | 0.00 | 0.00 | 11.67 |
| EDM GESTIÓN S.A. SGIIC | 0.00 | 3.68 | 0.00 | 0.00 | 3.68 |
| SANTANDER ASSET MANAGEMENT S.A. SGIIC | 0.00 | 5.15 | 0.00 | 0.00 | 5.15 |
| INDUMENTA PUERI, S.L. | 0.00 | 8.66 | 0.00 | 0.00 | 8.66 |
| SANTANDER SMALL CAPS ESPAÑOLA, FI | 3.29 | 0.00 | 0.00 | 0.00 | 3.29 |
| EDM INVERSIÓN FI | 3.01 | 0.00 | 0.00 | 0.00 | 3.01 |

Detail of the indirect holding:

| Name or company name of the indirect holder | Name or company name of the direct holder | % voting rights attributed to the shares | % voting rights through financial instruments | % of total voting rights |
|---|---|---|---|---|
| INSINGER DE BEAUFORT ASSET MANGEMENT N.V. | INSTITUCIONES DE INVERSION COLECTIVA | 4.16 | 0.00 | 4.16 |
| MRS. BERNADETTE MIQUEL VACARISAS | BELEN SORIA MIQUEL | 0.01 | 0.00 | 0.01 |
| MRS. BERNADETTE MIQUEL VACARISAS | JOSÉ SORIA MIQUEL | 0.01 | 0.00 | 0.01 |
| MRS. BERNADETTE MIQUEL VACARISAS | VÍCTOR SORIA MIQUEL | 0.01 | 0.00 | 0.01 |
| MRS. BERNADETTE MIQUEL VACARISAS | JOSÉ SORIA SORJUS | 0.01 | 0.00 | 0.01 |
| MRS. BERNADETTE MIQUEL VACARISAS | AGRICOLA DEL SUDESTE ALMERIENSE, S.A. | 3.37 | 0.00 | 3.37 |
| MS. BERNADETTE MIQUEL VACARISAS | JOANFRA, S.A. | 7.93 | 0.00 | 7.93 |
| MRS. MARIA DEL CARMEN ESCASANY MIQUEL | ENKIDU INVERSIONES, S.L. | 8.32 | 0.00 | 8.32 |
| EDM GESTION S.A. SGIIC | INSTITUCIONES DE INVERSIÓN COLECITVA | 3.68 | 0.00 | 3.68 |
| SANTANDER ASSET MANGAMENT S.A. SGIIC | SANTANDER SMALL CAPS ESPAÑOLA FI | 3.29 | 0.00 | 3.29 |
| SANTANDER ASSET MANGAMENT S.A. SGIIC | SANTANDER ACCIONES ESPAÑOLAS FI | 1.86 | 0.00 | 1.86 |
| INDUMENTARIA PUERI S.L. | GLOBAL PORTFOLIO INVESTMENTS SL | 8.66 | 0.00 | 8.66 |

Indicate the most significant movements in the shareholding structure that occurred during the year

| Significant movements |
|---|

FIL LIMITED, on April 17, 2019, reported that its participation fell by 1%.

EDM INVERSION FI, on first of August 08, 2019, reported that its direct participation by 3.008%.

**A.3.** Complete the following tables about members of the Company's Board of Directors who hold voting rights for shares in the Company:

| Name or company name of director | % voting rights attributed to the shares | | % voting rights through financial instruments | | % of total voting rights | % voting rights that can be transferred through financial instruments | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| MR. JAVIER BASAÑEZ VILLALUENGA | 0.27 | 0.00 | 0.26 | 0.00 | 0.53 | 0.00 | 0.00 |
| MR. JOAQUÍN FAURA BATLLE | 0.03 | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.00 |
| MR. JORGE MERCADER MIRÓ | 0.90 | 13.92 | 0.00 | 0.00 | 14.82 | 0.00 | 0.00 |
| MR. JORGE MERCADER BARATA | 0.47 | 0.00 | 0.32 | 0.00 | 0.00 | 0.00 | 0.79 |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | 0.09 | 0.04 | 0.00 | 0.00 | 0.13 | 0.00 | 0.00 |
| MR. ÁLVARO DE LA SERNA CORRAL | 0.10 | 0.00 | 0.00 | 0.00 | 0.10 | 0.00 | 0.00 |
| JOANFRA, S.A. | 7.93 | 0.00 | 0.00 | 0.00 | 7.93 | 0.00 | 0.00 |

| % total voting rights held by the Board of Directors | 23.75 |
|---|---|

Detail of the indirect holding:

| Name or company name of director | Name or company name of the direct holder | % voting rights attributed to the shares | % voting rights through financial instruments | % of total voting rights | % voting rights that can be transmitted through financial instruments |
|---|---|---|---|---|---|
| MR. JORGE MERCADER MIRÓ | HACIA, S.A. | 13.92 | 0.00 | 13.92 | 0.00 |
| MR. ÁLVARO DE LA SERNA CORRAL | MRS. MERCEDES DE LA SERNA VILLALONGA | 0.01 | 0.00 | 0.01 | 0.00 |

| Name or company name of director | Name or company name of the direct holder | % voting rights attributed to the shares | % voting rights through financial instruments | % of total voting rights | % voting rights that can be transmitted through financial instruments |
|---|---|---|---|---|---|
| MR. ÁLVARO DE LA SERNA CORRAL | MRS. JIMENA DE LA SERNA VILLALONGA | 0.01 | 0.00 | 0.01 | 0.00 |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | MRS. MARTA VENTÓS OMEDES | 0.04 | 0.00 | 0.04 | 0.00 |

**A.4.** Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

| Name or company name of related parties | Relationship type | Brief outline |
|---|---|---|
| No data | | |

**A.5.** Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

| Name or company name of related parties | Relationship type | Brief outline |
|---|---|---|
| No data | | |

**A.6.** Describe the relationships, unless they are scarcely relevant to the two parties, that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn, members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

| Name or company name of related director or representative | Name or company name of significant related shareholder | Company name of the significant shareholder group | Description of the relationship/position |
|---|---|---|---|
| MR. JORGE MERCADER BARATA | MR. JORGE MERCADER MIRÓ | HACIA, S.A. | MR. JORGE MERCADER BARATA is Director and Secretary of HACIA S.A. |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | EDM GESTION S.A. SGIIC | EDM GESTION S.A. SGIIC | Mr. EUSEBIO DÍAZ-MORERA PUIG-SUREDA is Chairman of the EDM Group which the EDM GESTIÓN S.A. SGIIC is a memeber |
| MR. ÁLVARO DE LA SERNA CORRAL | MRS. MARÍA DEL CARMEN ESCASANY | ENKIDU INVERSIONES, S.L | MR. ÁLVARO DE LA SERNA CORRAL is Managing Director and Secretary of ENKIDU INVERSIONES, S.L. |
| JOANFRA, S.A. | MRS. BERNADETTE MIQUEL VACARISAS | JOANFRA, S.A. | JOANFRA S.A. is a company controlled by MRs. BERNADETTE MIQUEL VACARISAS, where is Director and Secretary. |

**A.7.** Indicate whether or not the Company has been notified of shareholders agreements that affect it as per Article 530 and 531 of the Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

[ ] Yes
[✓] No

Indicate whether or not the Company is aware of the existence of concerted actions between its shareholders. If so, briefly describe them:

[ ] Yes
[✓] No

If any modification or cancellation of said agreements or concerted actions has taken place during the year, indicate accordingly:

The Company is not aware of the existence of pacts, agreements or concerted actions among its shareholders.

**A.8.** Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify

[ ] Yes
[✓] No

**A.9.** Fill in the following tables regarding the company's treasury stock:

At the year-end:

| Number of direct shares | Number of indirect shares (*) | % of total capital |
|---|---|---|
| 1,297,010 | 0 | 4.18 |

(*) Through to:

| Name or company name of the direct shoulder of the participation | Number of direct shares |
|---|---|
| No data | |

**A.10.** Give details of the terms and conditions corresponding to the General Meeting of Shareholder's current mandate to the Board of Directors buy back and transfer treasury stock:

The acquisitions of the Company's own shares are underpinned by the General Meeting of Shareholders held on 20 June 2018 as follows:

The Board of Directors, Miquel y Costas & Miquel, S.A. and its majority owned subsidiaries, are authorized to acquire by purchase, exchange or other, and sell, with the intervention of authorized mediators, shares of the Company, to a maximum of 10% of the share capital, in accordance with the provisions of Article 146 of the Capital Companies Act. The minimum price will not be lower than the share nominal value, no higher, by 20%, to the market value of the prior day to the acquisition without prejudice to compliance with those other limitations resulting from the application of the regulations or regulations applicable at any time.

This authorization is granted for a period of five (5) years from the date thereof, observing in any event the provisions of Article 148 of the Companies Capital Act.

Leave the authorization granted to the Board of Directors by the Ordinary and Extraordinary General Meeting of June 22, 2016 without effect.

The Board of Directors are authorized to allocate, totally or partially, the shares acquired as part of the implementation of compensation programs aimed at or involving the delivery of shares or share options, or based in any way on the evolution of the share price, as set out in Article 146.1 a) of the Capital Companies Act.

The Board of Directors, in its meeting held on 22 June 2018, the according to execute the authorization of the General Meeting.

**A.11.** Estimated floating capital:

| | % |
|---|---|
| Estimated floating capital | 51.62 |

**A.12.** Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectorial regulations, will be reported.

[ ] Yes
[✓] No

**A.13.** Indicate whether or not the General Meeting of Shareholders has agreed to adopt measures to neutralise a takeover bid by virtue of the provisions laid down in Act 6/2007:

[ ] Yes
[✓] No

Where applicable, explain the measures that have been adopted and the terms under which the inefficiency of the restrictions:

**A.14.** Indicate whether the company has issued securities not traded in a regulated market of the European Union.

[ ] Yes
[✓] No

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred

## B. GENERAL MEETING

**B.1.** Indicate, and where applicable give details, whether there are any differences from the minimum standards established under the Corporate Enterprises Act (CEA) with respect to the quorum and constitution of the General Meeting.

[ ] Yes
[✓] No

**B.2.** Indicate, and where applicable give details, whether there are any differences from the minimum standards established under Corporate Enterprises Act (CEA) for the adoption of corporate resolutions:

[ ] Yes
[✓] No

Describe any differences from the minimum standards established under the CEA.

**B.3.** Indicate the rules applicable to amendments of the company bylaws. In particular, report the majorities established to amend the bylaws, and the rules, if any, to safeguard shareholder's rights when amending the bylaws.

The rules applicable to amendments of the Articles of Association correspond to those contained in the Company's Capital Act.

**B.4.** Indicate the data on attendance at general meetings held during the year to which this report refers and the previous year:

| | Attendance data | | | | |
|---|---|---|---|---|---|
| Date of General Meeting | % physical presente | % represented | % remote voting Electronic vote | % remote voting Others | Total |
| 22/06/2016 | 38.88 | 33.49 | 0.00 | 0.00 | 72.37 |
| Of the floating capital | 0.83 | 29.26 | 0.00 | 0.00 | 30.09 |
| 20/06/2017 | 38.94 | 33.18 | 0.00 | 1,86 | 73.98 |
| Of the floating capital | 2.92 | 28.42 | 0.00 | 0.00 | 31.34 |
| 20/06/2018 | 43.62 | 36.45 | 0.00 | 0.00 | 80.07 |
| Of the floating capital | 1.90 | 31.88 | 0.00 | 0.00 | 33.78 |
| 20/06/2019 | 43.51 | 23.89 | 0.00 | 4.19 | 71.59 |
| Of the floating capital | 3.51 | 18.63 | 0.00 | 4.19 | 26.33 |

**B.5.** Indicate the number of shares, if any, that are required to be able to attend the General Meeting and whether there are any restrictions on such attendance in the bylaws:

[ ] Yes
[✓] No

**B.6.** Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting.

[✓] Yes
[ ] No

| | |
|---|---|
| Number of shares necessary to attend the General Meeting | 100 |
| Number of shares required to vote remotely | |

**B.7.** Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar corporate operations must be submitted to approval of the general meeting of shareholders.

[ ] Yes
[✓] No

**B.8.** Indicate the address and means of access through the company website to the information on corporate governance and other information on the general meetings that must be made available to shareholders over the company's website.

The corporate website of the Company, www.miquelycostas.com presents. Its content responds to all information which they are considered of interest to shareholders and investors and incorporates all the content required by the regulations.

In the section "Shareholders and Investors Information" is the information related to Corporate Governance and General Meetings, to the which can be accessed from the home page through the following route: shareoldersandinverstorsinformation/corporategovernanceinformation/generalmeetings.

## C. CORPORATE GOVERNANCE STRUCTURE

### C.1. Board of Directors

C.1.1 State the maximum and minimum number of directors laid down in the articles of association:

| | |
|---|---|
| Maximum number of directors | 15 |
| Minimum number of directors | 4 |
| Number of directors set by the General Meeting | 10 |

C.1.2 Complete the following details on the members of the Board:

| Name of director | Representative | Type of directorship | Office on the board | Date of first appointm. | Date of last appointm. | Election of procedure |
|---|---|---|---|---|---|---|
| MR. JOAQUÍN COELLO BRUFAU | | Independent | DIRECTOR | 26/06/2008 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| MR. JAVIER BASAÑEZ VILLALUENGA | | Executive | DIRECTOR | 28/07/2008 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| MR. JOAQUÍN FAURA BATLLE | | Independent | COORDINATING INDEPENDENT DIRECTOR | 29/10/2013 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| MR. JORGE MERCADER MIRÓ | | Executive | CHAIRMAN | 05/11/1991 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| MR. JORGE MERCADER BARATA | | Executive | VICECHAIRMAN | 27/06/2012 | 20/06/2018 | SHAREHOLDERS MEETING AGREEMENT |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | | Independent | DIRECTOR | 18/04/1997 | 20/06/2018 | SHAREHOLDERS MEETING AGREEMENT |

| Name of director | Represent-tative | Type of directorship | Office on the board | Date of first appointm. | Date of last appointm. | Election procedure |
|---|---|---|---|---|---|---|
| MR. ÁLVARO DE LA SERNA CORRAL | | External Propietary Directors | DIRECTOR | 28/07/2008 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| JOANFRA, S.A. | MRS. BERNADETTE MIQUEL VACARISAS | External Proprietary Directors | DIRECTOR | 25/10/1999 | 17/06/2015 | SHAREHOLDERS MEETING AGREEMENT |
| MR. JOSÉ CLAUDIO ARANZADI MARTÍNEZ | | Independent | DIRECTOR | 20/06/2019 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |
| MRS. MARTA LACAMBRA I PUIG | | Independent | DIRECTOR | 20/06/2019 | 20/06/2019 | SHAREHOLDERS MEETING AGREEMENT |

| Total number of directors | 10 |
|---|---|

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

| Name or company name of director | Category | Date of last appointment | Date of vacancy | Specialist committees of which he or she was a member | Indicate whether the removal from office occurred before the end of the mandate |
|---|---|---|---|---|---|
| MR. ANTONIO CANET MARTÍNEZ | OTHER EXTERNAL | 17/06/2015 | 20/06/2019 | HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE | NO |
| MR. CARLES ALFRED GASÒLIBA BÖHM | OTHER EXTERNAL | 17/06/2015 | 20/06/2019 | HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE | NO |

C.1.3 Provide the following details of the Members of the Board and their status:

| EXECUTIVE DIRECTORS | | |
|---|---|---|
| Name or company name of director | Position in the company's management structure | Profile |
| MR. JAVIER BASAÑEZ VILLALUENGA | GENERAL SECRETARY | Graduate in Political, Economic and Commercial Sciences from the Central University of Barcelona; Registered, non-practicing auditor of the Accounting Institute and Account Auditors; Certified for transportation services management. He is currently Secretary General of the Miquel y Costas Group and President of Bacesa de Inversiones, SICAV, S.A. as well as Director of Miquel y Costas & Miquel S.A. |
| MR. JORGE MERCADER MIRÓ | CHAIRMAN | Doctor in Industrial Engineering from the Technical School of Industrial Engineers of Barcelona and Master of Economics and Business from IESE (Institute for Higher Business Studies). He is currently President of Miquel y Costas & Miquel S.A. and from Hacia S.A. Additionally, he is a member of the Honorary Council of the Círculo de Economía Foundation, Trustee of the Fundación Princesa de Girona and of the Pasqual Maragall Foundation, Vice President of the Cerdà Institute and President of the Gala-Dalí Foundation. |
| MR. JORGE MERCADER BARATA | VICEPRESIDENT & GENERAL MANAGER | Industrial Engineer, Chemical specialty; MBA from IESE (Institute of Higher Business Studies); CEIBS Exchange Program. Shanghai (China). He is currently Vice President-General Director of Miquel y Costas & Miquel S.A. Additionally, he is President of ASPAPEL (Spanish Association of Pulp, Paper and Cardboard Manufacturers), Director of Hacia, S.A., Trustee of the Princess of Girona Foundation, Member of the Advisory Council of UEA (Unió Empresarial Anoia) and Member of the Executive Committee of the Alumni Association of IESE. |

| | |
|---|---|
| Total number of executive directors | 3 |
| % of the entire board | 30.00 |

| EXTERNAL PROPIERTARY DIRECTORS | | |
|---|---|---|
| Name or company name of director | Name or title of significant shareholder represented by the director or that has proposed the director's appointment | Profile |
| MR. ÁLVARO DE LA SERNA CORRAL | ENKIDU INVERSIONES, S.L. | Graduate in Economic and Business Sciences from the Autonomous University of Madrid and Master in Economics and Business from IESE (Institute of Higher Business Studies). He is currently a director of Credit Suisse AG Branch in Spain and Director of Viña Castellar Invest SICAV, S.A., Enkidu Inversiones S.L. and Miquel y Costas & Miquel S.A. |

| EXTERNAL PROPIERTARY DIRECTORS | | |
|---|---|---|
| Name or company name of director | Name or title of significant shareholder represented by the director or that has proposed the director's appointment | Profile |
| JOANFRA, S.A. | JOANFRA, S.A. | The representative natural person of Joanfra S.A., is licensed in Administration and Business Management (ADE) by the Universidad de Barcelona; Postgraduate in eBusiness Management by the Universidad Pompeu Fabra. He is currently Manager of Celler Cal Costas, S.L.U, Agrícola del Sudeste Almeriense S.A., and Joanfra S.A. and individual representative of Joanfra S.A. in the Board of Directors of Celler Cal Costas, S.L.U and Miquel y Costas & Miquel S.A. |

| | |
|---|---|
| Total number of external propiertary directors | 2 |
| % of the entire board | 20.00 |

| INDEPENDENT EXTERNAL DIRECTOR | |
|---|---|
| Name or company name of director | Profile |
| MR. JOAQUÍN COELLO BRUFAU | Naval Engineer from the Technical School of Naval Engineers of Madrid in both specialties of the career: Naval Construction and Exploitation and Maritime Transport and MBA from IESE (Institute of Higher Business Studies). He is currently President of Asoport (State Association of Port Operating Companies), Senior Academic of the Royal Academy of Engineering, Advisor to the Presidency of Gamesa, Advisor to AudingIntraesa, Noatum Maritime, Ership, Tecnalia and Enertika, and Director of the Comexi Group, Portel and Miquel y Costas & Miquel S.A. |
| MR. JOAQUÍN FAURA BATLLE | Law degree from the University of Barcelona and Master in Economics and Business Management from IESE (Institute of Higher Business Studies). He is currently Senior Advisor to the Presidency of Telefónica de España, Chairman of the bilateral Hispano-Korean Committee and is part of the Executive Committee of IESE Members. He is a Trustee of the Barcelona Digital Foundation, Representative Member of the Patronage Council of the Board of Trustees of the Gran Teatre del Liceu Foundation and Director of Foment del Treball and Miquel y Costas & Miquel, S.A. |
| MRS. MARTA LACAMBRA I PUIG | Degree in Economic Sciences and Master in Economic Theory and Quantitative Methods from the Autonomous University of Barcelona; II Training program for managers by EAPC / IESE; Master in Economics and Management of the Autonomous and local Treasury from the Faculty of Economic Sciences of the University of Barcelona; Senior Management Program (PADE) by IESE. She is currently the General Director of the Fundación Cataluña - La Pedrera, CEO of Món St. Benet S.L., Member of the Board of the Círculo de Cultura; Member of the Academic Council of the Chair of Leadership and Democratic Governance of ESADE and Director of Miquel y Costas & Miquel S.A. |

| INDEPENDENT EXTERNAL DIRECTOR | |
|---|---|
| Name or company name of director | Profile |
| MR. JOSÉ CLAUDIO ARANZADI MARTÍNEZ | Industrial Engineer from the Higher School of Industrial Engineers of Bilbao and Bachelor of Economic Sciences from the University of Paris 1. He is currently Coordinator of the publication of the Ministry of Defense "Energy and Geostrategy", Member of the Advisory Committee of the GED company and Director of Miquel y Costas & Miquel S.A. |

| | |
|---|---|
| Total number of Independent external directors | 4 |
| % of the entire board | 40,00% |

Indicate whether any director considered and independent director is receiving from the company or from its group any amount or benefit under item that is not the remuneration for his/her directorship, or maintains or has maintained over the last year, a business relationship with the company or any company in its group, whether in his/her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

Where applicable, include a reasoned statement from the board with the reasons why it deems that this director can perform his / her duties as an independent director.

| Name or Company of director | Description of relationship | Reasons |
|---|---|---|
| MR. JOAQUÍN FAURA BATLLE | Mr. Joaquín Faura Batlle performs the functions of Director-General in Telefónica Cataluña, company providing services in communications to Miquel y Costas Group. | The Council considers in no incompatibility in the performance of its function as Independent Director because that list is a traffic related or line of business of the Company and its Group. |

Independent Directors have only received from the Company, in addition to their remuneration as directors, the dividends corresponding to their shareholding, the amount of which is reflected in section D.3 of this report.

| OTHER EXTERNAL DIRECTORS | | | |
|---|---|---|---|
| Identify all other external Directors and explain why these cannot be considered proprietary or independent Directors and detail their relationships with the company, its executives or its shareholders. | | | |
| Name or Company of director | Reasons | | Profile |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SURERDA | Board Member initially qualified as Independent that on the occasion of exceeding the legally established limit in the continued exercise of his directorship, as Article 529 duodecies 4-i) of the | OTHER SHAREHOLDERS OF THE COMPANY | Lawy Degree by Economics and MBA from IESE (Institute for Higher Business Studies). He is currently President of EDM Holding S.A. and Director of |

| OTHER EXTERNAL DIRECTORS | | | |
|---|---|---|---|
| Identify all other external Directors and explain why these cannot be considered proprietary or independent Directors and detail their relationships with the company, its executives or its shareholders. | | | |
| Name or Company of director | Reasons | | Profile |
| | Companies Act Capital, at the time of his re-election by the general meeting of shareholders held in June 20, 2018 it happened to belong to this typology. | | de EDM Holding, S.A.; Cementos Molins, S.A .; Kawakan S.L. and Other Companies IIC and Miquel y Costas & Miquel S.A. |

| | |
|---|---|
| Total number of Other external directors | 1 |
| % of the entire board | 10.00 |

Indicate any changes in the status of each director during the period in the type of directorship of each director:

| Name or company name of director | Date of charge | Former category | Current category |
|---|---|---|---|
| Non data | | | |

C.1.4 Fill in the following table with information regarding the number of female directors over the last 4 years, and the nature of their directorships:

| | Number of female directors | | | | % of total female directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | Exercise 2019 | Exercise 2018 | Exercise 2017 | Exercise 2016 | Exercise 2019 | Exercise 2018 | Exercise 2017 | Exercise 2016 |
| Executives | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Proprietary | 1 | 1 | 1 | 1 | 10.00 | 10.00 | 10.00 | 10.00 |
| Independent | 1 | | | | 10.00 | 0.00 | 0.00 | 0.00 |
| Others External | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Total: | 2 | 1 | 1 | 1 | 20.00 | 10.00 | 10.00 | 10.00 |

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity

[✓] Yes
[ ] No
[ ] Partial policies

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

| Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained |
|---|

The policy for the selection of Directors followed by the Company favors the diversity of knowledge, experience and gender. Gender diversity is one of the aspects that the Council considers in the selection processes, when these take place. Thus, following the proposal for appointment Mrs. Marta Lacambra i Puig as Independent Director of the Company, the Human Resources, Appointments and Remuneration Committee favorably assessed it and proposed it to the Board of Directors who, in turn, favorably informed his appointment by proposing it to the General Shareholders Meeting of the Company which took place on June 20, 2019, in which his designation was approved.

C.1.6 Explain the measures, if any, agreed by the appointments committee to ensure that selection procedures do not suffer implicit biases that may hinder the selection of female directors, and that the company deliberately seeks and includes potential female candidates that meet the professional profile sough:

| Explanation of measures |
|---|

The article 12.2 b) of Regulations of the Board of Directors, includes among other functions of the Human Resources Committee, Nomination and Remuneration Committee shall report to the Board on matters of kind diversity.

The Article 15 of the Regulation provides that the election or appointment of Directors must be preceded by a proposal of the Committee on Human Resources, Nominations and Remuneration Committee**,** when it comes of independent directors, and a report in the case of the other Directors.

When, despite the measures, if any, have been taken are few or no female directors, explain the reasons justifying:

| Explanation of reasons |
|---|

The selection of Board members is done in an objective manner, taking into consideration both sexes who fulfill the necessary conditions and capacities, depending on their prestige, knowledge and professional experience of the duties of the position.

C.1.7. Explain the conclusions of the Appointments Committee regarding verification of compliance with the board member selection policy. And, in particular, explain how this policy is fostering the goal for 2020 to have the number of female board members represent at least 30% of the total number of members of the board of directors.

| Explanation of reasons |
|---|

The Company, and in particular the Board is particularly interested in that no discrimination occurs any the basis of genderbut maintains its view that the most important thing is to assess the competence, knowledge and skills of the candidate to actively collaborate with the Company**.**

C.1.8 Explain, where applicable, the reasons why proprietary directors have been appointed at the behest of a shareholder whose holding is less than 3% of the capital:

| Name or company name of shareholder | Justification |
|---|---|
| Non data | |

Indicate whether formal petitions have been ignored for presence on the board from shareholders whose holding is equal to or higher than others at whose behest proprietary directors were appointed. Where applicable, explain why these petitions have been ignored:

[ ] Yes
[✓] No

C.1.9. Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

| Name or company name of the Director or committee | Brief outline |
|---|---|
| MR. JORGE MERCADER MIRÓ | He has extensive powers in accordance with his functions as President of the Company. |
| MR. JORGE MERCADER BARATA | It has been granted the standard powers established by the Company as "Management". |

C.1.10. Identify, where applicable, the Board members holding positions of Administrators or Executives in other Companies forming part of the Group of the listed Company:

| Name or Company name of director | Company name of Group entity | Position | Does the director hold executive Functions? |
|---|---|---|---|
| MR. JAVIER BASAÑEZ VILLALUENGA | S.A. PAYÁ MIRALLES | SECRETARY | NO |
| MR. JAVIER BASAÑEZ VILLALUENGA | DESVI, S.A. | CHAIRMAN | NO |
| MR. JAVIER BASAÑEZ VILLALUENGA | MB PAPELES ESPECIALES, S.A. | SECRETARY (PERSONAL REPRESENTATIVE) | NO |
| MR. JAVIER BASAÑEZ VILLALUENGA | MIQUEL Y COSTAS ENERGIA Y MEDIO AMBIENTE, S.A. | DIRECTOR | NO |
| MR. JORGE MERCADER MIRÓ | CELULOSA DE LEVANTE, S.A. | DIRECTOR | NO |
| MR. JORGE MERCADER BARATA | MIQUEL Y COSTAS DEUTSCHLAND, GMBH | SOLE DIRECTOR | NO |
| MR. JORGE MERCADER BARATA | PAPELES ANOIA, S.A. | CHAIRMAN | NO |
| MR. JORGE MERCADER BARATA | CELULOSA DE LEVANTE, S.A. | DIRECTOR | NO |

| Name or Company name of director | Company name of Group entity | Position | Does the director hold executive Functions |
|---|---|---|---|
| MR. JORGE MERCADER BARATA | S.A. PAYA MIRALLES | DIRECTOR | NO |
| MR. JORGE MERCADER BARATA | CLARIANA, S.A. | DIRECTOR (PERSONAL REPRESENTATIVE) | NO |
| MR. JORGE MERCADER BARATA | SOCIEDAD ESPAÑOLA ZIG ZAG S.A. | CHAIRMAN | NO |
| MR. JORGE MERCADER BARATA | DESVI S.A. | DIRECTOR | NO |
| MR. JORGE MERCADER BARATA | MB PAPELES ESPECIALES, S.A. | CHAIRMAN (PERSONAL REPRESENTATIVE) | NO |
| MR. JORGE MERCADER BARATA | MIQUEL Y COSTAS ENERGIA Y MEDIO AMBIENTE, S.A. | CHAIRMAN | NO |
| MR. JORGE MERCADER BARATA | MIQUEL Y COSTAS TECNOLOGIAS, S.A. | CHAIRMAN | NO |
| MR. JORGE MERCADER BARATA | TERRANOVA PAPERS, S.A. | CHAIRMAN (PERSONAL REPRESENTATIVE) | NO |
| MR. JORGE MERCADER BARATA | MIQUEL Y COSTAS LOGÍSTICA, S.A. | CHAIRMAN (PERSONAL REPRESENTATIVE) | NO |
| MR. JORGE MERCADER BARATA | FOURTUBE, S.L. | DIRECTOR (PERSONAL REPRESENTATIVE) | NO |

C.1.11. Provide details, where applicable, of the directors of your Company who are members of the Boards of Directors of other Companies listed on official Securities Markets in Spain different from your Group, of which the Company has been notified.

| Name or Company name of director | Company name of the Group entity | Position |
|---|---|---|
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | CEMENTOS MOLINS, S.A. | DIRECTOR |

C.1.12. Indicate and, where applicable, explain whether or not the Company has laid down rules on the number of Boards on which its directors can participate:

[✓] Yes
[ ] No

| Explanation of the rules and identification of the document where it is regulated |
|---|

Art. 19.1 Of the Regulations governing of the Board of Directors sets down:

*"Al objeto de que el consejero pueda dedicar tiempo y esfuerzo necesario para desempeñar su función con eficacia, no podrá formar parte de un número de consejos superior a cuatro.*

*A los efectos del cómputo del número de Consejos a los que se refiere el párrafo anterior, se tendrán en cuenta las siguientes reglas:*

*a) No se computarán aquellos Consejos de los que forme parte como Consejero dominical propuesto por Miquel y Costas y Miquel S.A. o por cualquier sociedad del Grupo de ésta.*

*b) Se computará como un solo Consejo todos los Consejos de Sociedades que formen parte de un mismo grupo, así como aquellos de los que forme parte en calidad de Consejero dominical de alguna Sociedad del grupo, aunque la participación en el capital de la sociedad o su grado de control no permita considerarla como integrante del grupo.*

*c) No se computarán aquellos Consejos de sociedades patrimoniales o que constituyan vehículos o complementos para el ejercicio profesional del propio consejero, de su cónyuge o persona análoga relación de afectividad, o de sus familiares cercanos.*

*d) No se considerarán para su cómputo aquellos Consejos de sociedades que, aunque tengan carácter mercantil, su finalidad sea complementaria o accesoria a otra actividad que para el Consejero suponga una actividad de ocio, asistencia o ayuda a terceros o cualquier otra que no suponga para el Consejero una propia y verdadera dedicación a un negocio mercantil."*

C.1.13 Indicate the overall remuneration for the board of directors:

| | |
|---|---|
| Remuneration of the board of directors (€ thousand) | 3,493 |
| Amount of overall remuneration corresponding to the rights accumulated by directors with respect to pensions (€ thousand) | 649 |
| Overall remunerations of the board of directors (€ thousand) | |

Said remuneration includes variable remunerations in favour of the Executive Directors arising from compliance with the 2016-2018 Triannual Plan and the 2016-2018 Social Security Plan, which accrues is consolidated in 2018, as this is the end of the triennium.

C.1.14 Identify members of the senior management that are not in turn executive directors, and indicate the total remuneration accruing to them during the year:

| Name (person or company) | Position (s) |
|---|---|
| MR. JAVIER GARCÍA BLASCO | COMMERCIAL MANAGER OF THE ROLLING PAPERS DIVISION |
| MRS. MARINA JURADO SALVADO | COMMERCIAL MANAGER OF THE SMOKING DIVISION. |
| MR. IGNASI NIETO MAGALDI | DEPUTY GENERAL MANAGER |
| MR. JOSE MARIA MASIFERN VALÓN | MANAGER OF THE BESÓS FACTORY. |
| MR. JOSEP PAYOLA BASETS | MANAGER OF MB PAPELES ESPECIALES, S.A. |
| MR. JAVIER ARDIACA COLOMER | MANAGER OF THE MISLATA FACTORY. |

| | |
|---|---|
| Total senior management remuneration (€k) | 1,475 |

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

[ ] Yes
[✓] No

C.1.16 Indicate the procedures for the appointment, re-election, assessment and removal of directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

*The Regulations of the Board of Directors, regarding the appointment of Directors, establish:*

*- Los Consejeros serán elegidos por la Junta General o designados por el Consejo de Administración en el supuesto de cooptación, de conformidad con las previsiones contenidas en la Ley de Sociedades de Capital y en los Estatutos Sociales. La elección o designación de los Consejeros deberá estar precedida de la correspondiente propuesta de la Comisión de Recursos Humanos, Nombramientos y Retribuciones cuando se trate de Consejeros independientes y de un informe en el caso de los restantes Consejeros.*

*- Los Consejeros designados deberán cumplir los requisitos exigidos estatutariamente para el ejercicio del cargo y no podrán estar incursos en las causas de inhabilitación establecidas legalmente.*

*- Los Consejeros ejercerán su cargo durante el plazo previsto en los Estatutos sociales, pudiendo ser reelegidos.*
*Los Estatutos Sociales establecen, en relación a los Consejeros, que no será necesario que ostenten la condición de accionistas y serán siempre elegidos y renovados por la Junta General y ejercerán el cargo por el plazo de cuatro años.*

*The Regulations of the Board of Directors on the removal of Directors also establishes that:*

*- Los Consejeros cesarán en el cargo cuando haya transcurrido el período para el que fueron nombrados y cuando lo decida la Junta General en uso de las atribuciones que le otorga la Ley.*

*- El Consejo propondrá a la Junta General el cese de los Consejeros, entre otros, en los siguientes supuestos:*

*a. Cuando se vean incursos en incompatibilidad o prohibición legal.*

*b. Cuando su permanencia en el Consejo pueda poner en riesgo los intereses de la Sociedad o cuando desaparezcan las razones por las que fueran nombrados. Se entenderá que se produce esta última circunstancia respecto de un Consejero dominical cuando se lleve a cabo la enajenación de la total participación accionarial de la que sea titular o a cuyos intereses represente y también cuando dicha participación disminuya hasta un nivel que exija la reducción del número de sus Consejeros dominicales.*

*3. Cuando un Consejero termine su mandato o por cualquier otra causa cese en el desempeño de su cargo no podrá prestar servicios en otra entidad que tenga relaciones con competidores de empresas del Grupo Miquel y Costas en el plazo de dos años.*

*4. Si el cese se produjera antes del término de su mandato, explicará las razones en una carta que se remitirá a todos los miembros del Consejo. El cese se comunicará a la CNMV como hecho relevante y se dará cuenta del mismo en el I. A. G. C.*

C.1.17 Explain to what degree the self-assessment has led to significant changes in its internal organization and the procedures applicable to its activities:

| Description of changes |
|---|

Based on the conclusions reached by the assessment of the Board of Directors and the discussions, it has considered that no exceptional measures of improvement are necessary that involve significant changes of importance.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation

| Description of the evaluation process and areas evaluated |
|---|

In order to comply with the provisions of article 529 nonies of the Capital Companies Act and article 13.6 of the Regulations of the Board of Directors of the Company in matters of annual evaluation of the operation of the administrative bodies, in the financial year The Directors have evaluated the performance of the functions of the Board of Directors, that of its Specialized Committees, those of the President and those of the Vice-President-General Director, applying the questionnaire methodology, with debate and subsequent analysis in a face-to-face session.

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

In accordance with the recommendation of the frequency included in the Code of Good Governance, in the year the Council has not been assisted by an independent external consultant

C.1.19 Indicate the circumstances under which directors are obliged to resign.

The Regulations of the Board of Directors establish that the Board will propose to the General Meeting the dismissal of the Directors in the cases in which they are involved in incompatibility or legal prohibition, when their permanence on the Board may put at risk the interests of the Company or when the reasons for which they were appointed disappear, understanding that the latter circumstance occurs with respect to a proprietary Director when the sale of the total shareholding of which he is the owner or whose interests he represents and also when said participation takes place decrease to a level that requires the reduction of the number of your proprietary Directors.

The aforementioned Regulations also provide that, in relation to the Director's Information Duties, the latter must inform the Company of those personal circumstances that affect or may affect the Company's credit or reputation, especially the criminal cases in which it appears, as accused and its relevant procedural vicissitudes. The Board may require the Director, after examining the situation that the latter presents, to resign and this decision must be accepted by the Director.

Additionally, the Board may require the Director to resign due to non-observance of his general obligations established in said Regulations.

C.1.20 Are reinforced majorities other than those applicable by law required for any type of decision?

[ ] Yes
[✓] No

Where applicable, describe the differences

C.1.21 Explain whether there are specific requirements, other than those regarding directors, to be appointed chairman of the board.

[ ] Yes
[✓] No

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for directors:

[ ] Yes
[✓] No

C.1.23 Indicate whether the Articles of Association or the Board regulations set a limited term, or other requirements stricter than those legally determined, of office for independent directors different to the one established in the regulations.

[ ] Yes
[✓] No

C.1.24 Indicate whether the bylaws or the board regulations establish specific standards for proxy voting in the board of directors, the way this is done and, in particular, the maximum number of proxies a director may have, and whether it is mandatory to grant proxy to a director of the same type. If so, briefly give details on such standards.

The Articles of Association establish that, in the event of inability to attend a Board meeting, each of its components may delegate their representation and vote to a Director in writing and with special character for each session.

For its part, the Regulations of the Board of Directors establish that the representation in another Director will be conferred with instructions about the determinations to be adopted in the treatment of the different items on the Agenda of the meeting.

There is no maximum number of delegations established or limitation regarding the categories in which it is possible to delegate beyond the limitations imposed by legislation.

C.1.25 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. In calculating this number, proxies, given with specific instructions will be counted as attendance.

| | |
|---|---|
| Number of meetings of the Board | 13 |
| Number of Board meetings without the Chairman attending | 0 |

If the Chairman is an executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the Lead Director

| | |
|---|---|
| Number of meetings | 0 |

Indicate the number of meetings held by the different Board Committees over the year:

| | |
|---|---|
| Number of meeting held by the HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE | 4 |
| Number of meeting held by the AUDIT COMMITTEE | 6 |

C.1.26 Indicate the number of meetings held by the Board of Directors during the year attended by all its members. In calculating this number, proxies given with specific instructions will be counted as attendances:

| | |
|---|---|
| Number of meetings attended in person by at least 80% of the directors | 13 |
| % of attendance over the total number of votes during the year | 100.00 |
| Number of meetings with attendance in person, or representations made with specific instructions of all the directors | 13 |
| % votes cast with attendance in person and representations made with specific instructions, on total votes during the year | 100.00 |

C.1.27 Indicate if the individual and consolidated Annual Accounts submitted for approval to the Board are previously certified:

[✓] Yes
[ ] No

Identify, where applicable, the person(s) who has/have certified the Company's individual and consolidated Annual Accounts in order to be formulated by the Board:

| Name | Position |
|---|---|
| MR. ÁLVARO DE LA SERNA CORRAL | MEMBER OF AUDIT COMMITTEE |
| MR. JOAQUÍN FAURA BATLLE | CHAIRMAN OF AUDIT COMMITTEE |
| MRS. MARTA LACAMBRA I PUIG | MEMBER OF AUDIT COMMITTEE |

C.1.28 Explain, where applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated Annual Accounts being submitted to the General Meeting of Shareholders with qualifications in the auditors' report.

The Company and the Companies of the Miquel y Costas Group prepare their annual accounts following the legal precepts and faithfully applying the generally accepted principles of accounting under the supervision of the financial-economic department and the monitoring of the Audit Committee.

Each year those in charge of the economic-financial department together with the auditors will carry out an inspection and monitoring of the recommendations which arise from the work carried out in the auditing of accounts.

In the fulfilment of its powers, the Audit Committee meets with the external auditors in order to be informed about all those matters related to the process of conduct of the auditing of accounts and to deal with those matters which might give rise to possible reservations so as to make available the necessary steps to prevent them.

Finally, the Audit Committee takes the annual accounts to the Board of Directors for their formulation.

Note that, successive audit reports of individual and consolidated financial statements do not include any qualifications.

C.1.29 Is the Secretary of the Board a director?

[ ] Yes
[✓] No

Complete if the Secretary is not also a Director:

| Name the Secretary | Representant |
|---|---|
| MR. EMILIO COCO FORISCOT | |

C.1.30 Indicate the specific mechanisms introduced by the company to preserve the independence of the external auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice

In accordance with the provisions of the Regulations of the Board of Directors, the Audit Committee annually issues, prior to the issuance of the accounts audit report, a report expressing its opinion on the independence of the auditors. Said Regulations include, among the basic responsibilities of the Audit Committee, that of maintaining adequate relations with the external auditors to receive information on those matters that may jeopardize their independence, for examination by the Committee, and any other related with the process of developing the auditing of accounts and, where appropriate, the authorization of services other than those prohibited under the applicable regulations, as well as those other communications provided for in the auditing legislation and in the technical auditing standards . In any case, the Audit Committee must receive annually from the auditors the written confirmation of its independence from the Company or entities directly or indirectly related to it, as well as detailed and individualized information on the additional services of any kind provided and the corresponding fees received from these entities by the aforementioned auditors, or by the persons or entities related to them, in accordance with the provisions of the legislation on auditing accounts.

In relation to financial analysts, investment banks and rating agencies, the Company preserves its independence by making available to the market, in public disclosure, all the Company information that is provided to say agents without giving any preferential treatment to none of them. The aforementioned Regulation establishes that the Council will inform the public immediately about the following matters:

Therefore of the Regulations of the Board of Directors requires that the Board will inform the public immediately with regard to the following:

a) Relevant facts capable of significantly affecting the formation of stock prices;

b) Changes to the ownership structure of the Company, such as variations in significant holdings, syndication agreements, and other forms of coalition, of which it has knowledge;

c) Significant changes to the rules of governance of the Company;

d) The own shares policies which intends to adopt for the Company subject to powers obtained at the General Meeting.

Likewise, the Internal Code of Conduct contemplates and determines the causes and conditions of information release to the different financial agents.

C.1.31 Indicate whether or not the external auditor has been changed during the year. Where applicable, identify the incoming and outgoing auditors.

[ ] Yes
[✓] No

In the case of disagreements with the outgoing auditor, explain the content of said disagreements:

[ ] Yes
[✓] No

C.1.32 Indicate if the audit Company performs other tasks for the Company and/or its Group other than auditing activities, and if so, state the amount of the fees received for said activities and their percentage of the fees billed to the Company and/or its Group.

[✓] Yes
[ ] No

| | Company | Group | Total |
|---|---|---|---|
| Amount of tasks other than audit services | 1 | 0 | 1 |

| (thousands euros) | | | |
|---|---|---|---|
| | Company | Group | Total |
| Amount of tasks other than audit services / total amount invoiced by the Audit Company (in %) | 0.92 | 0.00 | 0.50 |

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions

[ ] Yes
[✓] No

C.1.34 Indicate how many years the current audit Company has been auditing, without interruption, the Annual Accounts of the Company and/or its Group. Also indicate the percentage of the number of years audited by the current Audit Company over the total number of years that the Annual Accounts have been audited:

| | Individual | Consolidated |
|---|---|---|
| Number of years without interruption | 18 | 18 |

| | Individual | Consolidated |
|---|---|---|
| Number of years audited by the current audit company / Number of years the company has been audited (in %) | 58.06 | 58.06 |

C.1.35. Indicate and, where applicable, provide details of whether there is a procedure whereby directors can have external assessment:

[✓] Yes
[ ] No

| Details of the procedure |
|---|

Article 13.2 of the Regulations of the Board of Directors establishes in relation to the meetings of this Board that:

*"La convocatoria incluirá siempre el Orden del Día de la sesión que deberá contemplar, entre otros puntos, los relativos a las informaciones de las sociedades filiales y de las Comisiones del Consejo, así como las propuestas y sugerencias que formulen el Presidente y los demás miembros del Consejo que serán cursadas con una antelación no menor a cinco días hábiles a la fecha del propio Consejo, de acuerdo con lo establecido en los Estatutos Sociales."*

Each Director has a dossier for each Board meeting that is explained and, where appropriate, discussed, which contains detailed information of all the topics that are dealt with in the session. Those points of greater complexity, such as the annual budget, investment plan, strategic plan, and others of special significance, receive this treatment in a reinforced way. The Directors, in the period between councils, can consult and request as much necessary information as they require.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the directors to report and, in cases that damage the Company's credit and reputation, resign:

[✓] Yes
[ ] No

| Explain the rules |
|---|

The Regulations of the Board of Directors, in relation to the information duties of the Director, establish that:

"*El Consejero deberá informar a la Sociedad de aquellas circunstancias personales que afecten o puedan afectar al crédito o reputación de la Sociedad, en especial, de las causas penales en que aparezca como imputado y de sus vicisitudes procesales relevantes, de todo lo cual se dará cuenta en el I.A.G.C.. El Consejo podrá exigir al Consejero después de examinar la situación que éste presente, su dimisión y esta decisión deberá ser acatada por el Consejero*".

C.1.37 Indicate whether or not any member of the Board of Directors has informed the Company that he/she has been prosecuted or actions against him/her have been opened for any of the offences laid down in Article 213 of the Spanish Companies Act:

[ ] Yes
[✓] No

C.1.38 Detail significant agreements reached by the Company that come into force, are amended or concluded in the event of a change in the control of the company stemming from a public takeover bid, and its effects.

No significant agreements by the Company which take effect are amended or terminated in the event of change of control following a takeover bid. Only the clauses include in Company contracts with each of the two Executive Directors provide that such Directors are entitled to terminate its contractual relationship with the Company in case of change of control.

C.1.39 Identify in aggregate terms and indicate in detail any agreements between the company and its directors, managers or employees that have guarantee or ring-fencing severance clauses for when such persons resign or are wrongfully dismissed or if the contractual relationship comes to an end due to a public takeover bid or other kinds of transactions.

| Number of beneficiaries: | 3 |
|---|---|
| Type of beneficiary | Description of agreement: |
| Executive Directors | The contractual conditions stipulate that in the event of an involuntary termination of performance of said executive duties, unless in the event of serious breach, they shall be entitled to compensation equivalent to an annual gross payment. In addition, two of them, will be entitled to the same treatment in the event of a change of control. Once the termination has occurred, the Company limits its liability Counsellor Concurrency, the Directors shall be entitled to compensation equal to 50% of the gross monthly salary for a period of two years. |

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

| | Board of directors | General Meeting |
|---|---|---|
| Body authorising the clauses | ✓ | - |

| | Yes | No |
|---|---|---|
| The general meeting of the clauses is reported? | | ✓ |

There is nothing established beyond the assumptions foreseen in the regulations.

## C.2. Committees of the Board of Directors

### C.2.1 Detail all the board committees, their members and the proportion of proprietary directors and independent directors sitting on them:

| HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE | | |
|---|---|---|
| **Name** | **Position** | **Type** |
| MR. JOAQUÍN COELLO BRUFAU | CHAIRMAN | Independent |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | BOARD MEMBER | Other External |
| JOANFRA, S.A. | SECRETARY | Proprietary Director |
| MR. JOSÉ CLAUDIO ARANZADI MARTÍNEZ | BOARD MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 25.00 |
| % independent directors | 50.00 |
| % other external | 25.00 |

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organization and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions**.**

The regulatin of the Human Resources, Nominations and Remuneration Committee, are in of the Articles of Association and of the Regulations of the Board of the Company.

As of December 31, 2019, it is composed of four Directors, two of whom are independent and is chaired by a Director of this last Category.

The Regulation of the Board of Directors establishes that the Committee will meet at least once a year and will adopt its decisions by majority and report the content of its meetings to the Board of Directors.

The aforementioned Regulation states that "the Human Resources, Appointments and Remuneration Committee, in matters not foreseen in the present standards, will be governed by the operating guidelines of the Board of Directors ".

The basic duties attributed of the Human Resources, Nominations and Remuneration Committee is:

a) Propose to the Board of Directors the naming of independent Directors for appointment by co-optation or for submission to the decision of the Shareholders General Meeting and the re-election or removal of said Directors by the Shareholders General Meeting; the remuneration of Directors and the salary policy of top management personnel; the individual remuneration of executive Directors and other terms of their contracts; the basic conditions of contracts for senior executives; the general policy on Human Resources of the Group Companies.

b) Inform the Board of Directors of the naming of proprietary Directors and executives for appointment by co-optation or for submission to the decision of the Shareholders General Meeting, and their re-election or removal by the Shareholders General Meeting; the appointment of the Chairman of the Board of Directors; the appointments and removals of top management and the basic terms of their contracts; issues of gender diversity; appointments and removals of the top executives which the chief executive proposes to the Board; the appointment and removal of the Secretary of the Board of Directors.

c) Evaluate the profile of the most suitable candidates to form part of the various Committees, according to their knowledge, skills and experience; the competence, knowledge and skills of candidates for Directors; the succession of the Chairman and chief executive and, if necessary, make proposals to the Board of Directors so that this succession occurs in an orderly and planned fashion; compliance with internal codes of conduct and corporate governance rules.

During the 2019 financial year, the Human Resources, Appointments and Remuneration Committee met four times to discuss, among others, the following topics: structure and evolution of the workforce, examination of the remuneration of Directors, proposal for re-election of Directors to those whose term expired; proposal for the appointment of new Directors, evaluation and proposal for the appointment of members for the Human Resources, Appointments and Remuneration Committee and for the Audit Committee, Report on the appointment of a new Secretary not a Director of the Board of Directors, appointment of positions in the within the Human Resources, Appointments and Remuneration Commission itself.

| AUDIT COMMITTEE | | |
|---|---|---|
| Name | Position | Type |
| MR. JOAQUÍN FAURA BATLLE | CHAIRMAN | Independent |
| MR. ÁLVARO DE LA SERNA CORRAL | BOARD MEMBER | External Proprietary Director |
| MRS. MARTA LACAMBRA I PUIG | BOARD MEMBER | Independent |

| | |
|---|---|
| % executives directors | 0.00 |
| % proprietary directors | 33.33 |
| % independent directors | 66.67 |
| % other external | 0.00 |

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organization and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolution.

The procedure of the Audit Committee, are regulated in of the Articles of Association and provisions of the Regulations of the Board of the Company.

As of December 31, 2019, it is composed of three Directors, two independent and presided over by one Director of this category.

The basic duties attributed of the Audit Committee are:

a) To inform the General Assembly of Shareholders on matters raised there by the shareholders on matters within its jurisdiction and in particular on the outcome of the audit, explaining how it has contributed to the integrity of the financial information and the role that the Audit Committee has played in this process.

b) Establish and supervise a procedure that allows employees to communicate, in a confidential manner, and if deemed anonymous anonymity, irregularities of special importance, particularly financial and accounting that they notice wider Society.

c) Supervise the effectiveness of the Company's internal control and risk management systems including control systems over financial reporting and discuss with auditors or external audit firms the significant weaknesses of the internal control system detected in the Company. Development of the audit, without breaking their independence.

d) Know and supervise the process of preparation and presentation of regulated financial information. Prior to the adoption of the corresponding resolution by the Board, the Audit Committee shall inform the Board about the periodic financial information as well as other information that the Company must disclose to the markets and its supervisory bodies, presenting, where appropriate, recommendations or Proposals aimed at safeguarding the integrity of such information

e) Maintain adequate relationships with external auditors or audit companies to receive information on those matters that may jeopardize their independence, for consideration by the Committee, and any other related to the process of developing the audit of accounts, and, where appropriate, the authorization of services other than those prohibited under applicable regulations, as well as those other communications provided for in the auditing legislation and in the technical auditing standards.

In any case, the Audit Committee must receive annually from the auditors or external audit companies, the written confirmation of their independence from the Company or entities directly or indirectly related to it, as well as detailed and individualized information on the additional services of any kind provided and the corresponding fees received from these entities by the aforementioned external auditors or audit companies, or by the persons or entities related to them in accordance with the provisions of the legislation on audit of accounts.

f) The Committee must issue an annual report, prior to the release of the audit report, expressing an opinion about the auditors' or auditing firms' independence. This report must in any case pronounce on the provision of the additional services referred to in the previous section e).

g) Establish and supervise a procedure that allows employees to communicate, in a confidential manner, and if deemed anonymous anonymity, irregularities of special importance, particularly financial and accounting that they notice wider Society.

During 2019, the Audit Committee has met six times in order to address, among others, the following issues: supervision of the Financial Statements and management information of the Company and the consolidated Group; review and information to the Council on the Periodic Public Information consisting of the semiannual and intermediate reports; analysis and study of financial policy, informing the Board of Directors thereof; examine the communications received through the Communications Channel, examine the Internal Control for the prevention of criminal risks and designate its President.

Identify the directors who are members of the Audit Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said director was appointed Chairman

| | |
|---|---|
| Name of directors with experience | MR. JOAQUÍN FAURA BATLLE / MR. ÁLVARO DE LA SERNA CORRAL7 MRS. MARTA LACAMBRA I PUIG |
| Date of appointment as Chairman | 04/09/2019 |

C.2.2 Fill in the following table with information on the number of female directors sitting on board committees over the last four years.

| | Number of female directors | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exercise 2019 | | Exercise 2018 | | Exercise 2017 | | Exercise 2016 | |
| | Number | % | Number | % | Number | % | Number | % |
| HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE | 1 | 25.00 | 1 | 16.70 | 1 | 20.00 | 1 | 20.00 |

| | Number of female directors | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exercise 2019 | | Exercise 2018 | | Exercise 2017 | | Exercise 2016 | |
| | Number | % | Number | % | Number | % | Number | % |
| AUDIT COMMITTEE | 1 | 33.33 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |

C.2.3 Indicate, where applicable, the existence of Committee regulations, the location at which they are available for consultation, and the modifications that have been made during the financial year. Also indicate whether any annual report on each Committee's activities has been voluntarily drafted.

HUMAN RESOURCES, NOMINATIONS AND REMUNERATION COMMITTEE

The competencies and performance standards of the Commission of Human Resources, Nominations and Remunerations are governed by Article 23 Article of Association and 12 and related provisions of the Regulation in the Board of Directors of the Company, the text of which is available on the corporate website.

AUDIT COMMITTEE

The competencies and performance standards of the Audit Committee are regulated in Article 23 of the Articles of Association and Article 11 and related provisions of the Regulations of the Board of the Company, whose texts are available on the corporate website.

The Audit Committee prepares one Annual Activity Report.

## D. RELATED-LINKED TRANSACTIONS AND INTRA-GROUP

**D.1.** Explain, if applicable, the procedures for approving related party or intra-group transactions.

The linked transactions, with related parties, if they take place and their significance so requires, must be submitted and approved by the Board of Directors.

**D.2.** Detail the significant operations that imply a transferral of resources or obligations between the Company and entities within its Group and the significant shareholders of the Company:

| Name or Corporate Name of significant shareholder | Name or Corporate Name of the Company or Group Company | Nature of relationship | Type of operation | Amount (Thousand Euros) |
|---|---|---|---|---|
| INSINGER DE BEAUFORT ASSET MANAGEMENT N.V. | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 576 |
| INDUMENTA PUERI, S.L. | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 1,231 |
| SANTANDER ASSET MANAGEMENT S.A. SGIIC | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 849 |
| EDM GESTION S.A. SGIIC | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 509 |
| MRS. BERNADETTE MIQUEL VACARISAS | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 484 |
| MRS. MARIA DEL CARMEN ESCASANY MIQUEL | MIQUEL Y COSTAS & MIQUEL S.A | Corporate | Dividends and other distributed profit | 1,616 |

**D.3.** Detail the significant operations that imply a transferral of resources or obligations between the Company and entities within its Group and the Directors or Executives of the Company:

| Name or corporate name of the directors or executives | Name or Corporate Name of the Company or Group Company | Nature of relationship | Type of operation | Amount (Thousand Euros) |
|---|---|---|---|---|
| JOANFRA, S.A. | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 1,096 |
| MR. JORGE MERCADER MIRÓ | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 2,031 |
| MR. JAVIER BASAÑEZ VILLALUENGA | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 37 |
| MR. ÁLVARO DE LA SERNA CORRAL | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 14 |
| MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 18 |
| MR. JORGE MERCADER BARATA | MIQUEL Y COSTAS & MIQUEL S.A | Board Member | Dividends and other distributed profit | 65 |
| MRS. MARINA JURADO SALVADO | MIQUEL Y COSTAS & MIQUEL S.A | Executive | Dividends and other distributed profit | 19 |
| MR. JAVIER ARDIACA COLOMER | MIQUEL Y COSTAS & MIQUEL S.A | Executive | Dividends and other distributed profit | 11 |
| MR. JOSEP PAYOLA BASSETS | MIQUEL Y COSTAS & MIQUEL S.A | Executive | Dividends and other distributed profit | 15 |
| MR. JAVIER GARCÍA BLASCO | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 14 |
| MR. JOAQUÍN FAURA BATLLE | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 4 |

| Name or corporate name of the directors or executives | Name or Corporate Name of the Company or Group Company | Nature of relationship | Type of operation | Amount (Thousand Euros) |
|---|---|---|---|---|
| MRS. OLGA ENCUENTRA CATALÁN | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 6 |
| MR. JOSÉ MARÍA MASIFERN VALÓN | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 11 |
| MR. IGNASI NIETO MAGALDI | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 3 |
| MR. VICENÇ FEBRÉ MUNIENTE | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 1 |
| MR. JORDI PRAT CANADELL | MIQUEL Y COSTAS & MIQUEL, S.A. | Executive | Dividends and other distributed profit | 1 |

**D.4.** Detail the significant transactions in which the company has engaged with other companies belonging to the same group, except those that are eliminated in the process of drawing up the consolidated financial statements and that do not form part of the company's habitual traffic with respect to its object and conditions.

In any event, provide information on any intra-group transaction with companies established in countries or territories considered tax havens

| Name of Group Company | Brief description of operation: | Amount (Thousand Euros) |
|---|---|---|
| No Dates | | N.A. |

**D.5** State the amount of the transactions carried out with other related parties.

| Name of related party | Brief description of operation: | Amount (Thousand Euros |
|---|---|---|
| No Dates | | N.A. |

**D.6.** Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or the Group, and its directors, Executives or significant shareholders.

In accordance with the Internal Rules of Conduct, people subject to it are obliged to inform the Secretary of the Board of Directors about the possible conflicts of interest to which they are subject as a result of their family relations, their personal property or for any other reason. Any doubt about the possibility of a conflict of interest, must be brought to the Secretary of the Board before adopting any decision which might be affected by the said conflict of interest.

The Regulations of the Board of Directors establishes that, before accepting any managerial position in another company or entity that may represent a conflict of interest, the Director should consult the Human Resources Committee.

In addition to the above, annually, the Board members make a declaration concerning the situation of conflict of interest of what the Secretary records in writing in the register of conflicts of interest.

**D.7.** Is there more than one listed Company of the Group in Spain?

[ ] Yes
[✓] No

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1. Explain the scope of the company's Risk Management System including risks of a tax-related nature.

The Audit Committee complying tasks set out in the Bylaws and the Regulations of the Board of Directors business risk controls, supervises and directs the actions of the Internal Control Service relative risks the business in general and in particular those relating to information and observation of legality in its commercial, penal and tax issues.

### E.2. Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System including tax-related risks.

1. - Human Resources, Nominations and Remunerations Committee:
Under its supervision and control are all aspects of the personnel providing the services: prevention and security, retention, replacement, etc.

2. - Audit Committee:
Understand and supervise the financial reporting and Internal Control Systems of the Company as well as the internal control report for the risk prevention of the Company.

3. - Managing Committee**:**
Belongs to the managerial level and control the industrial operational areas, both productive and logistics general, including environmental and trade.

4. - Risk and Control Committee:
Belongs to the managerial level and have assigned the functions of control economic, financial, and legal and credit risk control and risk of accidents in their prevention and insurance.

5. - Investments and Environment Committee
Belongs to the management level monitoring of risks associated with investments in fixed assets in all its considerations: management, environment, etc.

6. - Area Committees:
Monitoring the operational and commercial aspects of each of the business areas of the Group.

7.- Compliance Officer
Control, measures, evidence and, where appropriate, mitigating actions.

### E.3. Indicate the main risks, including fiscal, which may prevent the company from achieving its business targets.

The principal risks identified and managed in the Miquel y Costas Group are summarised below:

Macro-economic risks:
Raw Materials and Energy
Economic and financial environment
Legal and regulatory. in civil, commercial, and tax matters among others.

Operations and Markets:
Sector concentration
Quality and quality assurance
Research and development of new products

Facilitation:
Integrity of assets
IT systems

Human resources
Taxation

Penalty Risks

### E.4. Identify whether the entity has a risk tolerance level including tax-related risks.

The Company considers that has sufficient capacity and is properly prepared to withstand and manage the risks that have identified.

### E.5 State what risks, including tax-related risks, have occurred during the year.

Materialized risk in the exercise: Legal risk Circumstances that have motivated new stages of a petition a former distributor in Italy for breach of contract and proceedings.

Risk arising during the year: Environmental Risk: The Management Committee has overseen and taken the appropriate measures to remedy any small incidents arising from the activity.

Risk materialized in the year: Fiscal. The Tax Agency has completed the process of verifying the Company's tax obligations and two subsidiaries with the result of disagreement due to interpretative differences.

### E.6. Explain the response and supervision plans for the principal risks faced by the company including tax-related risks.

The Company monitors all legislation that affects you through its Committees, its Executive Committee, of its internal and external collaboration of its advisory services. As soon as he is known, the channels through areas responsibility should be aware of it for proper compliance.

Additionally, the Board of Directors and, where appropriate, its Delegate Committees, carry out selective monitoring of the application, adaptation and observance of the aforementioned regulations.

Also in the field of taxation, it maintains a constant update of the tax regulations through its advisers, analyzes the economic facts to treat them with the greatest guarantees in the responsible Committees and activates the action procedures in cases where the Administration Tax so I asked.

## F. SYSTEMS OF INTERNAL RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the risk management and control systems for financial reporting (ICFR) in the entity.

### F.1. The entity's control environment

Give information, describing the key features of at least:

F.1.1 which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) its implementation; and (iii) its supervision

Audit Committee, as provided in Article 11.2 c) of the Regulations of the Board of Directors, which lists basic responsibilities entrusted with the monitoring of the effectiveness of internal control system of the Company, as well as knowledge and monitoring the process of preparing and presenting the Financial Information Regulated. Under his direction operates the internal audit service.

F.1.2 whether, especially in the process of drawing up the financial information, the following elements exist:

- Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for their correct dissemination within the entity

The goal of the Human Resources, Nomination and Remuneration Committee is the review and definition of the organizational structure and reporting and submission to the Board of Directors. Council acting by delegation, the General Management is responsible for implementing the resolutions of the Board in relation to the Group's organizational structure.

The Company has documented internal procedures to ensure the correct development of the assigned functions

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether specific mention is made of recording the transactions and drawing up of the financial information), body in charge of analysing non-compliance and proposing corrective measures and sanctions.

The Company has an internal Code of Conduct approved by the Board of Directors which defines the principles and standards of practice in Stock Markets. Company's staffs are familiar with and understand such regulations, and a copy of the Code of Conduct is available in the corporate website and the C.N.M.V. website.

That regulation, since its original version, has been adapted how many legislative changes or other has been required, having adopted its current wording in the meeting of the Board of Directors in July 25, 2016.

Additionally it has procedures that establish the action guidelines and give the treatment to sensitive information.

- Whistle-blower channel, to allow financial and accounting irregularities to be communicated to the audit committee, as well as possible non-compliance with the code of conduct and irregular activities in the organisation, reporting where applicable if this is confidential in nature.

The Audit Committee has implemented a channel for collecting confidential communications of employees so that they can transfer the relevant irregularities, among others, conduct or activities of the organization irregulars or breaches of the code of conduct, which can detect in any company of group.

The communications and complaints that, for this channel and for these purposes, the staff transmits may be anonymous or have their identification at the option of their author, and will receive in all circumstances the qualification and treatment of confidentials.

- Periodic training and refresher courses for employees involved in preparing and revising the financial information, and in ICFR assessment, covering at least accounting standards, audit, internal control and risk management.

The staff involved in the preparation and review of Financial Information and who are responsible for the evaluation of Internal Control Systems participate in training programs and are regularly updated in relation to accounting standards, internal control and risk management.

These training programs are mainly promoted by the directives of areas, with the Human Resources Department responsible for the supervision and mentoring.

## F.2. Financial reporting risk assessment

Give information on at least:

F.2.1 the key features of the risk identification process, including error and fraud risks, with respect to:

- If the process exists and is documented.

For corporate risk management, the Company has designed a comprehensive risk map of the most important processes involved in determining Financial Information. This document is based on the model proposed by the COSO report and is updated on an on-going basis within the Internal Audit Plan.

This document establishes that corporate risk management is a process undertaken by the Board of Directors and the Committees, together with Management and other staff of the Company, and that its basic function is the identification and evaluation of potential occurrences that could jeopardize the attainment of the Company´s objectives.

- Whether the process covers all the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether the information is updated and with what frequency.

The framework for corporate risk management is aimed primarily at achieving the objectives of the Company from the perspective of financial reporting and as part of the on-going process of risk evaluation includes verification of compliance with the following principles:

- Integrity.
- Appropriate registry.
- Proper valuation.
- Adequate cut-off on operations.
- Adequate presentation and classification.

- The existence of a process for identifying the consolidation perimeter, taking into account aspects including the possible existence of complex corporate structures, instrumental or special purpose vehicles.

Financial Management carries out an on-going identification process of the scope of consolidation of the MCM Group, continuously for which has multidepartment information sources.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they impact the financial statements.

Internal Control System is focused on assessing the risk of achieving the objectives related to the category Financial Information; however, the evaluation process includes objectives related to operational and regulatory compliance. An evaluation of risks related to the environment, quality, knowledge, development, intellectual and industrial property and reputation is included within these operational objectives and their performance.

- Which of the entity's governance bodies supervises the process.

Ultimately, the Board of Directors, through the Audit Committee, which has delegated the responsibility to periodically monitor the Internal Control System and the Risk Management of the Company.

## F.3. Control activities

Give information on the main features, if at least the following exist:

F.3.1 Procedures for review and authorisation of the financial information and the description of the ICFR, to be published on the securities markets, indicating who is responsible for it, and the documentation describing the activity and controls flows (including those concerning risk of fraud) for the different types of transactions that may materially impact the financial statements, including the procedure for closing the accounts and the specific review of the relevant judgements, estimates, valuations and projections.

The Interim Half Year Financial Reporting is analysed by the Audit Committee, in accordance with the authority delegated by the Board of Directors.

The Board of Directors is the body that decides, based on the Audit Committee’s report, the terms of the Financial-Economic Information that the Company must make public.

The Accounting and Consolidation Department together with the Management Control Department prepare monthly Financial Information of all Group companies, manage and monitor the transactions supporting documentation and processes in response to risk prevention. This Financial Information is reviewed and analysed, together with estimates and valuations, within the Management Committee and the Committee of Control and Risk Management.

General Management presents to the Board of Directors at least monthly, the information of the period.

F.3.2 Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

The Company has internal updated and published policies and procedures relating to the operation of Information Systems and security access, segregation of duties, as well as the development and maintenance of software applications.

Access to the Information System is assigned to the Information Systems Department which has adequate human and technical resources for its proper performance, following the established organizational guidelines.

Regarding the control mechanisms for data recovery and ensuring the continuity of operations, the Group has a Contingency Plan that is permanently reviewed and updated.

The annual review of internal control performed by the external auditors of the Group includes verification checks of Information Systems.

F.3.3 Internal control procedures and policies designed to supervise the management of activities subcontracted to third parties, and those aspects of the valuation, calculation and assessment outsourced to independent experts, which may materially impact the financial statements.

The processes of valuation, judgments or calculations to be carried out for the preparation and publication of the Financial Statements are carried out by the Internal Services as well as those other processes that may be relevant for the purposes of preparing said Financial Information.

Verification, auditing, evaluation services, etc. that affect different activities are, according to their idiosyncrasy, carried out with the periodicity established by external services, such as the Non-Financial Information Statement and the Evaluation of the Board of Directors, among others, and on industrial activity on specific topics.

## F.4. Information and communication

Give information on the main features, if at least the following exist:

F.4.1 A specific function to define and keep the accounting policies updated (accounting policy department or area) and deal with queries or conflicts stemming from their interpretation, ensuring fluent communication with those in charge of operations in the organisation, and an up-to-date manual of accounting policies, communicated to the units through which the entity operates.

The Accounting and Management Control Department is responsible for defining and keeping up to date the accounting policies of Group MCM, as well as keeping those responsible for the applicable areas informed of any changes or updates to such policies, and resolving conflicts related to their interpretation.

The accounting policies applied by the Company are based on the framework established in the Code of Commerce, the General Accounting Plan in force and other corporate legislation, as well as the International Financial Reporting Standards and European Directives and Regulations in this regard taken by the European Union.

F.4.2 Mechanisms to capture and prepare the financial reporting in standardised formats, for application and use by all the units of the entity or the group, that support the main financial statements and the notes, and the information detailed on ICFR.

The Group's information systems are mainly supported by an integrated corporate application (ERP) allowing a centralised and automated management of the different areas such as production, orders, sales, purchases, logistics, stock and control of warehousing, accounting, payroll, etc., and that provides reliability in the processes and a certain degree of security regarding the integrity, reliability and uniformity of the financial information obtained.

Affiliated companies that form part of the Consolidated Group in Spain, follow a single chart of accounts and homogeneous. The information is processed by the integrated management system which enables automatic capture of Financial Information and its preparation by the Corporate Accounting Department. The companies not integrated in this associated computer system and some of the foreign companies follow the criterion of maximum homogeneity and additionally the Group has implemented control measures that guarantee that the financial data collected by these companies are complete, accurate and timely in a timely manner.

## F.5. Supervision of the system's operation

Give information, describing the key features of at least:

F.5.1 The ICFR supervision activities carried out by the Audit Committee and whether the entity has an internal audit function whose powers include providing support to the Audit Committee in its task of supervising the internal control system, including the ICFR. Likewise, give information on the scope of the ICFR assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the entity has an action plan listing the possible corrective measures, and whether its impact on the financial reporting has been considered.

The Audit Committee: Its functions are focused on evaluating the proper design, implementation and effective functioning of all processes of the Company, as well as risk management systems and internal control, including SCIIF.

The Audit Committee approves the annual work Plan and performs periodic monitoring. At its meetings, the Audit Committee discusses the evaluations and recommendations that the control service has issued and proposes appropriate corrective measures and evaluates the effects of implementation.

F.5.2 Whether there is a discussion procedure by which the auditor (in line with the technical auditing notes), the internal audit function and other experts can inform the senior management and the audit committee or the directors of the entity of significant weaknesses in the internal control encountered during the review processes for the annual accounts or any others within their remit. Likewise, give information of whether there is an action plan to try to correct or mitigate the weaknesses observed.

The Audit Committee keeps in regular contact with the External Auditor and the Internal Supervicion Services. The Committee is the body that keeps the Board of Directors informed about the matters dealt with and the actions taken.

During the Committee’s meetings with the External Auditor it is discussed the work programme and conclusions thereof regarding the internal control carried out during the audit process of the annual accounts.

The Committee monitors the activity carried out and the compliance with the agreed action plans to reduce any weaknesses in the sector.

Financial management keeps in regular contact with the External Auditor to corroborate actions taken to prevent or redirect any weaknesses identified.

## F.6. Other relevant information

## F.7. External auditor report

Report of:

F.7.1 Whether the ICFR information disclosed to the markets has been submitted to review by the external auditor, in which case the entity must attach the corresponding report as an annex. Otherwise, explain the reasons why it was not.

The Company believes that the implanted systems offer sufficient guarantee of quality of their financial information.

## G. DEGREE OF COMPLIANCE OF THE CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations given in the Unified Code of Good Governance.

Should any recommendation not be followed or be only partially followed, a detailed explanation should be given of the reasons so that the shareholders, investors and the market in general have sufficient information to assess the way the company works. General explanations will not be acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies ☑ Explain ☐

2. When a dominant and a subsidiary company are publicly traded, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☐ Complies partially ☐ Explain ☐ Not applicable☑

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation and any alternative procedures followed in its stead.

Complies ☑ Complies partially ☐ Explain ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies ☐ Complies partially ☑ Explain ☐

The Company has established the rules of action in relation to communication, rules that respect current legislation and the appropriate treatment of each recipient of information. The publication of these standards is included in various regulatory texts, which are published on the corporate website, but in a differentiated way.

**5.** The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies ☑ Complies partially ☐ Explain ☐

**6.** Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Complies ☐ Complies partially☐ Explain ☑

The Company prepares annually most of the reports included in this Recommendation.

Due to not being mandatory and considering that its main application is internal examination and analysis, it does not consider its publication on the corporate website necessary.

**7.** The company should broadcast its general meetings live on the corporate website.

Complies ☐ Explain ☑

The Company does not consider it necessary, for the moment, broadcast live general meetings of shareholders because of the complexity and cost it involved.

**8.** The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☑ Complies partially ☐ Explain ☐

**9.** The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☑ Complies partially ☐ Explain ☐

**10.** When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☐ Complies partially ☐ Explain ☐ Not applicable ☑

**11.** In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies ☐ Complies partially ☐ Explain ☐ Not applicable ☑

**12.** The board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☑ Complies partially ☐ Explain ☐

**13.** The Board of Directors should have an optimal size to promote its efficient functioning and maximize participation. The recommended range is accordingly between five and fifteen members.

Complies ☑ Explain ☐

**14.** The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that the appointment or reelection proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☐ Complies partially ☑ Explain ☐

The director selection policy followed by the Company complies with the requirements indicated in letters a) b) and c) and, although the Gender diversity is one of the aspects that the Council considers in the selection processes, it considers the suitability, knowledge and experience of the candidate, whatever their sex, to be of greater relevance.

As a consequence of the foregoing, on June 20, 2019, the General Meeting, at the proposal of the Board, appointed Mrs. Marta Lacambra Director of the Society.

**15.** Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies ☐ Complies partially ☑ Explain ☐

The Proprietary and Independent Directors constitute a majority that the Company understands is reinforced by the presence of a Director with the qualification of "Other External", which comes from a previous qualification of Independent.

**16.** The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies ☑ Explain ☐

**17.** Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies ☑ Explain ☐

**18.** Companies should disclose the following director particulars on their websites and keep them regularly up dated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies ☑ Complies partially ☐ Explain ☐

**19.** Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☐ Complies partially ☐ Explain ☐ Not applicable ☑

**20.** Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Complies ☑ Complies partially ☐ Explain ☐ Not applicable ☐

**21.** The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☑ Explain ☐

**22.** Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decides whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies ☑ Complies partially ☐ Explain ☐

**23.** Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies ☑ Complies partially ☐ Explain ☐ Not applicable ☐

**24.** Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies ☑ Complies partially ☐ Explain ☐ Not applicable ☐

**25.** The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of director’s regulations should lay down the maximum number of company boards on which directors can serve.

Complies ☑ Complies partially ☐ Explain ☐

**26.** The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☑ Complies partially ☐ Explain ☐

**27.** Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies ☑ Complies partially ☐ Explain ☐

**28.** When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**29.** The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies ☑ Complies partially ☐ Explain ☐

**30.** Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies ☑ Explain ☐ Not Applicable ☐

**31.** The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☑ Complies partially ☐ Explain ☐

**32.** Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies ☑ Complies partially ☐ Explain ☐

**33.** The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies ☑ Complies partially ☐ Explain ☐

**34.** When a lead independent director has been appointed, the Bylaws or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman and vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies ☐ Complies partially ☑ Explain ☐ Not Applicable ☐

The powers contemplated in the Unified Good Governance Code are broader than those established in the Company's regulations.

**35.** The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☑ Explain ☐

**36.** The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process.

This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies ☑ Complies partially ☐ Explain ☐

**37.** When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies ☐ Complies partially ☐ Explain ☐ Not Applicable ☑

**38.** The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies ☐ Complies partially ☐ Explain ☐ Not Applicable ☑

**39.** All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies ☑ Complies partially ☐ Explain ☐

**40.** Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies ☐ Complies partially ☑ Explain ☐

The organic structure of the Company offers guarantees of supervision of the Information Systems and Internal Control and is supplemented by the ICFR Control and Criminal Risk Prevention Service.

**41.** The head of the unit handling internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**42.** The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, reelection and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☑ Complies partially ☐ Explain ☐

**43.** The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies ☑ Complies partially ☐ Explain ☐

**44.** The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**45.** Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Complies ☑ Complies partially ☐ Explain ☐

**46.** Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies ☑ Complies partially ☐ Explain ☐

**47.** Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☐ Complies partially ☑ Explain ☐

The members of the Human Resources Committee, Nomination and Remuneration Committee, have the knowledge, skills and experience appropriate to the functions they must perform within it.

The Human Resources Committee, Nomination and Remuneration Committee is composed, in accordance with the provisions of article 529 quindecíes by non-executive directors, 50% of whom are independent directors, and one of whom has been elected as Chairman of the Comission.

**48.** Large cap companies should operate separately constituted nomination and remuneration committees.

Complies ☐ Complies partially ☐ Explain ☐ Not Applicable ☑

**49.** The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive Directors.

When there are vacancies on the board, any Director may approach the Nomination Committee to propose candidates that it might consider suitable.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**50.** The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☑ Complies partially ☐ Explain ☐

**51.** The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☑ Complies partially ☐ Explain ☐

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee’s terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies ☐ Complies partially ☐ Explain ☐ Not Applicable ☑

**53.** The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☑ Complies partially ☐ Explain ☐

**54.** The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☑ Complies partially ☐ Explain ☐

**55.** The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies ☑ Complies partially ☐ Explain ☐

**56.** Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not as high as to compromise the independent judgement of non-executive directors.

Complies ☑ Explain ☐

**57.** Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ Complies partially ☐ Explain ☐

**58.** In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards on going achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**59.** A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**60.** Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduces their amount.

Complies ☐ Complies partially ☑ Explain ☐ Not Applicable ☐

Only if it requires the restatement of the Financial Statements and submitted to the review and opinion of the Audit Committee**.**

**61.** A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**62.** Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ Complies partially☐ Explain☐ Not Applicable ☐

The Company has only made attributions of stock options. These share options are personal and non-transferable and cannot be disposed of. The options assigned must be maintained until the end of the 5-year consolidation period. Only once the shares are acquired are they freely available and sold.

**63.** Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

**64.** Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☑ Complies partially ☐ Explain ☐ Not Applicable ☐

## H. OTHER INFORMATION OF INTEREST

1. If there is any other aspect relevant to the corporate government in the company or in the group entities that has not been reflected in the rest of the sections of this report, but is necessary to include to provide more comprehensive and well-grounded information on the corporate governance structure and practices in your entity or its group, detail them briefly.

2. This section may also include any other relevant information, clarification or detail related to previous sections of the report insofar as they are relevant and not reiterative.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the mandatory information to be provided when different from that required by this report.

3. The company may also indicate if it has voluntarily signed up to other international, industry-wide or any other codes of ethical principles or best practices. Where applicable, the code in question will be identified along with the date of signing. In particular, mention will be made as to whether it has adhered to the Code of Best Tax Practices (Código de Buenas Prácticas Tributarias) of 20 July 2010.

A.2

The figures presented correspond to those reported by the owner to the CNMV and the Company, assuming that there have been no subsequent transactions of purchase or sale of securities, and once adjusted for the corporate operations. For these reasons, the reported values may not exactly match the reality of the participation.

It is also stated that the information provided by the direct holders is the one that the indirect holder has informed the Company

H.1.1.

The content mentioned in this report referred to the Spanish local legislation as well as the other information published by Miquel y Costas & Miquel, S.A. in Spain are available in the Company's corporate website (www.miquelycostas.com) and in the Comisión Nacional del Mercado de Valores (C.N.M.V.) website (www.cnmv.es).

Section C.1.4

The number of Female Directors that is mentioned corresponds with the representative, individual of the External Proprietary Directors Joanfra S.A

Section C.1.25

During the financial year 2018 the Board of Directors held 12 face-to-face meetings and on 1 occasion adopted resolutions through the procedure of adoption of resolutions in writing and without face-to-face sessions foreseen in article 248.2 of the Capital Companies Law and in article 100 of the Regulations of the Board of Directors

This annual report on corporate governance has been approved by the Company's Board of Directors on

31/03/2020

Indicate whether any board members have voted against or abstained with respect to the approval of this report.

[ ] Yes
[✓] No

Independent Verification Report

# MIQUEL y COSTAS & MIQUEL, S.A.
# and Subsidiaries

Consolidated Non-Financial Information Statement
for the financial year ended
31st December 2019

*Free translation of a report originally issued in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# Independent Verification Report on the Non-Financial Information Statement

To the Shareholders of
**MIQUEL y COSTAS & MIQUEL, S.A.**

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Consolidated Non-Financial Information Statement ("NFIS") for the year ended 31st December 2019 of **MIQUEL y COSTAS & MIQUEL, S.A.** (hereinafter the parent Company) **and its subsidiaries** (hereinafter the Group) that forms part of the Group's Consolidated Management Report.

The content of the NFIS includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in Appendix I "Traceability table under Law 11/2018" included in the accompanying NFIS.

## *Responsibility of the Directors*

The preparation of the NFIS included in the Group's Consolidated Management Report and the content thereof are the responsibility of the Board of Directors of **MIQUEL y COSTAS & MIQUEL, S.A**. The NFIS has been drawn up in accordance with the provisions of current commercial legislation and with the selected *Sustainability Reporting Standards* of the *Global Reporting Initiative* ("GRI standards"), in line with the details provided for each matter in Appendix I "Traceability table under Law 11/2018" in the aforementioned NFIS.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure the NFIS is free from material misstatement, due to fraud or error.

The Directors of **MIQUEL y COSTAS & MIQUEL, S.A.** are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS is obtained.

## *Our Independence and quality control*

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

## *Our responsibility*

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas en España").

In a limited assurance engagement, the procedures performed vary in terms of nature and timing of execution, and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several of the Group's units that were involved in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with personnel from the Group to ascertain the business model, policies and management approaches applied and the main risks related to these matters and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the content included in the NFIS for 2019 based on the materiality analysis carried out by the Group, considering the content required under current commercial legislation.

- Analysis of the procedures used to compile and validate the information presented in the NFIS for 2019.

- Review of the information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2019.

- Verification, through sample testing, of the information relating to the content of the NFIS for 2019 and its adequate compilation using data supplied by the information sources.

- Obtainment of a management representation letter from the Directors and Management.

*Conclusions*

Based on the procedures performed in our verification and on the evidence we have obtained, no matters have come to our attention which may lead us to believe that the 2019 NFIS of **MIQUEL y COSTAS & MIQUEL, S.A. and subsidiaries** for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the provisions of current commercial legislation and with the selected GRI standards in line with the details provided for each matter in Appendix I "Traceability table under Law 11/2018" of the aforementioned NFIS.

*Use and distribution*

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

Barcelona, 7th April 2020

MAZARS AUDITORES, S.L.P.

Original in Spanish signed
by Juan Luque Gala

*(Free translation from Spanish)*

(Free translation from Spanish version)

## Appendix II NON-FINANCIAL INFORMATION

### 1. The Group's business model

Miquel y Costas & Miquel, S.A. is the parent company of the Miquel y Costas Group (hereinafter the Group), an industrial group having its registered office at calle Tuset, 8 y 10, 7ª planta, 08006-Barcelona. The Group’s current parent company was incorporated as a public limited liability company (“sociedad anónima”) in 1929 and the Group is now formed by 15 subsidiaries and 1 associate. While still a paper business, the Group's activities range from industrial manufacturing to marketing and services. The Group companies are shown below:

*(Free translation from Spanish)*

The main corporate purpose since the outset has been the manufacture of low-grammage fine and specialty papers, the main specialty being high-tech paper for cigarettes, as well as printing paper, specialty paper and cellulose pulp (from annual plantations). Following the acquisition of the company Clariana, S.A. in the middle of 2018, the Group's business also includes the manufacture of coloured paper and card.

The Group currently has three main lines of business: the so-called "Tobacco Industry", that covers the sale of pulp and paper connected with the tobacco industry, "Industrial Products", connected with paper for use in industrial products and "Other" which covers marketing, services and other activities.

The Group's in-depth knowledge of the manufacture of specialty papers, perfected by means of systematic research and technological experience, has allowed it to extend the portfolio to include other products based on similar technical fundamentals.

This effort and experience is reflected in the quality of the cigarette paper, specialty paper for industry, printing paper and specialty pulps manufactured, placing the Miquel y Costas Group in a leading position in Spain's paper industry among manufacturers of low-grammage papers, as well as in a pre-eminent position worldwide.

The industrial activity is highly integrated, so synergies are generated in the research and technology areas both to develop new products and in relation to process control and management, where the Group has made considerable progress.

The Group has industrial plants in Besós (Barcelona), Capellades (Barcelona) and Mislata (Valencia) engaged in the production of fine and specialty lightweight and converted papers, particularly for the cigarette industry; in Tortosa (Barcelona), where it produces textile pulps using flax and hemp for the cigarette industry and other fibres for other industrial sectors; in La Pobla de Claramunt (Barcelona), where it has a plant producing speciality papers for industrial uses and another making highly porous specialty papers; in Villarreal (Castellón), which manufactures coloured paper and card, and in Avellaneda (Buenos Aires, Argentina), making cigarette rolling paper packs and other converted papers. The Group also has an associate, Fourtube (Seville), engaged in the manufacture of converted paper.

The high tech nature of the business, thanks to the Group's own developments, has earned it a place in the majority of the world's markets. In addition to meeting domestic demand, a highly significant portion of the Group's sales are exports, which are deeply rooted in the Group, as shown by the fact that nearly one hundred and twenty-five years ago the Company already had its own sales agencies and a large number of customers in La Habana, México D.F., Valparaíso, New York, etc. Export sales accounted for over 88% in 2019, the main market being the European Union at a little over 32%, while OECD countries and the rest of the world accounted for almost 27% and 29%, respectively.

The international arena in which the parent company and most of the Group companies operate exposes them to foreign exchange risk. Currency fluctuations are partially offset by monetary flows from imports and exports. In aggregate terms, the Group is a net exporter.

As sales are made in a wide variety of markets, the Group is also exposed to trade credit risks, which are managed by means of internal credit policies and credit risk insurance policies.

In a global, fiercely competitive market, the Group invests continuously in research, development and innovation, giving rise to new products that meet the highest standards of quality and consistency, and emerging needs, while the latest generation technology, much of which is exclusive, assures an increase in productivity and quality in the range of products.

The Group consumes power, mainly electricity and gas, so a significant part of its investments are made in technologies designed to enhance production yields and reduce energy consumption, while also managing these resources effectively. Procurement policies are also in place for the main raw materials to minimize the possible impacts of purchase price fluctuations.

The Board of Directors is the Company's ultimate decision-making body, barring matters reserved for the General Meeting. The relevant information is set out in the Annual Corporate Governance Report, which forms part of the 2019 Annual Accounts, as well as in the corporate website http://www.miquelycostas.com/esp/InformeGobierno.php?Ejercicio=2019

## 2. Environment

The Miquel y Costas Group companies form part of the paper industry and therefore demand forest products. They are engaged in the manufacture and marketing of paper for the tobacco industry and industrial products, one of their objectives being to achieve a high level of commitment to the suitable development of forest management and the efficient use of resources for environmental protection.

The industry has a vision of sustainability based on four action areas: sustainable forest management, efficient and responsible production, contribution to improving the quality of life and wealth generation and leadership in recovery and recycling.

The timber used to produce cellulose is obtained from forest plantations of fast-growing species. These plantations bring various environmental, forest-related, social and economic benefits. In the first case, they help to increase forested areas and conserve natural woodland, as well as acting as efficient $CO_2$ sinks and providing effective erosion control.

The main economic and social benefits relate to rural development as a driver of employment and wealth creation. They also serve to reduce Spain's raw material deficit, since the paper industry is one of the few sectors showing an extremely high rate of consumption of local raw materials, playing a significant role in stimulating sustainable growth in the forestry industry.

The cellulose and paper sectors are intensive in gas and power consumption. By developing and applying new production technologies that are increasingly environmentally friendly, the paper industry has saved a considerably amount of water and energy, and has considerably cut emissions, discharges and waste generated in the process. A major commitment has been made to cogeneration and clean, renewable fuels.

The general objectives of the environmental policy applied by Miquel y Costas & Miquel, S.A. and its Group are designed to ensure that the products supplied to customers meet stipulated requirements at all times, the necessary operational and human conditions are in place to continuously and profitably improve product quality, and that business activities are conducted in the most environmentally friendly manner possible, minimizing impacts generated.

Miquel y Costas & Miquel, S.A. and its Group have a Quality, Environment, Custody Chain and Product Safety Management System in place in order to achieve their objectives in these areas. The Integrated Management System (IMS) complies with the current version of the UNE-EN ISO 9001 and UNE-EN ISO 14001 standards at all the plants, as indicated in the table below, the IATF 16949 standard at MB Papeles Especiales and Terranova Papers, defining the basic requirements for the automobile quality management system in car and parts companies, and the BRC-IOP Packaging standard at Terranova Papers, which is an international standard developed to provide a common basis for certifying companies that manufacture packaging and packaging materials.

| **Work centre** | **Location** | **Company** |
|---|---|---|
| Tuset offices | Barcelona | Miquel y Costas & Miquel, S.A. |
| Besós plant | Barcelona | Miquel y Costas & Miquel, S.A. |
| Capellades plant | Capellades (Barcelona) | Miquel y Costas & Miquel, S.A. |
| Mislata plant | Valencia | Miquel y Costas & Miquel, S.A.<br>S.A. Payá Miralles |
| MB plant | La Pobla de Claramunt (Barcelona) | MB Papeles Especiales, S.A. |
| TP plant | La Pobla de Claramunt (Barcelona) | Terranova Papers, S.A. |
| Celesa plant | Tortosa (Tarragona) | Celulosa de Levante, S.A. |
| Clariana plant | Villarreal (Castellón) | Clariana, S.A. |

This report does not include data related to the production plants of Miquel y Costas & Miquel, S.A. in Capellades (Barcelona), Miquel y Costas Logística, S.A., Miquel y Costas Argentina S.A. and the offices in Tuset (Barcelona) due to the limited relevant of related environmental aspects.

*(Free translation from Spanish)*

Miquel y Costas & Miquel, S.A. and its Group companies have been certified under the UNE-EN ISO 14001 standard since 10-10-2006. This covers the design, production and sale of cigarette, plugwrap and tipping papers for the tobacco industry, cigarette rolling paper packs, fine paper for publishing, the graphics industry and packaging, specialty paper for filters and absorbent paper. Design, production and sale of special cellulose pulps using non-timber fibres.

The custody chain standards FSC-STD-40-003, FSC-STD-40-004, FSC-STD-50-001, PEFC-ST-2002:2013 and PEFC-ST-2001:2008 are also fulfilled by the companies Miquel y Costas & Miquel, S.A. (at all its plants), MB Papeles Especiales, S.A.,Terranova Papers, S.A. and Clariana, S.A.

The production centres of the Miquel y Costas Group except for Celulosa de Levante, S.A., have been custody chain certified since 16-10-2009. This covers fine and specialty papers, filter and absorbent paper for the cigarette industry, printing paper and coloured paper, cigarette rolling paper packs and specialty paper.

As part of the Integrated Management System, Miquel y Costas & Miquel, S.A. and its Group apply:

- The Quality, Environment and Product Security Policy (POLCAM) at the companies Miquel y Costas & Miquel, S.A., MB Papeles Especiales, S.A., Terranova Papers, S.A. ,Celulosa de Levante, S.A. (Celesa) and Clariana, S.A.

- The Custody Chain Policy (POLCDC) at the companies Miquel y Costas & Miquel, S.A., MB Papeles Especiales, S.A.,Terranova Papers, S.A. and Clariana, S.A.

As a result of the IMS and the application of these policies, three procedures are applied to identify, assess, prevent and mitigate significant risks and impacts, as well as for verification and control purposes.

The general supplier assessment procedure (PRCOM02) states that all raw material inputs into the custody chain (wood pulp) must go through the stipulated due diligence system, which is also necessary to comply with Regulation (EU) No. 995/2010 (EUTR) in the case of non-EU suppliers.

As a consequence of the POLCDC and the PRCOM02, FSC or PEFC certified or FSC controlled timber is purchased, thereby reducing the risk of using timber produced in a non-sustainable way.

The general risk and opportunity analysis procedure (PRRYO01) states that each plant that is ISO 9001 and ISO 14001 certified must identify risks and opportunities in its organization annually based on the context, stakeholders and all the IMS processes. The procedure is based on a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis and an FMEA (Failure Mode and Effects Analysis). As a result, preventive actions and improvement plans/objectives are developed to address the risks and opportunities for inclusion in the annual investment plan.

The main risks in the Group's IMS environmental control process identified by means of the general risk and opportunity analysis procedure (PRRYO01) are as follows:

- Possible breach of the thresholds laid down in Integrated Environmental Authorisations (IEAs) for each environmental aspect (emissions, waste, discharges, noise, light and soil)
- Possible incorrect functioning of the environmental Best Available Techniques (BATs) in place in the plants
- Lack of knowledge of amendments to environmental legislation
- Failure to meet deadlines for environmental legal formalities

The procedure for identifying and assessing environmental aspects (PRSAM01) lays down the methodology relating to the activities, products and services of companies that have implemented the IMS, including atmospheric emissions, wastewater, waste, noise and consumption of natural resources and their associated environmental impact from a life cycle perspective.

An assessment is carried out to determine which aspects are significant, as well as the associated risks, to include them in the PRRYO01 and plan preventive actions and improvements/objectives to reduce the environmental impact.

Through the procedure to identify and assess environmental aspects (PRSAM01), the Group identifies the environmental impacts of its activities, the main ones being:

- Consumption: Decrease in natural resources, abiotic depletion, global warming and indirect impacts associated with the manufacture of the good consumed.
- Emissions and smells: Air pollution, abiotic depletion and global warming. Human toxicity.
- Waste: Impacts associated with waste management (decrease in natural resources, air pollution, water pollution and landfill clogging).
- Discharges: Reduction in water quality, abiotic depletion and indirect impacts associated with water purification.
- Noise and light: Disturbance and possible harm to health.
- Soil: Pollution of water and soil, abiotic depletion and aquatic ecotoxicity.

There is a general procedure consisting of annual internal audits (PRAUD01) to verify and control the application of the policies and procedures described. Annual external audits are also carried out by authorized companies under the above-mentioned standards.

In addition, the Miquel y Costas Group works closely with its suppliers and contractors to guarantee their commitment to the environment, as indicated in the POLCAM. The policy is available on the corporate website http://www.miquelycostas.com/esp/PoliticaCalidad.php. As regards supplier assessment from an environmental viewpoint, further information is provided in section 6 (Society) of this report.

A six-monthly procedure is also carried out to check the functioning of the operational control defined and compliance with the environmental policy, objectives and requirements applicable at each plant, as described in the PRSAM04 and in the general internal audit procedure (PRAUD01).

The net investment, after deducting grants received, totaled €9,183 thousand in 2019 (€5,199 thousand in 2018). The scope of this indicator does not include foreign companies. The Group's main environmental investments in the production process were designed to reduce power consumption and so help combat climate change.

As regards investments not directly related to the production process, the main resources were employed to modernize structures through responsible renovation, to undertake projects to guarantee and improve the drying of purification plant sludge, and to optimize and replace power and steam generators, in the last two cases to reduce the consumption of natural resources (water and fuel).

Environmental protection costs incurred by the Group in 2019, after deducting revenue from the sale of by-products, amounted to €3,754 thousand (€3,492 thousand in 2018). They included no extraordinary items and related mainly to fees paid to regional governments, consumption of raw materials and energy in environmental protection activities and waste collection and treatment. There are no contingencies related to environmental protection and improvement of which the Group is currently aware.

In addition, the Miquel y Costas Group has an environmental liability insurance policy which includes all production centres except for Miquel y Costas Argentina, S.A.

All ratios of the Miquel y Costas Group for 2018 and 2019 which will be presented subsequently include the company Clariana S.A. as from July 2018.

Pollution and climate change

The main greenhouse gases emitted by the Miquel y Costas Group relate to combustion equipment that generates the steam used in pulp and paper manufacturing processes. These facilities are included in the European Union's emission allowance trading scheme and are regulated accordingly.

Annual emissions are verified annually by an authorized external entity and are reported to the authorities in order for an equivalent number of allowances to be surrendered, thereby compensating for the emissions generated.

The Greenhouse Gases (GHG) protocol standard lays down a classification of emissions in terms of "scopes". Scope 1 refers to direct emissions from sources owned or controlled, while scope 2 includes indirect emissions due to the generation of electricity purchased.

The data are as follows for the Group as a whole:

| t CO2/t prod | 2018 | 2019 |
|---|---|---|
| Scope 1 | 0.78 | 0.80 |
| Scope 2* | 0.44 | 0.34 |

*The figure is calculated based on the electricity mix of the Catalan Office for Climate Change (OCCC)

In addition, through the CDP (Carbon Disclosure Project), the Group reports its emissions data to demonstrate its commitment to the environment and the reduction of GHG emissions. The report provides details of GHG reduction targets, as indicated in the section on risks.

| Score | 2018 | 2019 |
|---|---|---|
| CDP Climate Change | B | B |

The Miquel y Costas Group received a score of B, which is within the management range and for comparative purposes is above the European regional average (score of C) and agrees with the average for the paper and forestall sector.

In the report to the Carbon Disclosure Project, risks are separated into three types:

- Risks of changes to legislation (EU ETS, energy, climate change, etc.)
- Risks due to new technologies (adaptation to best techniques available)
- Risks of changes to physical climate parameters (natural catastrophes and changes to climate conditions)
- Risks of other changes related to the market (corporate reputation and image and purchase of raw materials)

As a result of this analysis and in order to improve the above-mentioned indicators, targets are set to mitigate the risks identified:

- In the short term, for the period 2008-2020, a 20% GHG emissions reduction target has been set through the following measures adopted in the transition towards a decarbonised economy: optimisation of cogeneration boiler operations at the plants of Besós and MB Papeles Especiales, increase in the portfolio of energy reduction projects and study of investments in photovoltaic technologies and biomass combustion technologies.

- During 2020 the long, medium and short-term objectives will be updated for the following period.

Emissions of $NO_x$ and $SO_x$ from the combustion boilers are measured periodically, as indicated in the relevant IEAs.

| kg/t prod | 2018 | 2019 |
|---|---|---|
| NOx | 0.89 | 0.87 |
| SOx | 0.02 | 0.06 |

Circular economy

Pulp and paper manufacturing processes consume virgin material as a raw materials, but shrinkage during the production process is recovered.

As regards wood pulp, the main raw material used in our paper plants, 88% of the pulp purchased in 2019 was certified through the custody chain in place.

The principal raw materials are wood pulp and textile fibres. This does not include other fibres employed in the production process, such as synthetic fibres, nor those purchased from Group companies.

| t fibre | 2018 | 2019 |
|---|---|---|
| Wood and non-wood fibres | 78,749 | 79,818 |

Waste is managed through authorised companies, always observing the hierarchy of prevention, reuse, recycling, other types of recovery and disposal.

| kg waste/t prod | 2018 | 2019 |
|---|---|---|
| Hazardous waste | 2.95 | 2.29 |
| Non-hazardous waste | 120.37 | 110.30 |

In 2019 the breakdown of waste generated by the Miquel y Costas Group was as follows:

| **kg waste/kg total waste** | 2019 |
|---|---|
| Waste recovered | 0.95 |
| Waste disposed of | 0.05 |

One of the measures implemented in a number of plants consists of optimising the sludge dehydration system in order to reduce the amount of this waste generated and increase its potential recovery.

Sustainable use of resources

The paper industry employs water in its production processes, mainly as a means of transport to generate the physical and chemical reactions that are necessary to make pulp, paper and board. It should be noted that paper plants use water from different sources, but only a small percentage is consumed, since most of it is returned to the receiving medium. The paper industry cannot therefore be strictly classed as a large "consumer" of water, but as a user. (Source: Voluntary agreement between the Environmental Ministry and Aspapel dated 2009).

Water used in the production process is mainly obtained from natural sources owned by the Miquel y Costas Group. Each production facility has water treatment and fibre recovery plants (fibre is reintroduced into the production process). Water is discharged primarily through the municipal sewers and natural effluents.

Within the production process, there are water treatment and fibre recovery plants (fibres are reintroduced into the production process). In the Group's plants overall:

| m3/t prod | 2018 | 2019 |
|---|---|---|
| Capture of groundwater | 22.61 | 22.78 |
| Capture of municipal water | 0.14 | 0.11 |

| $m^3$/t prod | 2018 | 2019 |
|---|---|---|
| Discharge | 20.98 | 20.67 |

The Group reports water consumption data through the CDP (Carbon Disclosure Project) to demonstrate our commitment to combating climate change.

| Score | 2018 | 2019 |
|---|---|---|
| CDP Water | B | B- |

The Miquel y Costas Group obtained a score of B-, which is within the management range and is above the European regional average and the average for the paper and forestry industry.

Finally, the main energy sources are natural gas and electricity.

| Consumption of natural gas and electricity | 2018 | 2019 |
|---|---|---|
| Natural gas ($Nm^3$/t prod) | 0.35 | 0.37 |
| Electricity consumed (MWh/t prod) | 1.37 | 1.40 |

Biodiversity

The production plants are located in areas that are not protected or regarded as high value in biodiversity terms. However, controls are carried out in some plants by calculating biodiversity indicators.

The IBMWP index is a tool used to assess the quality of river water. The Miquel y Costas Group employs it at the plants in La Pobla de Claramunt and in Tortosa, in accordance with the relevant Integrated Environmental Authorizations (IEAs), since they discharge into a public waterway.

The data reported by the Group are based on product tones produced

| t prod | 2018 | 2019 |
|---|---|---|
| Product | 93,905 | 92,982 |

## 3. Social and personnel-related matters

The Miquel y Costas Group's headcount at year-end 2019 totals 897 The average number of employees during the year was 902, the year-end figures being used due to the high stability of the workforce, as follows:

| **Classification by gender and professional category** | **Women** | **Men** | **Total** |
|---|---|---|---|
| Production personnel | 136 | 436 | 572 |
| Administrative and technical personnel | 101 | 80 | 181 |
| Supervisors and middle management | 8 | 102 | 110 |
| Directors | 1 | 24 | 25 |
| Senior management | 1 | 5 | 6 |
| Executive Board directors | 0 | 3 | 3 |
| **Total** | **247** | **650** | **897** |

The classification by age and gender is as follows:

| Classification by age and gender | Women | Men | Total |
|---|---|---|---|
| < 20 | 1 | 0 | 1 |
| 21 to 30 | 19 | 46 | 65 |
| 31 to 40 | 50 | 126 | 176 |
| 41 to 50 | 91 | 223 | 314 |
| 51 to 60 | 61 | 195 | 256 |
| > 60 | 25 | 60 | 85 |
| **Total** | **247** | **650** | **897** |

The distribution by country is as follows:

| Distribution by country | Women | Men | Total |
|---|---|---|---|
| Spain | 227 | 629 | 856 |
| Argentina | 20 | 17 | 37 |
| Chile | 0 | 1 | 1 |
| Germany | 0 | 2 | 2 |
| Philippines | 0 | 1 | 1 |
| **Total** | **247** | **650** | **897** |

As regards the individual figures for Miquel y Costas & Miquel, S.A., the headcount at the year end is shown below:

| Classification by gender and professional category | Women | Men | Total |
|---|---|---|---|
| Production personnel | 112 | 234 | 346 |
| Administrative and technical personnel | 57 | 45 | 102 |
| Supervisors and middle management | 4 | 60 | 64 |
| Directors | 1 | 10 | 11 |
| Senior management | 1 | 4 | 5 |
| Executive Board directors | 0 | 3 | 3 |
| Total | 175 | 356 | 531 |

The prevalent feature of the Group's labour and human resources development policy has always been the non-discrimination principle, which is based on respect for people’s rights and dignity (irrespective of gender), conduct that is upright, honest and responsible, and the avoidance of all forms of discrimination.

In line with these guiding principles and with Law 3/2007 on the effective equality of women and men, the Company has an Equality Plan to help to eradicate discriminatory behavior in the workplace by reason of gender, including measures to favor hiring, continuance and personal development so as to:

- Achieve a balance of women and men at all levels of business organization.
- Promote measures that favor a work-life balance.
- Tackle any incidents that may arise in connection with moral or gender harassment.

In the latter case, the Company has implemented an internal procedure to prevent moral or gender harassment in the workplace, the purpose being to discourage and, if necessary, penalize any act of harassment that takes place.

The total number and distribution of employment contracts in the Group as a whole is set out below:

| **Classification by contract** | **Women** | **Men** | **Total** |
|---|---|---|---|
| Indefinite | 27% | 73% | 791 |
| Temporary | 28% | 72% | 106 |
| Total | | | 897 |

At the year end there are no employees on the payroll on part- time contracts. Only those employees who have requested a reduced timetable or partial retirement work a reduced schedule.

The individual figures for Miquel y Costas & Miquel, S.A. are as follows:

| **Classification by contract** | **Women** | **Men** | **Total** |
|---|---|---|---|
| Indefinite | 33% | 67% | 465 |
| Temporary | 33% | 67% | 66 |
| Total | | | 531 |

The annual distribution of indefinite, temporary and part-time contracts by age in the Group companies is as follows:

| Classification of contracts by age | Temporary | Indefinite | Total |
|---|---|---|---|
| < 20 | 1 | 0 | 1 |
| 21 to 30 | 31 | 34 | 65 |
| 31 to 40 | 33 | 143 | 176 |
| 41 to 50 | 29 | 285 | 314 |
| 51 to 60 | 10 | 246 | 256 |
| > 60 | 2 | 83 | 85 |
| Total | 106 | 791 | 897 |

The distribution by category and gender is as follows:

| Classification by category and gender | Women | | Men | | Total |
|---|---|---|---|---|---|
| | Temporary | Indefinite | Temporary | Indefinite | |
| Production personnel | 9 | 127 | 58 | 378 | 572 |
| Administrative and technical personnel | 20 | 81 | 12 | 68 | 181 |
| Supervisors and middle management | 1 | 7 | 6 | 96 | 110 |
| Directors | 0 | 1 | 0 | 24 | 25 |
| Senior management | 0 | 1 | 0 | 5 | 6 |
| Executive Board directors | 0 | 0 | 0 | 3 | 3 |
| **Total** | **30** | **217** | **76** | **574** | **897** |

In 2019, the number of lay-offs by age, gender and professional category is shown below for the Spanish companies:

| Lay-offs by gender and age | Women | Men | Total |
|---|---|---|---|
| < 20 | 0 | 0 | 0 |
| 21 to 30 | 0 | 1 | 1 |
| 31 to 40 | 1 | 2 | 3 |
| 41 to 50 | 0 | 2 | 2 |
| 51 to 60 | 2 | 1 | 3 |
| > 60 | 2 | 4 | 6 |
| Total | 5 | 10 | 15 |

| Lay-offs by professional category and gender | Women | Men | Total |
|---|---|---|---|
| Production personnel | 3 | 8 | 11 |
| Administrative and technical personnel | 2 | 2 | 4 |
| Supervisors and middle management | 0 | 0 | 0 |
| Directors | 0 | 0 | 0 |
| Senior management | 0 | 0 | 0 |
| Executive Board directors | 0 | 0 | 0 |
| Total | 5 | 10 | 15 |

Average remuneration broken down by gender, age and professional category is shown below for the Spanish companies:

| Category | MEN | | WOMEN | | Wage gap by professional |
|---|---|---|---|---|---|
| category | Age | Average wage | Age | Average wage | |
| Senior management + Middle management | <=30 | 0.00 | <=30 | 0.00 | 17% |
| | 31-49 | 99,556.79 | 31-49 | 0.00 | |
| | >=50 | 120,581.08 | >=50 | 134,582.40 | |
| | Total | 115,325.01 | | 134,582.40 | |
| Supervisors and middle management | <=30 | [redacted] | <=30 | 0.00 | -10% |
| | 31-49 | 46,559.02 | 31-49 | 46,162.15 | |
| | >=50 | 51,709.44 | >=50 | [redacted] | |
| | Total | 49,575.02 | | 44,847.94 | |
| Administrative and technical personnel (1) | <=30 | 26,648.92 | <=30 | 24,180.19 | -20% |
| | 31-49 | 38,384.12 | 31-49 | 28,720.18 | |
| | >=50 | 48,456.77 | >=50 | 38,947.95 | |
| | Total | 40,947.31 | | 32,818.86 | |
| Production personnel (2) | <=30 | 25,877.66 | <=30 | 27,029.29 | -16% |
| | 31-49 | 31,929.70 | 31-49 | 27,528.37 | |
| | >=50 | 33,281.17 | >=50 | 25,370.22 | |
| | Total | 32,070.97 | | 26,849.04 | |
| Non-continuous production personnel (3) | <=30 | 0.00 | <=30 | 0.00 | -11% |
| | 31-49 | 26,474.10 | 31-49 | 22,682.69 | |
| | >=50 | 24,564.46 | >=50 | 23,834.45 | |
| | Total | 26,168.56 | | 23,280.44 | |

(*) The shaded boxes without data relate to information on a single person.

(1) Difference between women and men in the "Administrative and technical personnel" group: the men are sales representatives and engineers, while the women are administrative personnel and sales assistants.

(2) Difference between women and men in the "Production personnel" group aged 31 to 49: the women are mostly labourers while the men are operatives in all categories.

(3) Difference between women and men in the "Non-continuous production personnel" group: the men are maintenance workers and the women are paper conversion workers.

(4) Production personnel relates to employees subject to the Pulp, Paper and Cardboard Collective Agreement while non-continuous production personnel is subject to the Graphic Arts Collective Agreement.

(5) Employees on contracts relating to partial retirement have not been included. Employees working less than 12 months, on reduced timetables or the employees of the foreign companies have not been included.

Average remuneration broken down by gender, age and professional classification for the Spanish companies in the previous year was as follows:

| Category<br>category | MEN<br>Age | Average wage | WOMEN<br>Age | Average wage | Wage gap by professional |
|---|---|---|---|---|---|
| Senior management + Middle management | <=30 | 0.00 | <=30 | 0.00 | 13% |
| | 31-49 | 108,867.68 | 31-49 | 0.00 | |
| | >=50 | 109,257.78 | >=50 | 123,429.11 | |
| | Total | 109,109.81 | | 123,429.11 | |
| Supervisors and middle management | <=30 | | <=30 | 0.00 | -15% |
| | 31-49 | 46,955.10 | 31-49 | 43,388.18 | |
| | >=50 | 52,979.22 | >=50 | | |
| | Total | 50,078.93 | | 42,503.84 | |
| Administrative and technical personnel (1) | <=30 | 24,461.07 | <=30 | 23,548.36 | -20% |
| | 31-49 | 37,965.68 | 31-49 | 29,080.04 | |
| | >=50 | 43,961.44 | >=50 | 36,382.35 | |
| | Total | 38,587.23 | | 30,792.94 | |
| Production personnel (2) | <=30 | 25,225.35 | <=30 | 25,576.46 | -15% |
| | 31-49 | 31,180.40 | 31-49 | 26,851.32 | |
| | >=50 | 32,106.50 | >=50 | | |
| | Total | 31,181.68 | | 26,390.32 | |
| Non-continuous production personnel (3) | <=30 | | <=30 | 0.00 | -16% |
| | 31-49 | 26,484.51 | 31-49 | 20,162.40 | |
| | >=50 | 27,537.09 | >=50 | 22,596.80 | |
| | Total | 26,141.10 | | 22,047.09 | |

(*) The shaded boxes without data relate to information on a single person.
Pre-retired employees are not included.
The wage gap is the difference between the average salary for women versus the average salary for men.

(1) Difference between women and men in the "Administrative and technical personnel" group: the men are sales representatives and engineers, while the women are administrative personnel and sales assistants.

(2) Difference between women and men in the "Production personnel" group aged 31 to 49: the women are mostly labourers while the men are operatives in all categories.

(3) Difference between women and men in the "Non-continuous production personnel" group: the men are maintenance workers and the women are paper conversion workers.

Details of the remuneration of Board directors and senior managers may be consulted in the Annual Corporate Governance Report, which forms part of the 2018 Annual Accounts, as well as in the corporate website: http://www.miquelycostas.com/esp/InformeGobierno.php?Ejercicio=2019. Average executive remuneration, including all items laid down by law, breaks down as follows:

| | Men | Women |
|---|---|---|
| **Senior Management and Executives** | 158,295.41 | 209,687.20 |

With respect to employment of people with disabilities, information regarding gender and type of contract in the Spanish companies is as follows:

| People with a disability by category and gender | Women | Men | Total |
|---|---|---|---|
| Production personnel | 0 | 3 | 3 |
| Administrative and technical personnel | 1 | 1 | 2 |
| Supervisors and middle management | 0 | 1 | 1 |
| Executives | 0 | 0 | 0 |
| Senior management | 0 | 0 | 0 |
| Chief executive officers | 0 | 0 | 0 |
| **Total** | **1** | **5** | **6** |

The Miquel y Costas Group fulfils (except for Clariana and Terranova that are under review) all current legal requirements and specifically, those relating to the rights of the disabled. In order to comply with the General Law on the Rights of the Disabled, given the special nature and complexity, from a health and safety viewpoint, of jobs in the paper industry, the parent company and one of its subsidiaries have opted to request the certificate of exceptionality while other companies have complied by having their own employees. This option and legal alternative enables companies to comply with current legal provisions by contracting certain production work out with Special Employment Centres, an option that means helping and collaborating with job creation through those centres. Workstations have not been adapted to meet the needs of disabled workers.

The following data on absenteeism for 2019 include hours of sick leave, occupational accidents and maternity/paternity leave:

| **Absenteeism (hours)** | **Hours** |
|---|---|
| Hours due to illness | 64,782.49 |
| Hours due to occupational accidents | 9,759.20 |
| Maternity/paternity leave hours | 6,140.22 |

* Not including data on the foreign subsidiaries.

The current work calendar applies to all the employees and is in line with legislation in each country. The measures put in place to promote a work-life balance and the co-responsible use of this right by both parents are laid down in prevailing legislation, such as the reduction in working hours for child care, parental leave, etc. The office personnel have a flexible working day, while production work is organized in rotating morning, evening and night shifts, as well as a non-stop system (depending on the plant).

Work is regulated and organized as laid down in collective bargaining agreements. Each plant comes under the national collective agreements for the pulp, paper and board industry or for graphic arts, paper conversion, board conversion, publishing and ancillary industries. Trade union membership rights are guaranteed through freedom of association for workers, facilitating the creation of trade union platforms. The Group has not implemented a right to disconnect policy because the situations in question have not been identified and priority has not been afforded to developing and regulating such a policy.

As regards social dialogue, the Group is covered by the above-mentioned collective bargaining agreements and holds periodic meetings with the employees' legal representatives, besides the communication mechanisms that are common practice in the business world. Meetings are regularly held with the employees' representatives (works committee and delegates) to discuss various matters affecting labour relations in the plants and with the health and safety committees.

The employees' representatives are informed quarterly of trends in the economic sector, the Company's business situation and performance, forecast new contracts and absenteeism statistics. A channel for communicating with the Board committee is available in the form of an open inbox. The Group applies national employment legislation in each country in which it has employees, all of whom are covered by national collective bargaining agreements.

Group management understands that occupational risk prevention is a key aspect of business management to which all those involved must pay the utmost attention so as to achieve a safe and healthy work environment in all the offices and plants.

With the aim of guiding those that are responsible for managing the Company, whether senior or middle management, a prevention policy has been put in place, based on the following principles:

- Personal health and safety must be managed with the same professional rigor as any other of the Company's key areas and all managers must specifically consider these aspects in all activities they carry out or order and in all decisions taken.
- The procedures applied to evaluate performance and promote personnel will include aspects related to occupational health and safety.
- The relevant actions will be promoted so that all persons working in the Group's plants and offices have the same level of occupational health and safety, including employees and personnel from external companies, by implementing the necessary coordination and control procedures with contractors.
- Work will be performed safely, adopting the appropriate preventive measures as an integral part of each activity. Measures will be in place so that occupational health and safety training and motivation forms part of the professional training of all persons, so as to assure that they all have sufficient training and information related to risks, preventive measures and emergency measures applicable to their posts.
- Mechanisms will be provided to ensure fluid communication with workers in relation to prevention and to encourage their active engagement and that of their representatives in risk assessment processes and in the design and application of preventive programs.
- Systems will be in place to allow the ongoing identification of hazards and assessment of occupational risks as a basis for establishing appropriate control measures and programs, so as to create and maintain safe work environments.
- Management will apply and monitor the necessary prevention plans and programs both to assure compliance with prevailing legislation and other requirements applicable to the Company and to allow continuous improvement until the target of zero injuries is reached.

The collective bargaining agreements applicable at the Miquel y Costas Group's plants, that is the national collective agreements for the pulp, paper and board industry and for graphic arts, paper conversion, board conversion, publishing and ancillary industries, encourages compliance with the provisions of current occupational health and safety legislation, particularly Law 31/1995 of 8 November on Occupational Risk Prevention and related enabling regulations.

In addition, the national collective agreement for the pulp, paper and board industry urges the greatest possible cooperation from all industry companies, the Group participating actively through the ORP Technical Forum, which focuses on ensuring that preventive measures effectively reduce risks and potential accidents during the production process.

Accident data for each plant in 2019 are as follows:

| Work centre [1] | Lost-time occupational accidents | | | |
|---|---|---|---|---|
| | No. of accidents (men) | No. of accidents (women) | FR [2] | SR [3] |
| Miquel y Costas & Miquel, Tuset offices | 3 | 0 | 0 | 0 |
| Papeles Anoia | 0 | 0 | 0 | 0 |
| Miquel y Costas Tecnologías | 0 | 0 | 0 | 0 |
| MCEMA | 0 | 0 | 0 | 0 |
| Desvi | 0 | 0 | 0 | 0 |
| Miquel y Costas & Miquel, Besós plant | 3 | 0 | 9.1 | 0.2 |
| Miquel y Costas Logística | 0 | 0 | 0 | 0 |
| Celesa plant | 3 | 0 | 22.5 | 0.5 |
| Miquel y Costas & Miquel, Mislata plant | 1 | 0 | 7.3 | 0.6 |
| Miquel y Costas & Miquel, Capellades plant | 1 | 3 | 16.4 | 0.6 |
| MB plant | 5 | 0 | 34.5 | 1.5 |
| Terranova plant | 1 | 0 | 10.4 | 0.1 |
| Clariana plant | 1 | 0 | 7.9 | 0.2 |

| Plant [1] | Lost-time accidents on the way to/from work | |
|---|---|---|
| | No. of accidents (men) | No. of accidents (women) |
| Miquel y Costas & Miquel, Tuset offices | 0 | 0 |
| Miquel y Costas & Miquel, Besós plant | 2 | 0 |
| Papeles Anoia | 0 | 0 |
| Miquel y Costas Tecnologías | 0 | 0 |
| MCEMA | 0 | 0 |
| Desvi | 0 | 0 |
| Miquel y Costas & Miquel, Besós plant | 2 | 0 |
| Miquel y Costas Logística | 0 | 0 |
| Celesa plant | 1 | 0 |
| Miquel y Costas & Miquel, Mislata plant | 0 | 1 |
| Miquel y Costas & Miquel, Capellades plant | 0 | 1 |
| MB plant | 0 | 0 |
| Terranova plant | 0 | 0 |
| Clariana plant | 1 | 0 |

(1) Not including foreign subsidiaries
(2) Frequency rate: number of accidents per million hours worked
(3) Severity rate: number of days lost per thousand hours worked

The occupational risk prevention system identifies, assesses and controls the risk that there may be workers engaged in professional activities showing a high incidence or risk of certain diseases. No professional disease was identified or declared in 2019.

Occupational risk prevention is a key aspect of management in all the Group companies to which all those involved must pay the utmost attention so as to achieve a safe and healthy work environment.

OHSAS 18001:2007 certification lays down the requirements that must be fulfilled by an occupational health and safety management system so that organizations can effectively control related risks in their activities and continuously improve performance. OHSAS 18001:2007 certification entails an improvement in occupational health and safety management, demonstrates a commitment to compliance with prevailing legislation and helps to identify potential emergency situations and management system weaknesses, facilitating the integration of quality, environment and occupational health and safety systems.
In order to guarantee this, the Group obtained certification in 2011 for the Tuset work centre (headquarters), the Besós plant (Barcelona), the Capellades plant (Barcelona), the Mislata plant (Valencia), the MB Papeles Especiales plant (La Pobla de Claramunt), the Terranova Papers plant (La Pobla de Claramunt) and the Celesa plant (Tortosa). The Clariana plant is in the process of obtaining the certification.

An annual Training Plan is drawn up after defining the work posts and identifying training needs arising from objectives set (defined by the department/area head, plant manager, general manager and/or division manager, relating to new products, processes or facilities, due to regulations applicable to a product or process, requirements of the Quality, Environment, Custody Chain and Occupational Safety Management System or changes to the Integrated Management System). This guarantees training for personnel that could influence product quality, customer service, environmental aspects and all matters related to the posts they hold, which could improve their performance.

The number of training hours per professional category in 2019 is shown below for the Spanish companies:

| **No. of training hours per professional category** | **Hours** |
|---|---|
| Production personnel | 2,587 |
| Administrative and technical personnel | 4,937 |
| Supervisors and middle management | 1,530 |
| Directors | 644 |
| Senior management | 91 |
| Executive Board directors | 68 |
| Total | 9,857 |

## 4. Respect for human rights

The management of Miquel y Costas & Miquel, S.A. and its Group companies declares a strong commitment to assuring respect for human rights in all areas and at all levels of the organization. The prevalent feature of the Group's labour and human resources development policy has always been the non-discrimination principle, the guiding principles being:

- ➢ Respect for personal rights and dignity, regardless of gender.
- ➢ Upright, honest and responsible conduct.
- ➢ Rejection of any form of discrimination.

Business policies have been defined in strict compliance with the fundamental principles and values promoted by the main international human rights organizations, such as the United Nations or the World Labour Organization.

The labour policies in place in the Group are in line with prevailing employment legislation at all times and include due diligence procedures to assure compliance.

In line with the guiding principles, Miquel y Costas & Miquel, S.A. has drawn up and is committed to maintaining an Equality Plan to help to eradicate discriminatory behaviour in the workplace by reason of gender, including measures to favour hiring, continuance and personal development so as to:

- Achieve a balance of women and men at all levels of business organization.
- Promote measures that favour a work-life balance.
- Tackle any incidents that may arise in connection with sexual, moral or gender harassment.

An internal procedure is also in place to prevent sexual, moral or gender harassment in the workplace, including penalties for any act of harassment that may occur in the Group companies.

Compliance with legislation on contracting and working conditions excludes the possibility of work situations that are abusive, forced or regarded as unlawful, such as child labour.

The Code of Ethics approved by the Board of Directors on 27 November 2017, demonstrates the Miquel y Costas Group's desire to do business in line with the values of integrity, transparency, equality, commitment and excellence that guide the conduct of its employees, senior management and the Board. The Code of Ethics guarantees the Group's undertaking to carry out its activities in accordance with solid ethical values and to comply with applicable legislation. All the companies of the Miquel y Costas Group aim to do business observing the values of integrity, transparency, equality, commitment and excellence that guide the conduct of all their employees, management and the Board. The principles and values that underlie the Code of Ethics are mandatory for all personnel employed by or providing services to any Group company.

Trade union rights and freedom of association for all our workers are observed in accordance with the law, as well as the rights and guarantees laid down in employment legislation for the employees' legal representatives at all the plants.

## 5. Combating corruption and bribery

The Miquel y Costas Group has had an "Internal Control Model for Criminal Risk Prevention" in place since 2016. This management and organization model has been designed to cover all business areas and includes surveillance and control measures necessary to prevent and detect the commission of offences (particularly criminal offences that may benefit the legal entity), thus guaranteeing the Company's good intentions with respect to third parties.

Prevailing legislation is observed through the periodic review, analysis and oversight of the control activities applied to the processes exposed to risk so as to identify conduct and procedures that are punishable under criminal law, both by the employees and third parties within the Group or during its activities, as well as to adopt suitable measures in each case.

Once the criminal risk control management system has been implemented, the offences that could show the highest incidence are identified and prioritized, while also detecting the areas and processes most exposed to risk and the mitigating control mechanisms. The management model is kept up to date by means of the following actions:

- Periodic supervision of the effectiveness of controls;
- Action plans to put in place new controls or improve existing mechanisms;
- Internal audit plan for controls regarded as critical; and
- External audit of the management model.

A periodic follow-up is carried out of compliance with the control mechanisms implemented in the processes most exposed to risk, conclusions are drawn on their design and their operational effectiveness for the prevention or detection of offences, particularly criminal offences, is evaluated. The actions taken and findings are overseen and approved by the Audit Committee (Board committee). An annual report is also issued by an external auditor on the compliance management system.

In addition to the Code of Ethics, on 27 November 2017 the Audit Committee, as the Board committee responsible for these matters, approved the Corporate Social Responsibility Policy and the Anti-corruption and Anti-bribery Policy, as ratified by the Board of Directors on 18 December 2017.

The Code of Ethics, Corporate Social Responsibility Policy and Anti-corruption and Anti-bribery Policy are applicable to all the companies of the Miquel y Costas Group and all their personnel. The Corporate Social Responsibility (CSR) Policy, besides strict compliance with applicable legal obligations, is designed to assure the voluntary inclusion in governance, management and business strategies of social, labour, environmental and human rights concerns that arise in relation to the stakeholders that represent sustainable value for the Miquel y Costas Group.

Similarly, the Anti-corruption and Anti-bribery Policy bolsters the Group's commitment to doing business in accordance with prevailing legislation, based on the values and principles underlying the Code of Ethics. The Anti-corruption and Anti-bribery Policy includes mechanisms to avoid the risk of money laundering.

The risk prevention and control model is applied for the purposes of fulfilling the Code of Ethics, Corporate Social Responsibility Policy and Anti-corruption and Anti-bribery Policy.

The Code of Ethics, Corporate Social Responsibility Policy and Anti-corruption and Anti-bribery Policy in place in all the companies of the Miquel y Costas Group are publicly available (internally and externally) on the website: http://www.miquelycostas-gob.com/.

The Group has a Compliance Officer who responds to queries relating to these mechanisms and there are channels available to report suspicions of the commission of unlawful actions.

The Miquel y Costas Group has a contact inbox in its corporate governance website (for external use) and an internal whistle-blower channel at each work centre.

All notifications received are treated as highly confidential and are examined by the Audit Committee. No matter related to discrimination or harassment was reported in 2019.

There were no confirmed cases of corruption during the year. Accordingly:

- No employee was warned or dismissed in this respect.
- There were no terminations or non-renewals of agreements with any business partner.
- No legal claims have been received in this regard against the organization or any of its employees.

All the centres located in Spain and the most significant corruption-related risks have been evaluated.

Work centres are set out below by type:

- Industrial: Miquel y Costas y Miquel S.A. (Besós plant, Mislata plant, Capellades plant), MB Papeles Especiales, S.A., Terranova Papers, S.A., Celulosa de Levante, S.A., Miquel y Costas Logística, S.A., Clariana, S.A.

- Commercial: Papeles Anoia, S.A., Sociedad Española, Zig-Zag S.A.

- Services: Miquel y Costas & Miquel (Tuset offices), Miquel y Costas Tecnología, S.A., Miquel y Costas Energía y Medioambiente, S.A.

The most relevant risks related to corruption and to the Group's activities are described below:

- Fraud and swindles.

- Frustration of enforcement.

- Criminal insolvency.

- Money laundering.

- Bribery.

- Influence peddling.

In the interests of our zero tolerance stance in relation to acts of corruption and offences of any kind, assure observance of the prevention procedure and identify possible warning signs, as well as to guarantee fulfilment of the principles contained in the Code of Ethics, Corporate Social Responsibility Policy and Anti-corruption and Anti-bribery Policy, in 2019 the Group:

- Furnished information to the members of the governance team on the policies and training available in the organization in relation to procedures to combat corruption.

- Informed 91% of the organization's employees, 87% having received training (the remaining percentage relates to new joiners,workers on sick leave and to a large extent Clariana's integration in the Group).

## 6. Society

The Group keeps permanently in contact with its local communities, including education authorities, businesses, municipal entities and their sectors. The purpose of this relationship is to obtain information on potential collaborators and establish close contacts among industry companies and associations so as to improve the management and knowledge of different situations, or in the interests of economic development in the local population or zone in which the companies are located.

Partnerships have been undertaken in relation to educational programs or agreements for practical training in some of the Group companies, as well as a project to restore heritage assets such as a paper mill, a singular XVIII-century building that is undergoing a full renovation.

As regards business associations, the Group, through its companies, is a sponsor member of the paper museum Museu Molí Paperer de Capellades (Barcelona) and a member of the Anoia UEA (Unió Empresarial de l´Anoia) regional business association. The Group made donations totaling €82 thousand during the year.

### Purchases

As regards the supply chain, the procurement department assesses suppliers of production materials taking into account aspects related to quality, price, delivery period, technical service and assistance, and the environment. Regular audits are carried out covering all these matters, including internal questionnaires that must be completed and visits to the supplier's facilities by the Group's technical personnel, over 160 reviews having been carried out with an average score of 91.3 out of 100.

The procurement department places raw material orders regularly with each supplier, analyzing available stocks and future needs. Raw materials are then assigned to the plants as necessary. As regards the other production materials, the department negotiates prices and delivery terms with each supplier and each plant is responsible for quantifying material needs (product, quantity and delivery date). The procurement department then prepares and sends the orders to the suppliers.

For supplier approval purposes, the Miquel y Costas Group has a general supplier assessment procedure (PRCOM02) that describes the selection, evaluation and monitoring of suppliers in their facilities, determining their capacity to meet quality requirements for each product and service, including environmental criteria for all suppliers and custody chain criteria for raw materials of forest origin. When contracting all its production suppliers, the Group also informs them of its Code of Ethics, Corporate Social Responsibility and Anti-Corruption Policy, as well as including CSR aspects in the supplier audits.

In addition, there is an operational control procedure (PRSAM04) for environmental aspects associated with equipment and facility maintenance activities and those performed by subcontractors.

Specifically for subcontractors that carry out work in the facilities of Miquel y Costas & Miquel, S.A. and its Group, the CTAIMA platform is used to coordinate business activities, informing the companies of the environmental requirements to be fulfilled in order to work inside the facilities.

Finally, a welcome guide is provided to all subcontracted personnel who are to work for the Group containing environmental information, among other aspects.

Tax information

The Group makes contributions to the territories in which it is located. Certain assistance is also received to promote public policies aligned with those of the Group. Details of this assistance may be found in note 14 a) to the 2019 Consolidated Annual Accounts.

Net profits obtained by country are as follows:

| COUNTRY | PROFIT BEFORE TAXES | INCOME TAX PAYMENTS |
|---|---|---|
| SPAIN | 50,452 | 11,604 |
| OTHER COUNTRIES (Subsidiaries) | 614 | 176 |
| TOTAL | 51,066 | 11,780 |

* Data in thousands of euros, including the negative impact of hyperinflation in Argentina

Consumers

The Group complies with legislation in force in the countries where its products are sold. Most are industrial products that are included in other companies' production processes. Products used in the food industry fulfil all requirements to guarantee the health and safety of consumers and, in the case of Terranova Papers, meet the BRC-IOP standard. Product technical specifications are defined by customers, no claim having been received in relation to consumer health.

Additional information

Since December 2019, COVID-19, a new strain of Coronavirus, has spread from China to other countries, including Spain. This has significantly affected global economic activity and as a result, could impact the Group's operations and financial results. The extent to which the Coronavirus could impact our results will depend on future developments which cannot be reliably forecast, including the actions to contain the disease or mitigate its impact on the economies of the countries affected, among other things.

This report may be consulted on the website www.miquelycostas.com

*(Free translation from Spanish)*

## Appendix I. Traceability table under Law 11/2018

| SCOPE | Content | GRI Standards | Page of report |
|---|---|---|---|
| **Business model** | Brief description of the group's business model, including:<br>1.) business context<br>2.) organization and structure<br>3.) markets in which it operates<br>4.) objectives and strategies<br>5.) main factors and trends that may affect its future performance. | 102-1 | 1 |
| | | 102-2 | 2 |
| | | 102-3 | 1 |
| | | 102-4 | 2 |
| | | 102-6 | 2 |
| | | 102-7 | 1, 11, 28 |
| **Political** | A description of the policies applied by the group in relation to environmental matters, social issues, respect for human rights, combating corruption and bribery, and those related to personnel, including any measures that may have been adopted under the principle of equal treatment and opportunities for women and men, non-discrimination and inclusion of the disabled and universal accessibility. | 103, 102-16, 102-17 | 4, 5, 6, 7, 12, 19, 20, 23, 24, 25, 26, 28 |
| **Results of policies KPIs** | The results of the policies, including the relevant non-financial key performance indicators that allow:<br>1.) monitoring and assessment of progress; and<br>2.) favour comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter. | 102-8,102-41, 102-41, 301-1, 302-1, 302-4, 303-1, 305-1, 305-2, 305-7, 308-1, 401-1, 403-2, 404-1, 405-1, 405-2, 406-1 | 7-29 |
| **S/T, M/T and L/T risks** | The main risks related to these matters and the group activities including, where relevant and proportionate, its commercial relationships, products or services that could have adverse effects on those areas; and<br>* how the group manages those risks,<br>* explaining the procedures employed to detect and assess them in accordance with the national, European or international reference frameworks for each matter.<br>* Information must be included on any impacts detected, providing a breakdown, particularly of the main short-, medium- and long-term risks. | 102-15 | 3, 5, 6, 8, 19, 20, 21,23, 24, 25, 26 |
| **Environmental matters** | **Overall environment** | | |
| | 1. Detailed information on the current and foreseeable effects of the company's activities on the environment and, if applicable, on health and safety, environmental assessment or certification procedures; | 103-2 | 3, 4, 5, 6, 7 |

*(Free translation from Spanish)*

| SCOPE | Content | GRI Standards | Page of report |
|---|---|---|---|
| | 2.) Resources devoted to preventing environmental risks;<br>3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks. (e.g. under environmental responsibility legislation). | 102-11 | 3, 4, 5, 6, 7 |
| | **Pollution** | | |
| | 1. Measures to prevent, reduce or repair carbon emissions that seriously affect the environment. | 103-2 | 8, 9 |
| | 2. Taking into account any form of atmospheric pollution specific to an activity, including noise and light. | 305-7 | 9 |
| | **Circular economy and waste prevention and management** | | |
| | Circular economy; | 103-2 | 9,10 |
| | Waste: Measure for the prevention, recycling, reuse, other forms of recovery and disposal of waste; | 306-2 | 9,10 |
| | Actions to combat food waste. | 103-2 | Immaterial |
| | **Sustainable use of resources** | | |
| | Consumption of water and water supply in accordance with local limits; | 303-1 | 10 |
| | Consumption of raw materials and measures adopted to use them more efficiently; | 103-2 | 9 |
| | | 301-1 | 9 |
| | Direct and indirect consumption of energy, measures taken to improve energy efficiency and the use of renewable energies. | 103-2 | 10, 11 |
| | | 302-3 | 11 |
| | | 302-4 | 11 |
| | **Climate change** | | |
| | Significant aspects of the greenhouse gas emissions generated by the company's activities, including the use of the goods and services produced; | 103-2 | 8, 9 |
| | | 305-1 | 8 |
| | | 305-2 | 8 |
| | Measures to adapt to the consequences of climate change; | 103-2 | 3,4,5,6 |
| | Medium- and long-term reduction goals set voluntarily for greenhouse gas emissions and the means used to achieve them. | 103-2 | 9 |
| | **Protection of biodiversity** | | |
| | Measures taken to preserve or restore biodiversity; | 103-2 | 11 |
| | Impacts of activities or operations on protected areas. | 304-2 | 11 |
| **Social and personnel-related matters** | **Employment** | | |
| | Total number and distribution of employees by gender, age, | 103-2 | 11, 12 |

*(Free translation from Spanish)*

| SCOPE | Content | GRI Standards | Page of report |
|---|---|---|---|
| | country and professional category; | 102-8 | 11, 12 |
| | | 405-1 | 11, 12 |
| | Total number and distribution of employment contract types; | 102-8 | 13 |
| | Annual average indefinite contracts, temporary contracts and part-time contracts by gender, age and professional category; | 102-8 | 14 |
| | | 405-1 | 14 |
| | Number of lay-offs by gender, age and professional category; | 401-1 | 15 |
| | Average remuneration and trends by gender, age and professional category or equivalent value; | 405-2 | 16, 17 |
| | Wage gap, remuneration for the same posts or the company's average remuneration; | 103-2 | 16, 17 |
| | | 405-2 | 16, 17 |
| | Average remuneration of Board directors and executives, including variable remuneration, per diems, indemnities, payments to long-term pension schemes and any other remuneration broken down by gender; | 103-2 | 18 |
| | Implementation of right to disconnect policies; | 103-2 | 19 |
| | Disabled employees. | 405-1 | 18 |
| | **Work organization** | | |
| | Organization of working hours; | 103-2 | 18 |
| | Number of hours of absenteeism; | 403-2 | 18 |
| | Measures to facilitate a work-life balance and encourage the co-responsibility of both parents. | 103-2 | 19 |
| | **Health and safety** | | |
| | Health and safety in the workplace; | 103-2, 403-3 | 19, 20, 21, 22 |
| | Occupational accidents, particularly frequency and severity, professional diseases, broken down by gender. | 403-2 | 21 |
| | | 403-2 | 21 |
| | **Labour relations** | | |
| | Organization of social dialogue, including procedures to inform, consult and negotiate with personnel; | 103-2 | 19 |
| | Percentage of employees covered by collective bargaining agreements by country; | 102-41 | 19 |
| | Main content of the collective agreements, particularly in relation to occupational health and safety. | 403-4 | 19 |
| | **Training** | | |
| | Training policies implemented; | 103-2 | 22 |
| | Total training hours by professional category. | 404-1 | 22 |

*(Free translation from Spanish)*

| SCOPE | Content | GRI Standards | Page of report |
|---|---|---|---|
| | **Universal accessibility for the disabled** | **103-2** | **18** |
| | **Equality** | | |
| | Measures adopted to promote equal treatment and opportunities for women and men; | 103-2, 405-1 | 13 |
| | Equality plans (Chapter III of Organic Law 3/2007 of 22 March on the effective equality of women and men), measures taken to promote employment, sexual and gender harassment protocols, integration and universal accessibility for the disabled; | | |
| | The policy on all kinds of discrimination and, if applicable, on diversity management. | | |
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