

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

Independent Auditor Report,
Consolidated Annual Accounts as at December 31, 2018 and
Consolidated Directors' Report for 2018



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, 2018, and the income statement, statement of other comprehensive income, 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, 2018, 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.

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.

Although the recognition and evaluation of sales revenues is not especially complex, we focused our analysis on the recognition of revenue 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 their operational efficiency.

We carried out tests of detail on a sample of sales recorded and verified the evidence of the existence and recognition of the transaction. Also, we obtained confirmation from customers for a sample of sales transactions.

We verified the appropriate cut-off of operations at the year end for sales in order to corroborate the correct accrual.

We have also verified whether the information disclosed in the accompanying consolidated annual accounts on the recognition of income is complete and suitable.

As a result of our audit procedures, we have not detected material exceptions or errors.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2018 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 management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

- 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, that consists of verifying solely that the aforementioned information has been provided in the management report or, if appropriate, that the management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.



- b) A general level applicable to the rest of the information included in the consolidated management 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 that part of the consolidated management 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 ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2018 financial year, 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 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.



MIQUEL Y COSTAS & MIQUEL, S.A. and subsidiaries

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 26, 2019.

Appointment period

The General Extraordinary Shareholders' Meeting held on June 20, 2018 appointed us as auditors for the year ended December 31, 2018.

Previously, we were appointed by resolutions of the General Extraordinary Shareholders' Meeting for a period of 3 years (2002-2004), and we have auditing the accounts continuously since the year ended 31 December 2002.

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Originally in Spanish signed by
José M Solé Farré

April 26, 2019



**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 2018**

(Free translation from Spanish)



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

The Consolidated Annual Accounts and Directors' Report for the year ended at 31 December 2018, are formulated under the agreement adopted by the meeting of the Board of Directors of Miquel y Costas & Miquel, S.A. dated on 29 March 2019 identified by the signature of the members of the Board contained in this document, in order to meet the provisions of Article 253 of the Spanish Companies Act.

Barcelona, 25 March 2019

Secretary of the Board of Directors

Francisco Javier Basañez Villaluenga

Chairman of the Board of Directors

Jorge Mercader Miró

Members:

Joanfra, S.A. represented by
Bernardette Miquel Vacarisas

Álvaro de la Serna Corral

Antonio Canet Martínez

Eusebio Díaz-Morera
Puig-Sureda

Joaquín Coello Brufau

Carles Alfred Gasòliba Böhm

Joaquín Faura Batlle

Jorge Mercader Barata
Vice-President of the Board of Directors

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

Table of Contents of the Consolidated Annual Accounts for 2018

Consolidated balance sheet at 31 December 2018 and 2017.....	5
Consolidated income statement for the years ended at 31 December 2018 and 2017.....	7
Consolidated statement of recognised income and expenses at 31 December 2018 and 2017.....	8
Consolidated statement of changes in equity at 31 December 2018 and 2017.....	9
Consolidated cash flow statement at 31 December 2018 and 2017.....	10
Notes to the consolidated annual accounts	
1 GROUP ACTIVITIES AND CONSOLIDATION SCOPE.....	11
1.1 Companies forming part of the Group and consolidation scope.....	11
1.2 Variations in the consolidation scope.....	14
2 MAIN ACCOUNTING POLICIES SUMMARY.....	14
2.1 Basis of presentation.....	14
2.2 Consolidation criteria.....	21
2.3 Accounting policies.....	23
2.4 Financial segment reporting.....	39
2.5 Accounting estimates and judgements.....	46
2.6 Cash Generating Units.....	47
3 FINANCIAL RISK MANAGEMENT.....	47
3.1 Exchange rate risk.....	48
3.2 Commercial credit risk.....	48
3.3 Liquidity risk.....	48
3.4 Interest rate risk.....	49
3.5 Market risk.....	50
3.6 Capital management.....	50
4 PLANT, PROPERTY AND EQUIPMENT.....	51
5 INTANGIBLE ASSETS.....	53
6 NON-CURRENT FINANCIAL ASSETS AND INVESTMENTS IN ASSOCIATES.....	54
7 INVENTORIES.....	56
8 TRADE AND OTHER RECEIVABLES.....	57
9 OTHER CURRENT FINANCIAL ASSETS.....	59
10 CASH AND OTHER CASH EQUIVALENTS.....	60
11 EQUITY.....	60
11.1 Share capital, own shares and share premium.....	60
11.2 Cumulative translation differences.....	63
11.3 Retained earnings and other reserves.....	64
12 BORROWINGS.....	72
13 PENSION COMMITMENT LIABILITIES.....	74
13.1 Defined contribution commitments.....	74
13.2 Defined benefit commitments.....	75
14 OTHER NON-CURRENT LIABILITIES.....	78
15 TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE.....	81
16 SHORT TERM PROVISIONS AND OTHER CURRENT LIABILITIES.....	82
17 TAX SITUATION.....	83
17.1 Consolidated tax regime.....	83

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

Table of Contents of the Consolidated Annual Accounts for 2018

17.2	Corporate income tax	84
17.3	Deferred income tax assets and liabilities.....	86
17.4	Years open to inspection.....	88
18	NET TURNOVER AND OTHER OPERATING INCOME.....	88
19	STAFF COSTS	89
20	OTHER OPERATING EXPENSES.....	91
21	FINANCIAL INSTRUMENTS AND NET FINANCIAL RESULTS.....	92
21.1	Financial instruments by categories.....	92
21.2	Financial derivatives.....	94
21.3	Fair value estimation	95
21.4	Net financial results	97
22	EARNINGS PER SHARE	98
23	CASH FLOW GENERATED BY OPERATIONS.....	99
24	BALANCES AND TRANSACTIONS WITH RELATED PARTIES	99
24.1	Information on related parties.....	99
24.2	Control of the Board of Directors on the share capital of the parent Company	100
24.3	Remuneration of the Board of Directors.....	101
24.4	Remuneration paid to the members of Senior Management	102
25	ENVIRONMENTAL POLICY.....	103
25.1	Environmental assets and expenses	103
25.2	Greenhouse gas emissions rights.....	104
26	INVESTMENT GRANTS OF NON-FINANCIAL ASSETS	105
27	CONTINGENCIES AND COMMITMENTS	105
28	AUDITORS' REMUNERATION	106
29	SUBSEQUENT EVENTS.....	106
	Appendix I	107
	Consolidated Directors' Report	108

(Free translation from Spanish)

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

Consolidated Balance Sheet
at 31 December 2018 and 2017
(In thousand Euro)

ASSETS	Note	In thousand Euro	
		2018	2017
Non-current assets			
Property, plant and equipment	4	159,737	145,543
Intangible assets	5	1,632	1,465
Non-current financial assets	6,21	51,421	79,034
- At fair value through other comprehensive income		18,776	16,494
- At amortised cost		32,645	62,540
Deferred income tax assets	17.3	3,575	3,675
Total non-current assets		216,365	229,717
Current assets			
Inventories	7	82,039	59,970
Trade receivables	8,21	46,993	41,849
Sundry receivables	9	286	283
Current financial assets	9	36,277	27,975
- At amortised cost		36,277	27,975
Other current financial assets	9	6,060	2,917
Current tax assets	17.2	-	190
Cash and cash equivalents	10	17,005	9,874
Total current assets		188,660	143,058
TOTAL ASSETS		405,025	372,775

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 2018 and 2017
(In thousand Euro)

EQUITY AND LIABILITIES	Note	In thousand Euro	
		2018	2017
Total Equity		269,905	254,184
Share capital	11	62,000	41,300
Own shares	11	(10,339)	(34,909)
Share premium	11	40	40
Retained earnings	11	37,277	37,073
Other reserves	11	173,494	205,421
Shareholders' funds		262,472	248,925
Items not reclassified to results for the period:			
a) Equity instruments through other comprehensive income	11	7,433	-
Items that may not be reclassified subsequently to results for the year		-	5,259
Accumulated other comprehensive income		7,433	5,259
Non-current liabilities			
Borrowings	12,21	66,145	61,373
Deferred income tax liabilities	17.3	3,072	2,698
Other non-current liabilities	14	3,579	3,570
Total non-current liabilities		72,796	67,641
Current liabilities			
Borrowings	12,21	8,741	10,891
Trade creditors and other accounts payable	15,21	39,406	27,090
Current tax liabilities	17.2	773	-
Current provisions	16	1,468	559
Other current liabilities	16	11,936	12,410
Total current liabilities		62,324	50,950
TOTAL EQUITY AND LIABILITIES		405,025	372,775

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 2018 and 2017

(In thousand Euro)

In thousand Euro	Note	2018	2017
Net turnover	18	259,257	242,895
Variation in inventories		13,695	(6,503)
Own work capitalised	4,5	1,419	1,256
Supplies	7	(101,895)	(79,487)
Other operating income	18	2,651	2,621
Staff costs	19	(42,420)	(40,253)
Other operating expenses	20	(69,093)	(59,690)
Amortisation and depreciation	4,5	(15,703)	(15,201)
Charge to non-financial fixed asset grants	14,26	703	637
Provision excess		8	-
Impairment and profit/ loss on fixed asset disposals		7	3
Negative differences on business combination	2.3	1,171	-
Operating profit / (loss)		49,800	46,278
Financial income	21	2,694	3,245
Financial expenses	21	(838)	(709)
Exchange differences	21	(2,008)	(837)
Impairment and profit/loss on disposal of financial instruments	21	-	-
Net financial results	21	(152)	1,699
Share of results of associates	6	6	9
Profit / (loss) before tax on activities		49,654	47,986
Corporate income tax	17.2	(12,377)	(10,913)
Profit / (loss) for the year on activities		37,277	37,073
Profit / (loss) attributable to holders of equity instruments of the parent Company		37,277	37,073
Earnings per share basic and diluted (Euro)	22	1.29	1.85

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 recognised income and expenses

at 31 December 2018 and 2017

(In thousand Euro)

	Note	2018	2017
Consolidated profit for the year		37,277	37,073
Attributed to equity holders of the parent Company		37,277	37,073
Other comprehensive income- items that are not reclassified to results for the period		2,153	(3)
From actuarial gains and losses and other adjustment	13	(28)	(4)
Changes in fair value of investments at fair value through other comprehensive income	6	2,174	-
Tax effect	13, 17	7	1
Transfer to the consolidated income statement		-	5,228
From Exchange rate differences		-	(31)
Profit/loss on financial assets available for sale	6	-	5,259
TOTAL RECOGNISED INCOME AND EXPENSES		39,430	42,298
Attributed to equity holders of the parent Company		39,430	42,298

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 the net equity for the years ended
 at 31 December 2018 and 2017
 (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 (Note 11.3)	Other equity instruments (Note 11.3)	Total net equity
Balance at 31 December 2016	34,722	40	183,772	34,233	118	252,885
Profit / (loss) recognized for the year	-	-	5,225	37,073	-	42,298
Capital Increases / Reductions	-	-	-	-	-	-
Acquisition/amortization of own shares	(28,777)	-	-	-	-	(28,777)
Conversion differences	-	-	(1,108)	-	-	(1,108)
Dividends distribution and investments returns	-	-	(11,500)	-	-	(11,500)
Other equity movements	446	-	34,173	(34,233)	-	386
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

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 years ended
 at 31 December 2018 and 2017
 (In thousand Euro)

	Note	2017	2017
A) CASH FLOWS FROM OPERATIONS		30,399	51,982
1. Cash flow generated from operations	23	40,317	59,601
2. Other cash flows from operations,		(9,918)	(7,619)
- Interest payments (-),		(832)	(702)
- Receipts of interest (+),		2,804	2,966
- Payments (receipts) for income tax (-/+),		(11,117)	(9,883)
- Other receipts/(payments) from operations (-/+)		(773)	-
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		5,184	(25,055)
1. Amounts paid on investments (-)		(47,682)	(80,824)
(-) Group companies and associates		(7)	(284)
(-) Property, plant and equipment and intangible assets	4 and 5	(17,730)	(14,283)
(-) Other financial assets	6 and 9	(29,945)	(66,257)
2. Amounts collected from divestments (+)		52,866	55,769
(+) Group companies and associates		337	28
(+) Property, plant and equipment and intangible assets		760	762
(+) Other financial assets	6 and 9	51,769	54,979
C) CASH FLOWS FROM FINANCING ACTIVITIES		(28,452)	(21,145)
1. Collections and payments for equity instruments		(12,466)	(28,331)
(-) Acquisition of own shares	11.1	(12,466)	(28,777)
(+) Disposals	11.1	-	446
Grants, donations and bequests received		-	-
2. Collections and payments for financial liability instruments		(4,729)	17,366
(+) Receipts from loans	12	25,644	38,023
(-) Redemption and amortisation of loans	12	(30,373)	(20,657)
3. Dividend payments	11	(11,257)	(10,180)
D) NET INCREASE (DECREASE) IN CASH OR CASH EQUIVALENTS		7,131	5,782
E) Cash or cash equivalents at beginning of the year	10	9,874	4,092
F) Cash or cash equivalents at end of the year	10	17,005	9,874

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 2018

(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 1st 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.

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.

(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)

- Papeles Anويا, 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.

(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)

- 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., at Carrer Tuset number 10 08006 Barcelona; its corporate purpose of greatest relevance is 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.
- 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.
- 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.
- Boncompte-Sierra, S.L.U. with registered office at Asensi nº17,12002-Castellón. Its core business consists of the purchase-sale and rent of all types of properties, the development and construction of buildings and the completion of all types of public and private works.

All the Group companies have closed their accounting year at 31 December 2018.

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.

(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)

1.2 Variations in the consolidation scope

During 2017 there were no changes in the consolidation scope. In 2018, however, as mentioned in Note 1.1., 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 at the same time the sole shareholder of Boncompte-Sierra, S.L.U.

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 2018.

As per IFRS-EU, these consolidated annual accounts for 2018 include, for comparative purposes, the figures for the prior year.

As explained below, during 2018 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 2019.

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

IFRS 4 (Amendment) Application of IFRS 9 “Financial instruments “ with IFRS 4 “Insurance Contracts” - Amendment IFRS 4”, IFRS 9 “Financial instruments”, IFRS 15 “Revenues from contracts with customers”, IFRS 15 (Amendment), “Clarification of IFRS 15 “Revenue from contracts with customers”, Annual improvements to IFRS. Cycle 2014 – 2016, IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”, IAS 40 (Amendment) “Transfers of investment property” and IFRIC 22 “Foreign currency transactions and advance consideration”.

(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)

IFRS 9, "Financial instruments"

This standard came into effect in the present year.

The Group has applied IFRS 9 on a retroactive basis, without restating the comparative information, in accordance with the transitional provisions of IFRS 9, paragraphs (7.2.15) and (7.2.26).

- Classification and measurement of financial instruments in accordance with first -time recognition and the effective application of IFRS 9 to opening balances:
 - 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.
 - Equity instruments previously classified as available for sale, for the purposes of the first-time application of this standard and taking into account the options included in the standard, 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.
 - There are no relevant impacts compared with the measurement criteria used until 31 December 2017.

(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)

- Impairment of financial instruments in accordance with first -time recognition and the effective application of IFRS 9 to opening balances:
 - For financial assets and trade receivables, the Group has moved on from the incurred loss model, established in IAS 39 for the recognition of impairment on financial assets and trade receivables, and adopted the expected loss model as from 1 January 2018. The Group applies the simplified approach in order to evaluate expected loss. The Group has calculated the future expected loss on such financial assets and trade receivables which is not significant (approx. 0.17% of total financial assets and approx. 0.02% of trade receivable balances). It has therefore not recognised any impact whatsoever on the consolidated financial statements.
 - Value changes in equity instruments (irrespective of whether they had previously been classified as available for sale) 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 profit and loss.

IFRS 15 "Revenue from contracts with customers"

This standard came into effect in the present year.

As mentioned in Note 2.1.1. to the consolidated annual accounts for the year, based on the analyses performed by the Group of the application of IFRS 15 as from 2018, it was concluded that the expected impact of this new standards was not significant. The main reasons for this conclusion were as follows:

- a) The Group's core business has since the outset consisted of the manufacture of fine and special light weight paper, mainly specialising in high technology cigarette paper. The selling process is mainly based on customer orders and there are no contracts closed with customers giving rise to a right or obligation which may be enforced in advance, prior to the delivery of the goods, or to obligations post delivery. In this respect, no separate obligations are identified within the same operation (distinct good or service etc) or performance obligations that are satisfied over time.

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.

(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)

- b) As may be observed in Note 18 to the consolidated annual accounts for the year ended 31 December 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. That time depends on the commercial terms of sale (delivery at a specific location) applicable in each case (obligation compliance) in the way the Group has taken into account 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.
- c) There is no financing element component is considered to exist 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”

Because Argentina has been considered a hyper -inflationary country since 2018, with retroactive effect at 1 January that year, the Group has reviewed its policy for the presentation of the effects on equity with respect to hyper-inflationary economies.

In order to present more relevant and reliable information, the Group includes in a single account all the effects on equity deriving from hyperinflation, i.e.:

- The restatement for inflation of the financial statements of the Group companies operating in hyper-inflationary economies and
- The effect on equity on translating their respective financial statements to euro using the year end exchange rate.

The Group has decided to recognise those effects in a reserve account instead of presenting them in Other comprehensive income under translation differences since it considers this presentation criterion offers more reliable information. In a market that operates based on the principles of economic theory, in the medium to long run the development of the exchange rate should offset changes in purchasing power of the local currency brought about by inflation.

(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)

The application of this presentation policy entails a reclassification from exchange differences to retained earnings and therefore there is no change in the consolidated equity figure. In accordance with IAS 8, the previous year's information that is presented for comparison has been restated to ensure comparability. See Notes 11.2 and 11.3.

Hyperinflation in Argentina

In the past few years the Argentinian economy has suffered high inflation rates and therefore the Group has regularly assessed the quantitative and qualitative indicators of inflation in the country. Although the measurement has not been fully consistent and different indices have co-existed in the past few years, inflation in Argentina picked up again from the second quarter of 2018 and data reveal that accumulated inflation in the past three years has exceeded the 100% threshold which is the quantitative reference included in IAS 29. The Argentinian economy is therefore considered hyper inflationary in 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 starting 1 July 2018.

Accordingly, this entails:

- Adjusting the historical cost of the non-monetary assets and liabilities and equity items from the date they were acquired or included in the consolidated statement of financial position to the year end has been adjusted to reflect changes in the currency's purchasing power as a result of inflation.
- Reflecting in the income statement the loss or gain caused by the impact of inflation over the year on the net monetary position.
- Adjusting the items in the income statement and cash flow statement for inflation as from the time of generation, with a balancing entry in financial results and a reconciling item in the cash flow statement, respectively.
- Translating all components of the Argentinian company's financial statements at the year end exchange rate, the exchange rate at 31 December 2018 being 43.002 pesos per euro.
- The figures for years prior to 2018 should not be modified.

(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)

The main effects of the matters referred to above on the Miquel and Costa Group's consolidated annual accounts for 2018 are the following:

Impact of the application of hyperinflation adjustments in 2018.	
	Thousand euros
Sales and services rendered	760
Profit before taxes	(1,574)
Profit after taxes	(1,832)
Equity	1,243
Non-current assets	1,267

At 1 January 2018 the total impact on the consolidated financial statements in equity amounts to €1,401 thousand. Note 11.2 and 11.3.

In accordance with the accounting policy described above, all effects on equity brought about by hyperinflation are presented in Other reserves. If no changes had been made to the presentation of the effects on equity resulting from hyperinflation, the company would have recognised a decrease of Euro 2,238 thousand in Translation differences in 2018.

Standards, amendments and interpretations mandatory for all periods beginning on or after 1 January 2019

IFRS 16 "Leases"

IFRS 16 will come into effect in 2019 and will replace IAS 17 and the relevant interpretations.

IFRS 16 establishes that companies acting as lessees should recognise all lease assets and liabilities in the statement of financial position.

The Group has carried out an analysis of the impacts of IFRS 16 Leases that establishes that right-of-use assets and liabilities under operating leases should be recognised in the consolidated balance sheet (except for short term leases and leases of low value assets).

The Group has compiled the necessary data on its operating leases (see Note 20 for current impact on the profit and loss account) which mainly relate to office and vehicle leases in order to assess the corresponding impacts.

(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)

Based on the analysis performed to date, the Group considers that the application of the new lease standard, IFRS 16 Leases, published but not yet effective will not have a significant impact, the increase in assets and liabilities amounting to between Euro 150 and 200 thousand in the Group's consolidated annual accounts at the time of adoption and prospectively.

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", IAS 28 (Amendment) "Long-term Interests in Associates and Joint Ventures", Annual improvements to IFRS. Cycle 2015 – 2017, IAS 19 (Amendment) "Amendment" "Plan amendment, curtailment or settlement", IFRS 3 (Amendment) "Definition of a business", IAS 1(Amendment) and IAS 8 (Amendment) "Definition of material"

As mentioned above, the Group has not considered applying the above Standards and interpretations early and is in any event analysing the impact that these new standards/amendments / interpretations can 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 25 March 2019 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.

(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)

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.

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 and Other operating expenses.

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

2.1.3 Comparability

As described in Notes 1.2 and 2.3 "Business combinations" to the accompanying consolidated accounts, on 25 July 2018 the Group acquired Clariana, S.A. and its investee Boncompte-Sierra, S.L.U. This should be borne in mind when comparing the figures in the balance sheet at 31 December 2018 with those at 31 December 2017 and the figures in the consolidated income statement for the year ended 31 December 2018 and 31 December 2017. The Group does not consider the impact of the results of this combination significant in the current year.

Additionally, as a result of considering Argentina to be a hyper-inflationary country since July 2018, with retroactive effect from 1 January that year, the Group has reviewed its policy for the presentation of the financial statements of its Argentinean subsidiary. See note 2.1.

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.

(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)

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.

(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 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, except for the associated Fourtube, S.L., since the parent Company holds 100% of all shares directly or indirectly.

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 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. See Note 2.3 "Business combinations".

2.3 Accounting policies

PROPERTY, PLANT AND EQUIPMENT

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 84 thousand at 31 December 2018 and 2017.

(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)

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 2018 and 2017 amounts to 842 thousand Euro and 879 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:

	<u>Years of useful life</u>
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.

(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)

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 or cost of production. When rights are acquired free of charge acquisition price is considered to be their market value at the time of acquisition. 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.

(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)

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 investments as follows:

- 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.

- Investments that are intended to be held to maturity:

Financial assets held to maturity are debt securities and investments in deposits with fixed or determinable payments and fixed maturities that are traded in an active market and which management of the Company has the positive intent and ability to hold to maturity. If the Company was to sell a significant financial asset held to maturity, the entire category would be reclassified as available for sale. These financial assets are included in non-current assets, except those maturing within 12 months from the balance sheet date which are classified as current assets.

(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)

These financial assets are measured at amortised cost.

The Group applies the expected loss model to estimate the possible impairment of these assets.

The expected loss model of analysis used by the Group has been applied to all financial instruments. That model, as defined in IFRS 9, measures expected credit losses on a financial instruments reflecting:

- a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- b) The time value of money.
- c) Reasonable and supportable information available without undue cost or effort about past events, current conditions, and forecasts of future economic conditions.

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

For this analysis, the Group has used the simplified method, taking into account the probability that debt issuers will default and the rating, if appropriate, of the issues. The Group has assessed whether there has been a significant variation in the credit risk of each security since its initial recognition and as there has not been a significant variation, recognition has been delayed for 12 months. (See Note 2.1).

- 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.

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.

(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)

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.

Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its objectives for risk management and strategy for undertaking various hedge transactions. Group also documents its assessment, both initially and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

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.

(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)

TRADE RECEIVABLES

Trade accounts receivable are recognized initially at fair value and subsequently at amortized cost, according to the effective interest rate method, less provision for impairment losses. A provision for impairment of trade receivables is made when there is objective evidence that the Group will be unable to collect all amounts due according to the original terms of the receivables. The existence of significant financial difficulties of the customer, probability that the customer will enter in bankruptcy situation or financial reorganization, and default or insolvency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cashflows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement.

The fair value of trade debtors does not differ from the book value.

Debtors are classified as short or long-term depending on whether they fall due in less or more than one year.

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.

(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)

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.

When there is a substantial modification of the financial liability terms and conditions, the Group writes off the original liability and a new loan is recognised in the balance sheet. It is considered a substantial modification in case that the present value of the cash flow differs, under new conditions, in 10% or more compared to the present value of the cash flow from the original liability. In the event that the modification of the terms and conditions of the debt is not substantial, original liability is not modified but the effective interest rate used to restate the carrying value of the financial liability is changed accordingly.

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.

TRADE PAYABLES

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

(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)

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.

(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)

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..

Clariana, S.A. and Boncompte-Sierra, S.L.U. were added to the tax Group on 1 January 2019 (see Note 1).

When there is a change in tax rates, the amounts of deferred tax assets and liabilities. These amounts are charged or credited against income or in equity, depending on the account that was charged or paid the original amount. (See Note 17.3).

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. These contributions are recorded as staff costs in the income statement as they are made.

There are also three defined contribution plans for executive Directors and Senior Management of the Group. The contributions made are also recorded as staff costs in the income statement.

- 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.

(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)

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.

(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)

PROVISIONS FOR EMISSION RIGHTS

As from 2005 Spanish group companies emitting CO₂ 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 CO₂ 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).

At the 2018 year end, the provision recorded on the balance sheet for the emissions of the Group total Euro 633 thousand (Euro 467 thousand at the 2017 year end) (Note 16 and 25.2).

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. Restructuring provisions include penalties for cancellation of leases and severance payments to employees. 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 recognizes revenue from sales of goods when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group, have delivered products to the customer, the customer has accepted the products and the collectability of the related receivables is reasonably assured.

(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)

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

Finance leases are recognised at the beginning of the contract by the lower of the fair value of the leased asset and the present value of the minimum payments for the lease. Each lease payment is detailed between the reduction of the debt and the financial charge, so that a constant interest rate is obtained on the outstanding balance. The payment obligation arising from the lease, net of the financial charge, is recognised under accounts payable. The part of the financial charge is expensed. The tangible asset acquired under a finance lease is amortised over the shorter period between the asset's useful life and the lease period.

Leases in which the lessor retains a large part of the risks and benefits of ownership are classified as operating leases. Payments for operating leases are expensed on a straight-line basis over the term of the lease.

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).

(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)

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 have been reclassified to reserves as indicated in Note 2.1.

(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)

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 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.

(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)

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

<i>Thousand euro</i>	Value acquired (effect 25 July 2018)		
	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.

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 has 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").

After the presentation of the Six month report for the second half of 2018 to the National Securities Market Commission, that was previously agreed by our auditors, a reclassification was carried out affecting the reversal with respect to the business combination recognised in these annual accounts. This reclassification has led to a decrease in reserves and inventories amounting to Euro 589 thousand and Euro 155 thousand, respectively and an increase of Euro 434 thousand in Trade payables.

At the date of issue of these consolidated annual accounts, no variations are expected in the allocation of the price associated with the acquisition of the Clariana Group.

(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)

DISTRIBUTION OF RESULTS

The results for 2018 for Miquel y Costas & Miquel, S.A. and subsidiary companies 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:

Thousand Euro	2018
Basis of distribution	
Profit for the year (Profit)	30,520
Total	30,520
Application	
Legal reserve	4,140
Dividends	12,950
Voluntary reserves	13,430
Total	30,520

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.

(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)

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 2018 are as follows:

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

- 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.

(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)

- 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.

- 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

(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)

- 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

(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)

Sales by country in 2018 and 2017 are as follows:

COUNTRY	31/12/2018		31/12/2017	
	Amount > 2% revenue	%	Amount > 2% revenue	%
Switzerland	28,931	11.2%	26,790	11.0%
China	8,259	3.2%	12,168	5.0%
Germany	18,401	7.1%	13,153	5.4%
Spain	27,888	10.8%	26,589	10.9%
Italy	13,944	5.4%	13,366	5.5%
Japan	13,352	5.2%	11,387	4.7%
Poland	15,592	6.0%	14,040	5.8%
Russian Federation	15,657	6.0%	15,489	6.4%
USA	12,485	4.8%	14,012	5.8%
Indonesia	7,508	2.9%	8,068	3.3%
Paraguay	6,479	2.5%	7,580	3.1%
Turkey	5,623	2.2%	7,645	3.1%
Romania	5,809	2.2%	6,478	2.7%
Rest Centre and South America	11,764	4.5%	12,304	5.1%
Rest of Africa	12,547	4.8%	9,969	4.1%
Rest of South East Asia	1,134	0.4%	858	0.4%
Rest of Europe	39,642	15.3%	31,486	13.0%
Other	14,243	5.5%	11,514	4.7%
Total	259,257	100.0%	242,895	100.00%

- Income by segment, and sales to third parties of each segment made during 2017 are as follows:

	Tobacco industry	Industrial products	Others	Consolidated Group
Segment turnover	187,107	82,303	20,069	289,479
Sales between segments	(30,166)	(9,187)	(7,231)	(46,584)
Sales	156,941	73,116	12,838	242,895

(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)

- Results by segment, for the year ended at 31 December 2017 are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Operating results by segment	39,317	5,133	1,801	27	46,278
Net finance results and participation of income of associates (non-distributable profit)					1,708
Profit before tax					47,986
Income tax					(10,913)
Profit for the year					37,073

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 2017, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Distributable assets by segments	141,865	90,428	19,149	(2,614)	248,828
Non-distributable assets					123,947
Total assets					372,775
Investments*	11,431	2,699	929	-	15,059

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.

(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)

- Liabilities by segment, at 31 December 2017, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Distributable liabilities	25,627	12,550	2,691	(16,185)	24,683
Non-distributable liabilities					93,908
Equity					254,184
Total liabilities and equity					372,775

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 2017, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Amortisation and depreciation	7,841	6,221	1,352	(213)	15,201

- Information about geographical areas for the year ended at 31 December 2017:

	External turnover
Domestic market	26,589
Other countries	216,306
TOTAL	242,895
	Assets
Spain	367,240
Other countries	5,535
TOTAL	372,775

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.

(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)

- Information about the main customers for the year ended at 31 December 2017:

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

	Percentage	Ordinary income	Segment
1	9.0%	21,163	Tobacco industry
2	8.5%	20,135	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.

(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)

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 Villareal	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.

(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)

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 322 thousand (Euro 1,159 thousand in 2017).

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.

(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)

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:

	Less than 3 months	Between 3 months and 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years.
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	-	-
At 31 December 2017					
Loans	2,232	7,067	21,267	23,071	19,191
Trade payables and other payables	34,871	1,638	2,080	-	-

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 2018 the use of these credit lines was 3.4% (8% in 2017) (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.

At borrowing levels with credit institutions for 2018, the effect of a 50 basis point variation in the interest rate would have entailed an increase or decrease in the Company's financial expense for the following year of appropriately Euro 334 thousand.

(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)

3.5 Market 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 4,367 thousand approximately (Euro 3,134 thousand in 2017).

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, 2018 and December 31, 2017 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 2018	December 2017
Total equity	269,905	254,184
Net borrowings:		
Long-term borrowings	66,145	61,373
Short-term borrowings	8,741	10,891
Cash at banks and in hand and short-term investments	(53,282)	(37,849)
Long-term financial investments	(51,421)	(79,034)
Total net borrowings	(29,817)	(44,619)
Leverage index	Not applicable	Not applicable

(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)

4 PLANT, PROPERTY AND EQUIPMENT

The balances and variations for the years ended at 31 December 2018 and 2017 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 2016	39,588	100,754	5,736	146,078
Cost or valuation	56,087	314,392	5,736	376,215
Accumulated depreciation and impairment loss	(16,499)	(213,638)	-	(230,137)
Net book value	39,588	100,754	5,736	146,078
Year ended 31 December 2017				
Opening book value	39,588	100,754	5,736	146,078
Exchange differences	(183)	(197)	-	(380)
Additions	-	161	14,646	14,807
Consolidation adjustments and other cost adjustments	-	47	-	47
Disposals	(31)	(2,892)	-	(2,923)
Transfers	1,525	8,662	(10,186)	1
Depreciation charge	(1,548)	(14,340)	-	(15,888)
Consolidation adjustments and other depreciation adjustments	100	935	-	1,035
Write off of depreciation due to disposals	31	2,638	-	2,669
Depreciation exchange differences	14	83	-	97
Closing net book value	39,496	95,851	10,196	145,543
At 31 December 2017				
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

(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)

The additions in 2018 amounted to Euro 18,629 thousand (Euro 14,807 thousand in 2017) and relate mainly to constructions in progress resulting from continued investment in the Group's various production plants.

The additions for 2018 include Euro 1,321 thousand (Euro 1,155 thousand in 2017) relating to own work capitalised by the Group.

The book value of fully depreciated property, plant and equipment in use totals Euro 154,293 thousand at 31 December 2018 (Euro 140,237 thousand at 31 December 2017).

The consolidated income statement carries the lease expenses for the rental of machinery and buildings totalling Euro 86 thousand in 2018 (Euro 88 thousand in 2017).

There have not been any acquisitions of assets under finance leases in 2018 and 2017.

The Group has established proper controls to identify indications of possible impairment losses. In 2018 and 2017 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 2018 totals Euro 597 thousand (Euro 618 thousand in 2017), and the depreciation charge for the year 2018 totals Euro 21 thousand (Euro 22 thousand in 2017).

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.

The Group has property, plant, and equipment outside of Spain totalling a net book value of Euro 1,991 thousand in 2018 (Euro 1,049 thousand in 2017).

There have been no capitalised interests on the Group assets during 2018 and 2017.

There are no significant non-operating assets.

(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)

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 2018 and 2017 of the items included under "Intangible assets" are as follows:

	Software	Industrial property	Development expenses	Gas emission rights	Intangible assets under construction	Total
AI 31 December 2016	573	99	237	654	208	1,771
Cost	7,342	123	2,092	654	208	10,419
Accumulated amortisation and impairment loss	(6,769)	(24)	(1,855)	-	-	(8,648)
Net book value	573	99	237	654	208	1,771
Year ended 31 December 2017						
Opening net book value	573	99	237	654	208	1,771
Exchange differences	(24)	(6)	-	-	-	(30)
Additions	3	3	-	312	246	564
Disposals	-	-	(3)	(502)	-	(505)
Transfers	150	-	-	-	(151)	(1)
Amortisation charge	(313)	(4)	(31)	-	-	(348)
Amortisation disposals	-	-	-	-	-	-
Amortisation exchange differences	14	-	-	-	-	14
AI 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 2017						
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)
AI 31 December 2017	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

(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)

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

The book value of fully amortised intangible assets at 31 December 2018 totals Euro 8,664 thousand (Euro 8,306 thousand at 31 December 2017).

The Group has intangible assets outside of Spain totalling a net book value of Euro 58 thousand at 31 December 2018 (Euro 39 thousand at 31 December 2017).

Additions for 2018 include Euro 98 thousand (Euro 101 thousand in 2017) relating to own work capitalised.

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

6 NON-CURRENT FINANCIAL ASSETS AND INVESTMENTS IN ASSOCIATES

The balances and movement for the years ended at 31 December 2018 and 2017 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 2016	219	78,627	120	(1,215)	77,751
Additions	275	29,440	1	-	29,716
Disposals	(28)	(18,932)	(2)	-	(18,962)
Fair value adjustments (Note 11.3)	-	5,259	-	-	5,259
Transfers (Note 9)	-	(14,739)	-	-	(14,739)
Share in profit/losses	9	-	-	-	9
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 (Note 11.3)	-	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

(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)

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 54 thousand was repaid (Euro 28 thousand in 2017), leaving a balance of Euro 193 thousand at 31 December 2018 (Euro 247 thousand in 2017). The loan bears interest of 3.5% and matures in 2022.

The 2018 item "Other financial investments" includes long-term investments maturing after 2019 and bearing interest at effective rates of between 0.35% and 5.65% (1.48% and 5.65% in 2017), 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 2018 (5.08% at end-2017), at a cost of Euro 10,947 thousand and a fair value of Euro 18,458 thousand. Fair value adjustments are carried in the consolidated statement of recognised income and expense.

Additionally, in 2017 it included a total of Euro 1,500 thousand that related to shares in Banco Mare Nostrum, S.A. (BMN) held by the parent. These shares were provided for in an amount of Euro 1,215 thousand, leaving a net balance of Euro 285 thousand at year end 2017. During the present year, these shares were sold at fair value to the group company Desvi S.A. and therefore no provision for impairment has been established. The profit or loss on that sale was reversed on consolidation.

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

	Shareholding	2018	2017
Fourtube, S.L.	40%	234	228
Total cost		234	228
Net book value		234	228

The Group's participation in results of the associated company (Fourtube, S.L.) and its main figures are as follows at 31 December 2018 and 2017:

2018

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

(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)

2017

Name	Registered office	Assets	Equity	Liabilities	Profit/(Loss)	Shareholding (%)
Fourtube, S.L.	Sevilla	799	444	355	22	40%
		799	444	355	22	

7 INVENTORIES

The breakdown of inventories at 31 December 2018 and 2017, in thousand Euro, is as follows:

	2018	2017
Commercial products	2,750	2,353
Raw materials and other supplies	30,651	22,732
Finished goods and work in progress	48,362	34,667
Prepayments to suppliers	276	218
TOTAL	82,039	59,970

The cost of inventories recognised as an expense and included in the cost of sales totals 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) and Euro 79,487 thousand in 2017 (of which Euro 84,023 thousand relate to purchases and Euro 4,536 thousand to negative variation in inventories).

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

	2018	2017
Euro	61,250	43,564
USD	47,583	37,222
Other currencies	1,378	3,237
Total	110,211	84,023

The Group has recorded impairment losses on the inventory, whose amount for impairment registered in the income statements for the year 2018 totals Euro 538 thousand (Euro 761 thousand in 2017).

There are no purchase commitments with suppliers at 31 December 2018 and 2017.

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.

(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)

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 2018 and 2017 of trade receivables for sales and services are as follows:

	2018	2017
Trade receivables	46,993	41,849
Doubtful debtors	1,768	255
Less: Provision for impairment of accounts receivable	(1,768)	(255)
Balance at 31 December	46,993	41,849

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

	2018	2017
Euro	36,037	29,809
USD	10,035	11,019
GBP	115	57
Other currencies	806	964
Total	46,993	41,849

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	4.2%
Industrial products	13.5%
Other	6.1%

At 31 December 2018, accounts receivable that are not due total Euro 39,929 thousand (Euro 34,199 thousand in 2017).

The Group considers that accounts receivable, except for the impaired amount by Euro 1,768 in 2018 (Euro 255 thousand in 2017), included in this note, have not suffered any impairment.

(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)

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

	2018	2017
Less than 3 months	6,780	6,962
Between 3 and 6 months	(95)	305
More than 6 months	379	383
Total	7,064	7,650

The movement in the accounts receivable under bad debt provisions for the years 2018 and 2017 has been as follows:

	2018	2017
Balance at 1 January	255	244
Business combination	1,454	-
Charge for the year (Note 20)	92	48
Recoveries of balances provided for (Note 20)	(5)	(12)
Write off of balances provided for	(28)	(25)
Balance at 31 December	1,768	255

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.

(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)

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 2018 and 2017 of other current financial assets are as follows:

	2018	2017
Sundry receivables	286	283
Public Administrations	5,954	2,811
Current financial asset investments	36,277	27,975
Accruals	106	106
	42,623	31,175

The breakdown of accounts with Public Administrations for the years 2018 and 2017 is as follows:

	2018	2017
Public Treasury (VAT receivable)	4,602	1,883
Other taxes refundable	1,352	928
	5,954	2,811

The movement in current financial asset investments for 2018 and 2017 has been as follows:

	2018	2017
Balance at 1 January	27,975	12,186
Additions	9,564	36,816
Transfers (Note 6)	26,620	14,739
Disposals	(27,882)	(35,766)
Balance at 31 December	36,277	27,975

The short-term financial investments registered at the end of 2018 total 35,237 thousand Euro (26,825 thousand Euro in 2017), as well as the accrued financial interests in 2018 of 1,040 thousand Euro (1,150 thousand Euro in 2017), maturing within twelve months and paying an effective interest rate that varies within a range of 0.72% to 4.62% for the year 2018 (0.41% to 6.25% in 2017) which is not equal to the return on assets.

(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)

10 CASH AND OTHER CASH EQUIVALENTS

The balance for the years ended at 31 December 2018 and 2017 of cash and other cash equivalents are as follows:

	2018	2017
Cash at banks and in hand	17,005	9,874
	17,005	9,874

11 EQUITY

11.1 Share capital, own shares and share premium

The breakdown of share capital at 31 December 2018 and 2017 is as follows:

	Number of shares (thousand)	Nominal Value of Ordinary shares (thousand Euro)
Balance at 31 December 2017	20,650	41,300
Balance at 31 December 2018	31,000	62,000

SHARE CAPITAL

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

	2018	2017
Balance at 1 January	19,413	20,315
Capital increase and reduction, acquisition and allocation due to exercise of options on treasury shares	10,987	902
Balance at 31 December	30,400	19,413

At 31 December 2018, the share capital is represented by 31,000,000 ordinary shares (20,650,000 shares in 2017), supported by entries of Euro 2.00 each one, fully subscribed and paid.

(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)

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 2017 and 2018, the Board of Directors did not use the aforementioned authorization.

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.

At the dates of December 31, 2018 and 2017, 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	
	2018	2017
Jorge Mercader Miró	14.39	13.27
M ^a del Carmen Escasany Miquel	11.67	10.90
Bernadette Miquel Vacarisas	11.35	10.59

(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)

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 2018 and 2017, is as follows:

Description	Number of shares	Value of the operation (Thousand Euro)	Average price (Euro)	Nominal value (Thousand Euro)
Balance at 31-12-2016	334,639	6,578	19.65	669
Acquisition of own shares	939,134	28,777	30.64	1,878
Adjudication by exercise of options	(37,275)	(446)	11.95	(74)
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

During 2018, the Company acting within the framework approved, has acquired 513,679 shares (939,134 shares in 2017) worth 12,466 thousand Euro (28,777 thousand Euro in 2017) and on the other hand has delivered, in the year 2017 the implementation of the "Plan of stock options 2011" which is ongoing, 37,275 own shares valued at 446 thousand Euro. Additionally, it should be noted that with respect to the "2016 Stock Plan", no amounts were delivered in the present year.

Treasury shares held at 31 December 2018, after the operations carried out during the year, amount to €600,193 (1,236,498 shares in 2017).

(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)

SHARE PREMIUM

The balance and variations for the years ended at 31 December 2018 and 2017 are as follows:

	Share Premium
Balance at 31 December 2017	40
Balance at 31 December 2018	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.

11.2 Cumulative translation differences

The cumulative translation differences in 2017 and 2016 are as follows:

	Cumulative translation differences
Balance at 31 December 2016	(5,859)
Movement for the year 2016	(1,108)
Balance at 31 December 2017	(6,967)
Initial impact hyperinflation in Argentina	6,945
Balance at 1 January 2018	(22)
Movement for the year 2018	(48)
Balance at 31 December 2018	(70)

The breakdown of the cumulative translation differences at the 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".

(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)

11.3 Retained earnings and other reserves

The balances for the years ended 31 December 2017 and 2016 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 2017	8,260	136,709	73,301	(6,967)	(6,000)	37,073	118	5,259	247,753
Initial impact due to hyperinflation Argentina	-	-	(5,544)	6,945	-	-	-	-	1,401
Balance at 1 January 2018	8,260	136,709	67,757	(22)	(6,000)	37,073	118	5,259	249,154
Balance at 31 December 2018	8,260	97,076	74,195	(70)	(6,200)	37,277	233	7,433	218,204

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.

(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)

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 2,103 thousand relating to the legal reserve (Euro 2,060 thousand in 2017), 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, 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 discharged from the books.

INTERIM DIVIDEND

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

(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)

In accordance with the resolutions of the Board of Directors, approved the distribution of interim dividends in 2018 which are listed below:

- 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 accordance with the resolutions of the Board of Directors, approved the distribution of interim dividends in 2017 which are listed below:

- Resolution dated 27 March agrees to distribute a third interim dividend of profits for 2016, with the allocation of the share of the economic rights of the own shares was Euro 0.12408833 per share, totalling Euro 2,500 thousand.

(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)

- Resolution dated 26 September agrees to distribute a first interim dividend of profits for 2017, with the allocation of the share of the economic rights of the own shares was Euro 0.15286918 per share, totalling Euro 3,000 thousand.
- Resolution dated 27 November agrees to distribute a second interim dividend of profits for 2017, with the allocation of the share of the economic rights of the own shares was Euro 0.15392182, totalling Euro 3,000 thousand.

All of them have been realized in 2017.

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.

	2018	2017
Dividends	12,700	11,500
Tax effect	(1,443)	(1,320)
Total	11,257	10,180

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.

(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)

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, 2018 to distribute a first interim dividend of the profits from 2018 of a total amount of 3,100 thousand Euro:

	2018
Profit distribution forecast	
Expected net results after tax at 30 September 2018	20,166
Maximum amount to be distributed as interim dividend	57,239
Interim dividend distributed	<u>3,100</u>
Treasury forecast for the period between 26 September 2018 and 26 September 2019:	
Treasury balances at 26 September 2018**	114,461
Forecast receipts	165,446
Forecast payments (including interim dividend)	152,457
Forecast treasury balances at 26 September 2019	<u>127,450</u>

** Includes unused credit facilities with financial institutions.

(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)

- Provisional resolution of 22 November, 2018 to distribute a second interim dividend of the profits from 2018 of a total amount of 3,100 thousand Euro:

	2018
Profit distribution forecast	
Expected net results after tax at 22 November 2018	25,055
Maximum amount to be distributed as interim dividend	62,128
Interim dividend distributed	3,100
Treasury forecast for one year from the date of the agreement to distribute the interim dividend:	
Available liquidity at the date of the agreement to distribute payment on account **	114,197
Forecast receipts	170,100
Forecast payments (including interim dividend)	160,702
Forecast treasury balances at 30 November 2019	123,595

** includes unused credit facilities with financial institutions.

SUPPLEMENTARY DIVIDEND

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.

Under the resolution adopted by the General Shareholders Meeting dated in June 20, 2017, 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 2016 amounting to Euro 3,000 thousand.

RETAINED EARNINGS

Relates to the earnings obtained in each year by the companies in the consolidation scope at 31 December 2018 and 2017.

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 2018 this amounts to 223 thousand Euro (Euro 118 thousand in 2017).

(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)

- In June 22, 2011 the General Meeting of shareholders approved a "Stock Option Plan 2011" Miquel y Costas & Miquel, S.A., for Group management. This plan has been developed, defined and formalized by the Board of Directors, based on the powers conferred by the General Meeting, in its meeting held on 31 January 2012, which determined that to each option corresponds a share, as well as the number of options originally assigned to management totals 160,000 options.

The options are subject to certain conditions, and the parent Company has no legal or constructive obligation to repurchase or settle the options using cash, as they will be settled by the exercise of option to acquire shares of the parent Company.

Based on the agreements referred to above, the exercise price of the option has been set at 17,26 Euro per share, determined by the mean change from the previous quarter minus 5%, the breakdown by date of consolidation and maximum exercise period, as follows:

Date of consolidated options	Maximum period to exercise	Number of options
31/01/2014	31/01/2015	53,333
31/01/2015	31/01/2016	53,334
31/01/2016	31/01/2017	53,334
		160,000

The weighted average fair value of the premium of the stock options granted to December 31, 2017, determined in accordance with the model of Black-Scholes valuation is as follows:

Due Date	Option value
31/01/2014	3.6839
31/01/2015	4.1385
31/01/2016	4.4454

The main inputs to the model were share price, the exercise price shown above, the standard deviation of performance expected share price, dividend yield, an expected life of the option and free annual interest rate of risk. The estimated standard deviation of the expected performance of the share price volatility is based on statistical analysis of daily share prices.

(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)

The value of the plan is allocated to the income statement as a personnel expense for the year on an accrual basis with a balancing entry in equity. The amount recognised at 31 December 2018 by charge or credit to the income statement is Euro 0 thousand in 2017 and 2018. This plan ended last year with an impact of Euro(118) thousand in 2017.

- "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.

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

<u>Due Date</u>	<u>Option value</u>
27/01/2025	1.25

(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)

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 115 thousand was charged to the income statement at 31 December 2018 (118 at 31 December 2017).

12 BORROWINGS

The breakdown of the current and non-current financial debt for the years ended at 31 December 2018 and 2017 is as follows:

	2018	2017
Non-current		
Bank loans	66,145	61,373
	66,145	61,373
Current		
Bank loans	7,718	8,671
Credit facilities	974	2,178
Interest accrued	49	42
	8,741	10,891
Total borrowings	74,886	72,264

(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)

The movement of short and long-term loans during 2018 and 2017 is the following:

	Long-term Borrowings	Short-term Borrowings
Balance at 31-12-16	43,923	10,558
Obtaining financing and value update	36,220	-
Amortization	(10,099)	(10,558)
Transfers to short term	(8,671)	8,671
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 31-12-17	66,145	7,718

The maturities of non-current borrowings are as follows:

	2018	2017
Up to 1 year	8,741	10,891
Between 1 and 3 years	29,909	20,223
Between 3 and 5 years	24,769	22,374
More than 5 years	11,467	18,776
	74,886	72,264

During 2018 the Group has 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.

During 2017 the Group has received 9 loans from credit institutions, 6 of them granted by the Centre for the Development of Industrial Technology (CDTI) and 3 by financial institutions, for a total of Euro 35,817 thousand, with repayment terms of 5 to 12 years including grace periods ranging from 1 year to 4 years.

The Group at December 31 2018 has loans at a zero interest rate with an outstanding capital of 5,888 thousand Euro (6,572 thousand Euro at December 31, 2017).

(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)

The rate of non-subsidized loans is fixed.

Of total loans at 31 December 2018, Euro 2,371 thousand relates to loans secured through a bank guarantee (Euro 2,847 thousand at 31 December 2017).

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 28,130 thousand Euro (25,959 thousand Euro in 2017) of which at the end of 2018 and 2017 had provided 974 thousand Euro and 2,178 thousand Euro, respectively. Credit lines with a maturity of less than one year are subject to upcoming renovations in the year 2019.

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

	2018	2017
Euro	74,750	70,087
AUD	131	-
JPY	5	-
GBP	-	2
USD	-	2,175
Total borrowings	74,886	72,264

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 2018 which totals Euro 50 thousand (Euro 51 thousand in 2017) (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).

(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)

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.

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:

	2018	2017
Charges in the consolidated income statement:		
- Financial restatement (Financial expenses) (Note 21.4)	2	2
- Current services costs (Note 19)	16	22
- Expected return on plant-related assets (Note 21.4)	(1)	(1)
	<u>17</u>	<u>23</u>
Charges/(credits) in Equity:		
- Actuarial gains and losses	(28)	(4)
- Tax effect	7	1
	<u>(21)</u>	<u>(3)</u>

(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)

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

	2018	2017
Current value of committed liabilities	(592)	(517)
Fair value of plan-related assets	272	245
Liabilities on the balance sheet (Note 14)	(320)	(272)

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

	2018	2017
Opening balance	245	281
Expected return on plan-related assets	1	1
Actuarial gains / (losses)	42	4
Contributions paid net of returned premiums	(16)	(41)
Closing balance	272	245

The movement in the fair value of the committed liabilities:

	2018	2017
Opening balance	517	502
Interest costs	1	2
Current services costs	16	22
Actuarial (gains) / losses	70	8
Contributions paid	(12)	(17)
Closing balance	592	517

(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)

- Valuation of defined benefit commitments:

Group management has engaged an independent actuary to prepare an actuarial valuation at 31 December 2018 and 2017 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 31/12/2017	0.399%
Interest rate for valuing liabilities with current personnel at 31/12/2018	0.172%
Interest rate for valuing liabilities with retired personnel at 31/12/2017	0.399%
Interest rate for valuing liabilities with retired personnel at 31/12/2018	0.172%
Expected return on assets with current personnel	0.399%
Expected return on assets with retired personnel	0.399%
Annual growth in pensions at the beginning of 2018	0.25%
Annual growth in pensions at the end of 2018	0.25%
Mortality tables	PERMF2000P
Hypothesis of permanence	EHA/3433/2006COD21
Retirement age	63 years

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.

(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)

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 2018 and 2017 year end is as follows:

	2018	2017
Grants	1,459	1,592
Long-term staff liabilities (Note 13.2)	320	272
Deposits and guarantees	23	20
Other	1,777	1,686
	3,579	3,570

(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)

a) Grants

The detail and movement of grants is as follows:

	Government grants	Subsidised interest rate	Emission rights (Note 25.2)	Total
Balance at 31-12-2016	1,523	379	132	2,034
Increases	3	259	312	574
Transferred to income statement	(185)	-	(452)	(637)
Decreases not affecting income statement	-	(379)	-	(379)
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

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 for the year are open to review of compliance with the conditions set down by the bodies that granted them.

Government grants at 31 December 2018 and 2017 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.

(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)

b) Long-term staff liabilities

The movement of long-term staff liabilities during 2018 and 2017 is as follows:

Balance 31-12-16	221
Provisions (Note 13)	22
Payments	21
Applications	8
Balance 31-12-17	272
Provisions (Note 13)	16
Payments	5
Applications	27
Balance 31-12-18	320

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 320 thousand as of 31 December 2018. (Euro 272 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.

Provisions have also been included in the amount of Euro 1,488 thousand (Euro 1,397 thousand in 2017) 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).

There is also a provision amounting to Euro 30 thousand in 2017 and maintained in 2018.

(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)

15 TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE

This section only reflects the balance at 31 December 2018 and 2017 of trade creditors and payables. 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 (In 2017, of Euro 27,090 thousand in this balance, Euro 4,151 thousand relate to trade creditors in foreign currency, basically US Dollars). 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 2018 and 2017 it is as follows:

	31/12/2018	31/12/2017
	Days	Days
Average payment period to creditors	31	29
Ratio of operations paid	32	30
Ratio of operations pending payment	21	15
	Thousands of Euro	Thousands of Euro
Total payments made	104,452	91,740
Total outstanding payments	10,172	8,485

(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)

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.

	2018	2017
Non-trade creditors	4,251	7,253
Accrued salaries	5,523	4,879
Provision for gas emission rights (note 25.2)	633	467
Other current provisions	835	92
Acquisition Clariana Group pending disbursement (Note 2.3)	800	-
Accrual	50	-
Advance payments from customers	1,312	278
	13,404	12,969

Provisions for variable compensation and associated objectives established and agreed with the staff concerned are included under the heading of accrued salaries. In 2018 and 2017 a portion of these variable compensation is classified in the long term because it has a maturity of more than 1 year. (See Note 14).

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 2018, an amount of 264 thousand Euro are in non-euro currency (124 thousand Euro in 2017).

The information for emission rights is included in Note 25.2.

a) Non-trade creditors

	2017	2016
Taxes payable to Public Administrations	3,162	6,492
Social Security	1,079	746
Other taxes payable	10	15
	4,251	7,253

The balance of creditor Treasury at year-end 2018 and 2017 includes essentially the amounts provided in respect of Income Tax of Physical Persons Tax and Value Added.

(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)

b) Other current provisions.

The Group records short-term provisions amounting to Euro 835 thousand (Euro 92 thousand in 2017), that mainly include contingent liabilities amounting to Euro 705 thousand relating to the business combination with Clariana, S.A.

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 and 2017 are 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.

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.

(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)

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:

	2017	2017
Profit before tax	49,654	47,986
Elimination of results of foreign companies for non-tax group consolidation*	733	(1,384)
Adjustments to taxable income	(2,241)	(3,653)
Taxable income	48,146	42,949
Result of tax rate on taxable income	12,037	10,737
Deductions and credits	(653)	(692)
Tax consolidation group	11,384	10,045
Corporate income tax expense for the year – non tax group *	648	454
Shortfall / excess corporate income tax expense for the previous year and other adjustments	360	96
IAS / IFRS adjustments and others	(15)	318
Tax expense	12,377	10,913

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

During the year the Group has not applied a reduction to the tax base of corporate income tax (amounting to 1,631 thousand Euro in 2017) 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 2018 is 24.9% against 22.7% 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 Anoaia, 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

(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)

The companies not included in the tax group are the foreign subsidiaries and Clariana, S.A. and Boncompte-Sierra, S.L.U. Clariana, S.A. and Boncompte, S.L.U. were added to the tax group in January 2019 (see Note 1).

The Group has applied in the calculation of income tax for 2018 tax incentives amounting to Euro 653 thousand (Euro 692 thousand in 2017) mainly relating to deductions for the environment, research and development and technological innovation.

At year-end 2018 and 2017 the Group has no loss carryforwards to apply. The Group has no unused tax credits in 2018 and 2017. 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.

	2018	2017
Net tax payable		
From Miquel y Costas & Miquel, S.A.	671	222
From subsidiaries consolidated for tax purposes		
Sociedad Española Zig-Zag, S.A.	2	3
S.A. Payá Miralles	37	34
Papeles Anoia, S.A.	84	109
MB Papeles Especiales, S.A.	256	304
Miquel y Costas Tecnologías, S.A.	(5)	(48)
Celulosa de Levante, S.A.	(70)	(195)
Desvi, S.A.	27	(119)
Miquel y Costas Logística S.A.	28	2
Proyectos Energéticos MB, S.A.	30	40
Terranova Papers, S.A.	(287)	(542)
Total	773	(190)

(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)

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 2018 and 2017 is as follows:

	2018	2017
Deferred income tax assets:		
- Deferred income tax assets to be recovered in more than 12 months	2,989	3,119
- Deferred income tax assets to be recovered in 12 months	586	556
	<u>3,575</u>	<u>3,675</u>
Deferred income tax liabilities:		
- Deferred income tax liabilities to be paid in more than 12 months	2,745	2,364
- Deferred income tax liabilities to be paid in 12 months	327	334
	<u>3,072</u>	<u>2,698</u>

The breakdown of deferred income tax assets and liabilities for 2018 and 2017 is as follows:

	2018	2017
Deferred income tax assets:		
Pension premiums	72	128
Elimination of margin not realized	10	13
Limitation on the deduction of depreciation	1,115	1,423
Revaluations RD 16/2012	1,262	1,342
Accruals	919	588
Business combination (1)	176	-
Other	22	181
	<u>3,575</u>	<u>3,675</u>

(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)

	2018	2017
Deferred income tax liabilities:		
Profit generated by business combinations	212	212
Accelerated tax depreciation	2,169	2,440
Business combination (1)	209	-
Hyperinflation	450	-
Other	32	46
	3,072	2,698

(1) Movements in deferred tax assets / liabilities on the business combination are as follows:

Opening balance (Note 2.3)	(184)
Additions/Disposals	151
Closing balance:	(33)

The movements in deferred income tax assets and liabilities for 2018 and 2017 are as follows:

	2018	2017
Opening balance	977	1.103
Business combination	(33)	-
Charged in the income statement	(448)	(127)
Charged directly to equity	7	1
Closing balance	503	977

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 2017 and 2018.

(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)

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

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 assessments were signed, documenting the results of the tax inspection. The Group disagrees with certain aspects of these assessments with respect to which the Directors, in accordance with the opinion of their advisors, have solid arguments enabling them to expect no contingent liabilities to arise.

At the date of issue of these consolidated annual accounts, the Group's returns are open to inspection by the tax authorities for corporate income tax since 2016, inclusive, and for the other principal taxes to which it is subject since 2015. The directors do not consider that, in the event of an inspection, additional liabilities will arise for significant amounts.

18 NET TURNOVER AND OTHER OPERATING INCOME

Net turnover of the Group in 2018 and 2017 has totalled Euro 259,257 thousand and Euro 242,895 thousand, respectively, and relate to the sales of paper for cigarettes, paper for industrial use and printing and special pulp.

Furthermore, net turnover in 2018 includes Euro 48,475 thousand relating to sales in foreign currency (Euro 57,021 thousand in 2017).

(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)

Net turnover and other operating income by product lines in 2018 and 2017 have been as follows:

	2018	2017
Sales	259,257	242,895
Operating grants	454	120
Other sales and other ordinary income	2,197	2,501
Total	261,908	245,516

Net turnover by geographic area in 2018 and 2017 is as follows:

	2018	2017
Domestic market	27,884	26,589
Exports		
European Union	89,164	43,366
OECD countries	66,309	86,298
Other countries	75,900	86,642
Total	259,257	242,895

19 STAFF COSTS

Staff costs of the Group in 2018 and 2017 have been as follows:

	2018	2017
Wages and salaries	32,508	30,833
Social Security	8,931	8,785
Contribution to pension fund (Note 13.1 and 13.2)	66	74
Long-term benefits to staff equity instruments (Note 11.3)	117	118
Others staff cost	250	250
Severances	798	193
TOTAL	42,420	40,253

(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)

The average number of employees in 2018 and 2017 has been as follows:

Professional category	2018	2017
Members of the Boards of Directors (executives)	3	3
Senior Management Executives	6	7
Managers and Middle Management	25	21
Administrative and Technical personnel	99	89
Production staff	171	149
TOTAL	583	530
	887	799

The breakdown by gender and category at the 2018 and 2017 year end, is as follows:

Professional category	2018		2017	
	Men	Women	Men	Women
Members of the Boards of Directors (executives)	3	-	3	-
Senior Management	5	1	6	1
Executives	24	2	19	3
Managers and Middle Management	88	10	81	8
Administrative and Technical personnel	75	98	60	90
Production staff	447	144	382	146
TOTAL	642	255	551	248

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

Professional category	2018		2017	
	Men	Men	Men	Women
Managers and Middle Management	1	-	1	-
Administrative and Technical personnel	1	1	-	1
Production staff	5	-	4	-
TOTAL	7	1	5	1

(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)

20 OTHER OPERATING EXPENSES

Other operating expenses at 31 December 2018 and 2017 break down as follows:

	2018	2017
Leases and royalties	212	169
Independent professional services	4,607	3,335
Transport	9,493	8,977
Insurance premiums	919	926
Repairs and maintenance	6,006	4,797
Travel, publicity and advertising	4,258	4,254
Supplies	22,724	16,524
Subcontracted work	17,362	15,193
Other operating expenses	2,963	5,027
Variation in trade provisions (Note 8)	87	36
Provision for gas emission rights	462	452
Total other operating expenses	69,093	59,690

“Other operating expenses” include an amount by Euro 3,131 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 3,711 thousand in 2017).

(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)

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 2018 and 2017, are as follows:

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

Financial Assets at 31 December 2017	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	119	-	475	-	61,946
Financial assets available for sale	-	-	-	-	16,494
Loans and receivables	-	-	-	-	-
Total Non- Current Financial Assets	119	-	475	-	78,440
Investments held to maturity	-	-	-	-	27,975
Financial assets available for sale	-	41,849	-	283	-
Total Current Financial Assets	-	41,849	-	283	27,975

(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)

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	4,251
Total Current Financial Liabilities	8,741	39,406	4,251

Financial Liabilities at 31 December 2017	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	61,373	-	-
Total Non – Current Financial Liabilities	61,373	-	-
Liabilities at fair value with changes in results	-	-	-
Hedging derivatives	-	-	-
Other Financial Liabilities at amortized cost	10,891	27,090	7,253
Total Current Financial Liabilities	10,891	27,090	7,253

Income and expenses arising from financial instrument category for 2018 and 2017 are as follows:

	2018	2017
Investment held to maturity (Note 21.4)	2,102	2,873
Other financial liabilities at amortized cost (Note 21.4)	(772)	(697)
Total net	1,330	2,176

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.

(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)

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 2018 is as follows:

Currency	Maturity	Nominal *	Profit/ (loss)
USD	2019	7,845	11
NOK	2019	324	-
JPY	2019	(32,592)	-
GBP	2019	48	-
AUD	2019	213	-
Total (Loss) / Profit			11

*Expressed in Thousand Euro

The breakdown of the hedged exchange rate positions at 31 December 2017 is as follows:

Currency	Maturity	Nominal *	Profit/ (loss)
USD	2018	8,463	(33)
NOK	2018	-	-
JPY	2018	(15,755)	-
GBP	2018	36	-
AUD	2018	233	1
Total (Loss) / Profit			(32)

*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.

(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)

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, 2018:

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

(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)

The following table presents the Group's assets and liabilities measured at fair value at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets	16,209	285	-	16,494
Liabilities				
Financial liabilities	-	-	-	-

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.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on estimated interest rate curves.
- Other techniques, such as analysis of discounted cash flows, are used to analyse the fair value of other financial instruments.

(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)

21.4 Net financial results

The summary of the financial results at 31 December 2018 and 2017 is as follows:

	2018	2017
Financial income:		
- Other interest and income from cash and other cash equivalents	591	371
- Investments held to maturity	2,102	2,873
- Expected return from pension-related assets	1	1
Total Financial Income	2,694	3,245
Financial expenses:		
- Other financial liabilities at amortized cost- Bank Interest	(772)	(697)
- Other Bank Interest	(64)	(10)
- From restatement of provisions for employee benefits	(2)	(2)
Total financial expenses	(838)	(709)
Exchange differences:		
- Exchange losses	(4,062)	(2,368)
- Exchange gains	2,054	1,531
Total exchange differences	(2,008)	(837)
Impairment and result from disposal of financial instruments		
- Investments in capital	-	-
Total impairment and result from disposal of financial instruments	-	-
Net financial results	(152)	1,699

(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)

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.

	2018	2017
Profit attributable to the Group's shareholders (in Euro thousands)	37,277	37,073
Weighted average number of ordinary shares in circulation (thousands)*	28,840	32,131
Basic earnings per share (Euro)	1.29	1.15

(*) Amounts adjusted for the effect of the capital increase made in November 2018.

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.

(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)

23 CASH FLOW GENERATED BY OPERATIONS

	2018	2017
Profit for the year before tax	49,654	47,986
Adjustments:	12,930	12,956
– Depreciation of property, plant and equipment (Note 4)	15,380	14,853
– Amortisation of intangible assets (Note 5)	323	348
– (Profit)/loss on sale of fixed assets	(7)	(3)
– Valuation corrections due to impairment	136	150
– Impairment and result from disposal of financial instruments	-	-
– Variation in provision for gas emissions rights (Note 25.2) and other provisions	(7)	748
– Release of grants (Note 26)	(185)	(185)
– Financial income (Note 21)	(2,694)	(3,245)
– Financial expenses (Note 21)	838	709
– Net exchange differences (Note 21)	2,008	837
– Negative difference business combination (Note 2.3)	(1,171)	-
– Others	(1,419)	(1,256)
Variations in working capital:	(22,267)	(1,341)
– Inventories	(19,598)	1,094
– Trade receivables	(4,350)	(3,848)
– Other current financial assets	(63)	(73)
– Trade and other payables	1,841	1,608
– Other current liabilities	(97)	(13)
– Other non-current assets and liabilities	-	(109)
Cash generated from operations	40,317	59,601

Cash generated from operations at 31 December 2018 has increased by Euro 18,838 thousand in respect last year.

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.

(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)

Furthermore, in accordance with the information received from the related parties during 2018 and 2017, 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.

Conflict of interest situations of the Board of Directors

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 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	200,000	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 Bóhm	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 Batlle	Director	8,536	-	0.028%
Mr. Jorge Mercader Barata	Vice Chair	145,000	-	0.468%
Total		3,057,404	4,432,810	24.162%

(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)

The members of the Board of Directors holding shares in the Company in 2017 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	120,000	2,620,000	13.269%
Mr. Antonio Canet Martínez	Director	22,494	113,190	0.657%
Mr. Eusebio Díaz-Morera Puig-Sureda	Director	17,739	6,847	0.119%
Mr. Álvaro de la Serna Corral	Director	19,250	470	0.095%
Mr. Carles Gasòliba Böhm	Director	35,000	-	0.169%
Mr. Javier Basañez Villaluenga	Secretary	51,625	-	0.250%
Joanfra, S.A.	Director	1,518,000	-	7.351%
Mr. Joaquin Faura Batlle	Director	3,768	-	0.018%
Mr. Jorge Mercader Barata	Director	89,250	-	0.432%
Total		1,877,126	2,740,507	22.361%

24.3 Remuneration of the Board of Directors

Board members who are directors of the Company have received for their executive duties during the year 2018, through fixed compensation, expenses and other items, 1,062 thousand Euro (1,029 thousand in 2017) and variable rate remuneration amounting to 990 thousand Euro (1,396 thousand in 2017). During 2018, variable remuneration includes the amount accrued under the 2016-2018 three year plan totalling Euro 143 thousand and the long-term savings systems under the 2016 – 2016 Employee Welfare Plan, totalling Euro 262 thousand this being the last year of the three year period. In 2017 such variable remuneration included an amount of Euro 445 thousand in respect of the remuneration attributed, in accordance with current tax legislation, on the exercise of the Stock Option Plan.

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 2018 and 2017 amounted to Euro 1,526 and 1,570 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 (15 thousand Euro in 2017).

Except for the abovementioned concepts there is no receivable or payable balance to the members of the Board of Directors a 31 December 2018 and 2017.

(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)

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 2018 and 2017 no advances or loans have been granted to the Directors other than the advance paid in 2017 to a director on account of his remuneration.

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 2018 was 2,391 thousand Euro (1,604 thousand in 2017). This remuneration includes an indemnity and the amounts under the three year plan and Employee Welfare Plan.

During 2017 the Company handed over to senior management personnel treasury shares on the execution of the 2011 Stock Option Plan, that ended that year. This same year, the “2016 Stock Option Plan” was formalised that at year-end 2018 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.

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 María Masifern Valón	Factory Manager (Besós)
Mr. Josep Payola Bassets	Director of MB Papeles Especiales, S.A.
Mr. Jordi Bernardo Arrufat	Director of Celulosa de Levante, 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

(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)

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.

Total net investment after deducting grants received and tax deductions applied has totalled Euro 5,199 thousand in 2018 (Euro 2,038 thousand in 2017).

In 2018 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 3,492 thousand in 2018 (Euro 2,681 thousand in 2017), 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.

(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)

25.2 Greenhouse gas emissions rights

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

The breakdown of the movement during 2018 and 2017 of this intangible asset is as follows:

	2018	2017
Opening balance	467	517
Increase due to new emissions	517	452
Return of emission rights from last year	(501)	(502)
Business combination	150	-
Closing balance	633	467

The movement in 2018 and 2017 under emissions rights (Note 14) is as follows:

Thousand Euro	2018		2017	
	Tn CO2	Value	Tn CO2	Value
Opening balance	(1,236)	(8)	12,275	132
Rights granted	82,872	642	51,021	312
Consumption for the year	(66,816)	(517)	(64,532)	(452)
Business combination	-	5	-	-
Closing balance	14,826	122	(1,236)	(8)

The Group has not sold emission rights in 2018 nor 2017.

(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)

26 INVESTMENT GRANTS OF NON-FINANCIAL ASSETS

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

	2018	2017
Capital grants transferred to the income statement (Note 14)	186	185
Greenhouse gas emission rights (Note 14)	517	452
Total	703	637

27 CONTINGENCIES AND COMMITMENTS

Contingencies

The parent and Group are involved in litigations and disputes in the ordinary course of business. The most noteworthy changes since the most recent information was published have taken place in the process with the parent's former commercial distributor in Italy which started with the termination of the distribution contract in April 2009 and the subsequent filing of a claim for breach of contract, the most noteworthy event being that following the oral hearing on 12 and 13 November 2018, a judgement is now pending. The indemnities claimed by the Company, as adjusted for the quantification of damages, are in the region of Euro 2 million, while damages claimed by the other party, also following successive adjustments, amount to around Euro 5 million. The Directors consider that it is not possible to determine that there is a present obligation as a result of past events since there are doubts as to the occurrence of certain events and whether such events give rise to the existence of an obligation, all of which is framed within the legal proceedings. 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 2,624 thousand at 2018 year-end (Euro 3,263 thousand in 2017), mainly responding to submissions for public contests, grants, proceedings in courts and tax authorities.

(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)

Commitments

The Group does not have signed purchase commitments at 2018 nor 2017 year end.

Future minimum payments under operating leases at December 31, 2018 amounted to 69 thousand Euro (23 thousand Euro up to one year and Euro 46 thousand between one and three years) and 31 December 2017 amounted to Euro 69 thousand (Euro 23 thousand up to one year and Euro 46 thousand Euro between one and three years). Such payments under operating leases relate to leases with third parties.

28 AUDITORS' REMUNERATION

The fees accrued to PricewaterhouseCoopers Auditores, S.L., for auditing and other assurance services for the year 2018 total Euro 123 thousand (Euro 123 thousand in 2017) and Euro 20 thousand (Euro 1 thousand in 2017), respectively. Other assurance services include the issue of reports on agreed-upon procedures on the statement of packaging compliance and the verification of the non-financial statement.

During 2018 Euro 55 thousand accrued in fees to other companies of the PwC network as a result of other services provided to the Group (no fees accrued for such services in 2017).

The fees accrued in 2018 by other auditors of subsidiaries (Miquel y Costas Argentina, S.A. and Clariana, S.A.) for audit and other assurance services amounted to Euro 32 thousand in 2018 (Euro 13 thousand in 2017).

29 SUBSEQUENT EVENTS

No other events have taken place after the year end that could have a significant impact on the consolidated Group's information and that warrant reporting due to their significance.

(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

Registered name	Registered office	Activity	Share capital (Thousand Euro)	Shareholding of the parent Company		Note
				Direct Shareholding	Indirect shareholding	
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.

(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)

SUBSIDIARY COMPANIES IN THE CONSOLIDATION SCOPE 2017

Registered name	Registered office	Activity	Share capital (Thousand Euro)	Shareholding of the parent Company		Note
				Direct Shareholding	Indirect shareholding	
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	120	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

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.

Nota 4: The companies marked with a reference (4) are not audited

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

CONSOLIDATED RESULTS

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

<i>Thousand Euro</i>	2018	2017	Variation
Net turnover	259,257	242,895	6.7%
Gross operating profit (EBITDA) ¹	65,503	61,479	6.5%
Operating profit	49,800	46,278	7.6%
Profit before tax (PBT)	49,654	47,986	3.5%
Profit after tax (PAT)	37,277	37,073	0.6%
Cash-flow after tax (CFAT) ²	52,980	52,274	1.0%

The total of consolidated net sales for the year amounted to 259.3 million Euro, 16.4 million more than the previous year.

By business lines, the Tobacco Industry line slightly increased its sales by 2.3%. This increase is primarily due to the product mix and, although to a lesser extent, to sales volumes. This performance has taken place within a less favourable environment compared with the previous year in terms of the dollar and Argentinean peso exchange rate. The peso lost 76.7% of its value in 2018 which was partly offset through the deployment of various commercial measures.

Sales in the Industrial Product line, which in 2018 include the proportional part of the new Group company, grew by Euro 8.2 million, up 11.3% on the same period in the previous year, largely driven by the increase in sales in Terranova, despite the deterioration in the exchange rate environment compared with 2017, and the improved performance of demand for special pulp.

Sales in Other amounted to Euro 4.5 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 171.8 million this year, up 6.0% on the previous period. This increase is basically attributable to the product mix and an increase in sales volumes although it has been affected by exchange rates which are less favourable than in 2017.

¹ Operating income plus depreciation.

² Profit after tax plus amortization.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

Consolidated profit before taxes amounted to Euro 49.7 million, exceeding the 2017 figure by Euro 1.7 million, which represents an increase of 3.5%. This result was affected by the impact of hyperinflation in the Argentinean subsidiary, that has had a negative impact on the income statement of Euro 1.6 million, while the effect on consolidated figures for the year of the inclusion of the new company Clariana, S.A. as an overall operation, was practically neutral.

The improvement in terms of growth in profits in the Tobacco Industry line was driven by the investments made and an improved product-customer mix, permitting the offset of the increase in pulp and energy prices. In the Industrial Product line, we should underscore the very positive performance of special pulp, driven by the management of raw material supply and an increase in business triggered by the growth in demand and the performance of Terranova, which has brought about improvements in volume as well as, to a lesser extent, by increases in selling prices that have permitted the partial offset of the increase in costs incurred.

On the other hand, the PAT reached the figure of Euro 37.3 million, a result 0.6% higher than that obtained in the previous year. The effective tax rate for the period was 24.9%, higher than the previous year's due to the effect of the decrease in the amount to be deducted as a result of the application of the tax breaks in effect and as result of the accounting application of hyperinflation, leading to a decrease in the accounting profit and the emergence of deferred taxes on non-monetary assets.

In the parent company, the profit before taxes was Euro 30.5 million, which is a decrease of 2.8% compared to the previous year mainly due to the decrease in dividends from subsidiaries, specifically, expenses on the acquisition of Clariana, S.A. and an increase in the effective tax rate.

CONSOLIDATED BALANCE SHEET

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

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

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

<i>In thousand Euro</i>	December 2018	December 2017
Net Fixed Assets ³	161,369	147,008
NOF ⁴	81,795	65,150
Other assets/Other liabilities Non-Current ⁵	(3,076)	(2,593)
Capital used	240,088	209,565
Equity	269,905	254,184
Net Financial Debt ⁶	(29,817)	(44,619)

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 financial statements for 2017 were not restated, in accordance with the applicable accounting standard. 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.

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

⁴ Inventories plus trade receivables, sundry receivables and non-current assets, less current provisions, trade payables and other accounts payable, current tax liabilities and other current liabilities.

⁵ Non-current deferred tax assets and liabilities.

⁶ Current and non-current financial assets and other cash and equivalents less current and non-current borrowings with financial institutions

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

FINANCIAL POSITION

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

<i>Thousand Euro</i>	December 2018	December 2017
Long-term borrowings	(66,145)	(61,373)
Short-term borrowings	(8,741)	(10,891)
Treasury and Current financial investments	53,282	37,849
Long-term financial investments	51,421	79,034
Total net financial position⁶	29,817	44,619
Equity	269,905	254,184
Leverage index	n.a.	n.a.

Consolidated operating cash flow after tax, less the effect of hyperinflation, amounted to Euro 53.0 million, up Euro 0.7 million on the previous year. The parent's net cash flow amounted to Euro 38.4 million, slightly down on the same period in 2017.

The net financial position at the year end presents a debtor balance of Euro 29.8 million, which is down on year-end 2017. The main applications of the funds generated and the variation in the net financial position relate to the investment in fixed assets amounting to Euro 19.0 million, the acquisition of treasury shares, amounting to Euro 12.5 million, payments in respect of dividends, amounting to Euro 12.7 million, the financial restructuring of the new Group company and the financing of working capital.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

STOCK EXCHANGE INFORMATION

The parent's stock market activity in 2018 is reflected in the following figures which are adjusted for the paid up capital increased carried out in November 2018:

Trading days	255 days
Nº shares traded (*)	7,507,829 shares
Value traded	Euro 146,711 thousand
Maximum quotation (*)	Euro 23.00/ share
Minimum quotation	Euro 14.92 / share
Average quotation (*)	Euro 19.54 / share
Final quotation	Euro 16.98 / share

(*) Values adjusted for the capital increase against freely available reserves carried out in November 2018.

TREASURY SHARES

During 2018 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 246,861 shares on the stock exchange (equivalent to 394,978 new shares), prior to the capital increase which took place in November 2018, and 266,820 shares after that capital increase, the total number of treasury shares held at the year end amounting to 600,193.

The 2011 Stock Option Plan ended in 2017 and therefore in 2018 no amounts were delivered under it. The 2016 Stock Option Plan is currently in effect and in the vesting period.

RELATED PARTIES OPERATIONS

During 2018, 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.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

Except for the dividends paid and the acquisition of Clariana, S.A. and its subsidiary Boncompte-Sierra, S.L.U. that have been added to the Group, 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 2018 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 8,7 million.

R&D&i ACTIVITY

In 2018 the Group assigned funds amounting to Euro 3.3 million to R&D 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 887, following an increase of 88 employees during 2018. This increase is largely due to the employees of Clariana, S.A. taken on by the Group.

During the period, Euro 1,221 thousand was assigned to health and safety and the prevention of occupational risks and Euro 136 thousand to sundry training programmes.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

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 new 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 the year, is estimated to prevail throughout 2019 and generates 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. 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.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2018
(IN THOUSAND EURO)

The parent company and the Group are involved in litigations and disputes arising in the ordinary course of business. The most noteworthy change since the most recent information published relates to the process involving the parent company and its former commercial distributor in Italy, where following the hearing, a judgement is pending. 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

Following the year end, there were no other events that could have a significant impact on the six monthly reporting of the parent company or consolidated group warranting reporting due to their significance.

OUTLOOK

The Group considers that despite the current uncertainty it will be able to grow profits compared with the year just ended although profits will continue to be affected by the hyperinflationary impact of its Argentinean subsidiary. It also expects that before that impact, its effective tax rate will improve.

The Group also expresses caution in relation to the second quarter due to the volatility of the situation and the effects of the stoppages programmed on the investments planned.

The Group continues its investment efforts in order to consolidate its growth.

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 2018, 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).



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

(Free translation from Spanish)

Mr. Francisco Javier Basañez Villaluenga with DNI No. 36949799-T, in his capacity as Secretary of the Board of Directors of the Mercantile Company Miquel y Costas & Miquel, S.A., established in Barcelona, street Tuset, No. 10, with NIF No. A-08020729, parent company of the Group consolidated Miquel y Costas.

CERTIFIES:

That dated March 25, 2019 the Board of Directors of Miquel y Costas & Miquel, S.A. approved the Annual Corporate Governance Report of the Company for the year 2018. This report consists of 66 pages, is attached as separate to the Consolidated Management Report accompanying 2018 financial statements for the Consolidated Group, which have been made on the same date by all members of the Board of Directors and unanimously approved.

Barcelona, 26 March 2019.

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 ADDRESS:
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

[3] 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	
LUXOR CAPITAL GROUP LP	0.00	0.00	1.41	0.00	1.41
INSINGER DE BEAUFORT ASSET MANAGEMENT N.V.	0.00	4.16	0.00	0.00	4.16
MRS. BERNADETTE MIQUEL VACARISAS	0.15	11.20	0.00	0.00	11.35
MRS. MARIA DEL CARMEN ESCASANY MIQUEL	3.50	8.17	0.00	0.00	11.67
EDM GESTIÓN S.A. SGIIC	0.00	3.68	0.00	0.00	3.68
SANTA LUCIA S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS	0.00	4.80	0.00	0.00	4.80
SANTANDER ASSET MANAGEMENT S.A. SGIIC	0.00	5.15	0.00	0.00	5.15

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	
INDUMENTA PUERI, S.L.	0.00	8.66	0.00	0.00	8.66
FIDELITY INTERNATIONAL LIMITED	0.00	2.11	0.00	0.00	2.11

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
FIDELITY INTERNATIONAL LIMITED	FIL INVESTMENTS INTERNATIONAL	2.11	0.00	2,11
MRS. BERNADETTE MIQUEL VACARISAS	AGRICOLA DEL SUDESTE ALMERIENSE S.A.	3.31	0.00	3.31
MRS. BERNADETTE MIQUEL VACARISAS	JOANFRA, S.A.	7.88	0.00	7.88
MRS. BERNADETTE MIQUEL VACARISAS	MR. JOSE SORIA SORJUS	0.01	0.00	0.01
MRS. BERNADETTE MIQUEL VACARISAS	MRS. BELEN SORIA MIQUEL	0.01	0.00	0.01
MRS. BERNADETTE MIQUEL VACARISAS	MR. JOSE SORIA MIQUEL	0.01	0.00	0.01
MRS. BERNADETTE MIQUEL VACARISAS	MR. VICTOR SORIA MIQUEL	0.01	0.00	0.01
INSINGER DE BEAUFORT ASSET MANGEMENT NV	INSTITUCIONES DE INVERSION COLECTIVA	4.16	0.00	4.16
SANT LUCIA S.A. COMPAÑIA DE SEGUROS Y REASEGUROS	FONDOS GESTIONADOS POR AVIVA GESTION SGIIC SAU	3.35	0.00	3.35
SANT LUCIA S.A. COMPAÑIA DE SEGUROS Y REASEGUROS	FONDOS GESTIONADOS POR CAJA ESPAÑA VIDA Y PENSIONES S.A.	0.67	0.00	0.67
SANT LUCIA S.A. COMPAÑIA DE SEGUROS Y REASEGUROS	FONDOS GESTIONADOS POR CAJA ESPAÑA VIDA	0.39	0.00	0.39

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
SANTA LUICA SA COMPAÑIA DE SEGUROS Y REASEGUORS	FONDOS GESTIONADOS POR UNICORP VIDA	0.39	0.00	0.39
SANTANDER ASSET MANAGEMENT S.A. SGIIC	SANTANDER ACCIONES ESPAÑOLAS FI	1.86	0.00	1.86
EDM GESTION S.A. SGIIC	SANTANDER SMALL CAPS ESPAÑOLA FI	3.29	0.00	3.29
EDM GESTION S.A. SGIIC	INSTITUCIONES DE INVERSION COLECTIVA	3.68	0.00	3.68
INDUMENTA PUERI S.L.	GLOBAL PORTFOLIO INVESTMENTS S.L.	8.66	0.00	8.66
MRS. MARIA DEL CARMEN ESCASANY MIQUEL	ENKIDU INVERSIONES, S.L.	8.17	0.00	8.17

Significant movements

BESTINVER GESTIÓN S.A., S.G.I.I.C., on January 22, 2018, reported that its participation fell by 3%.

SANTANDER ASSET MANAGEMENT S.A., S.G.I.I.C., on September 11, 2018, reported that its participation fell by 5%.

SANTANDER ASSET MANAGEMENT S.A., S.G.I.I.C., on October 15, 2018, reported that its participation increased by 5%.

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. ANTONIO CANET MARTINEZ	0.13	0.58	0.00	0.00	0.71	0.00	0.00

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. CARLES ALFRED GASÒLIBA BÖHM	0.19	0.00	0.00	0.00	0.19	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	0.71	13.68	0.00	0.00	14.38	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.	7.88	0.00	0.00	0.00	7.88	0.00	0.00

% total voting rights held by the Board of Directors	24,16
--	-------

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. ANTONIO CANET MARTÍNEZ	MR.. CARMEN PAYÁ PÉREZ	0.58	0.00	0.58	0.00
MR. JORGE MERCADER MIRÓ	HACIA, S.A.	13.68	0.00	13.68	0.00
MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA	SOCIOPARTNER, S.L.	0.04	0.00	0.04	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. MERCEDES DE LA SERNA VILLALONGA	0.00	0.00	0.00	0.00
MR. ÁLVARO DE LA SERNA CORRAL	MRS. JIMENA DE LA SERNA VILLALONGA	0.00	0.00	0.00	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
JOANFRA, S.A.	MRS. BERNADETTE MIQUEL VACARISAS	JOANFRA, S.A.	JOANFRA S.A. is a society controlled by Ms. BERNADETTE MIQUEL VACARISAS, where is Director and Secretary.
MR. JORGE MERCADER BARATA	MR. JORGE MERCADER MIRÓ	HACIA, S.A.	MR. JORGE MERCADER BARATA is a Director and Secretary of HACIA S.A.
MR. ÁLVARO DE LA SERNA CORRAL	MRS. MARIA DEL CARMEN ESCASANY	ENKIDU INVERSIONES, S.L	MR. ÁLVARO DE LA SERNA CORRAL is a Director and Secretary of ENKIDU INVERSIONES, S.L.
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 which the EDM company GESTIÓN S.A. SGIIC form part.

- 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
 [3] 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 any 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
600,193	0	1.94

(*) Through to:

Name or company name of the direct holder 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 2016, the according to execute the authorization of the General Meeting.

A.11. Estimated floating capital:

	%
Estimated floating capital	55.18

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 company bylaws 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:

Date of General Meeting	Attendance data				Total
	% physical presente	% represented	% remote voting		
			Electronic vote	Others	
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

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 procedure
MR. JOAQUIN COELLO BRUFAU		Independent	DIRECTOR	26/06/2008	26/06/2013	SHAREHOLDERS MEETING AGREEMENT
MR. ANTONIO CANET MARTÍNEZ		Other External	DIRECTOR	25/06/1985	17/06/2015	SHAREHOLDERS MEETING AGREEMENT
MR. JAVIER BASAÑEZ VILLALUENGA		Executive	SECRETARY AND DIRECTOR	28/07/2008	17/06/2015	SHAREHOLDERS MEETING AGREEMENT
MR. CARLES ALFRED GASOLIBA BÖHM		Other External	DIRECTOR	29/06/1993	17/06/2015	SHAREHOLDERS MEETING AGREEMENT
MR. JOAQUIN FAURA BATLLE		Independent	DIRECTOR	29/10/2013	17/06/2015	SHAREHOLDERS MEETING AGREEMENT
MR. JORGE MERCADER MIRÓ		Executive	CHAIRMAN	05/11/1991	17/06/2015	SHAREHOLDERS MEETING AGREEMENT

Name of director	Representative	Type of directorship	Office on the board	Date of first appointm.	Date of last appointm.	Election procedure
MR. JORGE MERCADER BARATA		Executive	VICECHAIRMAN	27/06/2012	27/06/2012	SHAREHOLDERS MEETING AGREEMENT
MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA		Independent	COORDINATING INDEPENDENT DIRECTOR	18/04/1997	27/06/2012	SHAREHOLDERS MEETING AGREEMENT
MR. ALVARO DE LA SERNA CORRAL		External Proprietary Directors	DIRECTOR	28/07/2008	17/06/2015	SHAREHOLDERS MEETING AGREEMENT
JOANFRA, S.A.	MS. BERNADETTE MIQUEL VACARISAS	External Proprietary Directors	DIRECTOR	25/10/1999	17/06/2015	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
No data					

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	Degree in Economic and Commercial Political Sciences from the Universidad Central of Barcelona; Registered auditor, currently non practicing, of the Instituto de Contabilidad y Auditores de Cuentas; Titled for management of transport services. He has been Head of the Financial Studies Service Industrias del Papel y Celulosa (Inpacsa); General Manager of Inverpa, S.A .; Sole administrator of the transport and logistics services company Transportes Subirada, S.A .; Chief Executive Officer of Agustín Barral, S.A .; Director and administrator of Papelera Riera, S.A .; Commercial Director of European Paper and Packaging, S.A. (Eppicsa); Deputy General Director and Financial Director of Industrias del Tablero and derived wood, S.A. (Intamasa). He is currently and President of Bacesa de Inversiones, SICAV S.A. further General Secretary and Director of Corporate Development as well as Secretary Counsel of

EXECUTIVE DIRECTORS		
Name or company name of director	Position in the company's management structure	Profile
		Miquel y Costas & Miquel, S.A.
MR. JORGE MERCADER MIRÓ	PRESIDENT	Degree in Industrial Engineer by the Technical School of Industrial Engineers of Barcelona and Master of Economics and Business by IESE (Institute of Advanced Studies of the Company). He has been President of Industrias del Papel y de la Celulosa (INPCASA), Industrias de Tableros y Derivados de Madera (INTAMASA), Empresa Nacional Bazán de Construcción Navales Militares S.A., Instituto Nacional de Industria, Servicios de Radiotelefonía Móvil, Iberlat S.A., Sociedad de Aguas de Barcelona S.A. y Compañía de Seguros Adeslas; Director and Vice President of Repsol YPF S.A. ; Counselor, Member of the Executive Committee and 2nd Vice-president of Caixa d'Estalvis i Pensions de Barcelona; Director of COFILE, FECOSA, Industrias Gráficas Trepas S.A., DAPSA, Ferrocarriles de la Generalitat, DEFEX, Iberia Lineas Aéreas de España, J. Walter Thompson, Science Applications International Europe SA, Bongrain SA, CaixaBank France, Abertis Infraestructuras SA, Inmobiliaria Colonial, Corporación Alimentaria Peñasanta SA and Isolux Corsan S.A., as well Magament of Inversiones Papeleras S.A. and from Apromade S.A. He is currently a member of the Honor Council of the Fundación del Circulo de Economía, Patron of the Princesa de Grirona and the Pasqual Maragall Foundation, Vice-president of the Cerdà Institute and President of the Gala-Dalí Foundation. Additionally, he is a Director of Vidacaixa S.A.U. of Seguros y Reaseguros and President of Hacia S.A. and from Miquel and Costas & Miquel S.A.
MR. JORGE MERCADER BARATA	VICEPRESIDENT I GENERAL DIRECTOR	Degree in Industrial Engineer, Chemical specialty; MBA from IESE (Instituto de Estudios Superiores de la Empresa); CEIBS Exchange Program. Shanghai (China) He has been Head of the Corporate Strategic Analysis area and Technical Director of Corporate Strategic Analysis of BBVA; Deputy Director and Deputy General Manager of Miquel y Costas & Miquel S.A. Currently, he is the President of ASPAPEL (Spanish Association of Pulp, Paper and Cardboard Manufacturers), Member of the Board of Directors of the Círculo de Economía, Board Member of Hacia, SA and Member of the Advisory Board of VEA (Anoia Business Unit) and Vice President- General Director of Miquel y Costas & Miquel S.A

Total number of executive directors	3
% of the entire board	30.00

EXTERNAL PROPRIETARY 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.	Degree in Economics and Business Administration from the University Autónoma de Madrid and Master in Economics and Businesses by IESE (Spanish Higher Institute of Business). He has held various positions managers as a specialist in wealth management and private banking in the Banco Santander Group and as a consultant in Egon Zehnder International. He has been Associate in Investment Banking at Merrill Lynch Europe Plc. London and Member of the Comité Supervisor de Inversiones Altamar Buyout Europa FCR's (Own Private Equity Funds) He is currently a director of Credit Suisse AG Branch in Spain and Director of Viña Castellar Invest SICAV S.A., Playas de Jandia S.A., Enkidu Inversiones S.L. and Miquel and Costas & Miquel S.A.
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., Agricultural Adviser of the Southeast Almeriese S.A. and Joanfra S.A. and individual representative of Joanfra S.A. in the Board of Directors of Celler Cal Costas, S.L. and from Miquel y Costas & Miquel S.A.

Total number of external proprietary directors	2
% of the entire board	20.00

INDEPENDENT EXTERNAL DIRECTOR	
Name or company name of director	Profile
MR. JOAQUIN FAURA BATLLE	Law degree from the University of Barcelona and Master in Economics and Management from the IESE (Instituto de Estudios Superiores de la Empresa). Started his career at Gillette Group, division of Braun España and the company headquarters in Germany. It has been Vice Director of the Division of Chupa Chups in the U.S., General Sales Manager of Sara Lee Corporation in Spain, in the division of cafés Marcilla, Vice President of Marketing and General Manager of Pepsico/Frito Lay and General Manager in Tobacco/Altadis General Director of General Manager for Consumer Affairs Marketing and Telefónica España; General Director of Corporate Marketing and Content Unit Telefónica SA; Chairman of Terra Lycos Networks; Member

INDEPENDENT EXTERNAL DIRECTOR	
Name or company name of director	Profile
	of the Supervisory Board of ENDEMOL Currently he is General Manager of Telefónica in Cataluña, Comunidad Valenciana, Baleares and Murcia. It is also Member of the Pleno de la Cambra de Comerç, Industria i Navegació of Barcelona; Member of Consejo General de Cambres de Comerç de Catalunya; Member of Mesa de Política Económica de la Cambra Oficial de Comerç, Industria i Navegació de Barcelona, Member of Consejo Asesor de la Universitat Politècnica de Catalunya, and Comité Ejecutivo de Miembros del IESE, Pattern from Fundaciones Barcelona Cultura y Barcelona Digital; Director of Foment del Treball; Member del Consell Empresarial of UPC and Member of Barcelona Global.
MR. JOAQUIN COELLO BRUFAU	Naval Engineer by the Naval Engineering School of Madrid in both specialties of the University Degree: Shipbuilding and Maritime Transport Operation and MBA from IESE (Instituto de Estudios Superiores de la Empresa). He has held Head of Programme type Submarine "Daphne" and Project Manager in Astilleros Bazán (Cartagena); Director of Platform Area and Head of the Spanish team in relation and viability to the Study of the Frigate NFR 90 in the Internationale Schiffs Studien (ISS) GmbH of Hamburg; Head of Technical and Commercial and Head of Carrier projects and FFG frigates Office; General Manager of ISS in the Project Definition; Director and General Manager of Industria of Turbo Propulsores SA (ITP); Chairman of Eurojet; General Manager of Gamesa; Chairman and President of the Port Authority of Barcelona; Chairman and Managing Director of Applus Technological Services. Director of GPA (Gestió i Promoció Aeroportuària), Abantia Empresarial SL., MaetalShips & Docks S.A., Rodman Polyships Portel and Urbanizadora Palau Sacosta S.A and Adwen; Chairman of Anesco (Asociación Nacional de Empresas Estibadoras y Consingatarias de Buques He has also been Chairman of the Consejo Social de la Universidad de Barcelona; Dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de España; President of the Engine Sectorial Group (ESG), the Engines section of the European Association of Aerospace Material Manufacturers (AECMA), the Asociación de Fabricantes Vascos de Material Aeroespacial (HEGAN), of EUSKALIT, Foundation for Quality Basque Country and the Institute of Economics of Barcelona and Fundación Carulla. Currently he is President of Asoport (Asociación Estatal de Empresas Operadoras Portuarias), Second Vice-President of Real Academia de Ingenieria, Presidency Advisor of Gamesa, Advisor of AudingIntraesasa, Ership, Tecnalía and Enertika and Member of COMEXI GROUP and PORTEL.

Total number of Independent external directors	2
% of the entire board	20,00%

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. JOAQUIN FAURA BATLLE	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.	Mr. Joaquín Faura Batlle performs the functions of Director-General in Telefónica Cataluña, company providing services in communications to Miquel y Costas 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. ANTONI CANET MARTÍNEZ	Belonging to the Board of Directors of the Company, however be less than that required to be considered as proprietary participation, in addition to his knowledge of the industry, being part of one of the papermaking industry groups derived that merged in 1975 and led to a new configuration of the Company	MRS. CARMEN PAYÁ PÉREZ	Diploma in the school of catering and Craft of Liverpool; Technician in companies and tourist activities; Master in Business Management by the Economy and Management Club. He has been Director of Hotel Centers of the Roblely Group in England, Hotel Director in the Servihotel Group; Director of Hotel Operation in the Group Servigroup; Managing Director of the Peñamar Company of the Servigroup Group and Sidi Hotels; General Director of the Ona Sol Hotel Chain; Hotel Advisor Sidi; Advisor in the development and promotion of the Masia de las Estrellas Golf Center. He is

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
			currently a Director of Miquel y Costas & Miquel, S.A.
MR. CARLES ALFRED GASÓLIBA BÖHM	Counselor initially qualified as Independent that on the occasion of exceeding the limit of twelve years in the continued exercise of his directorship, as Article 529 duodecies 4-i) of the Companies Act Capital, at the time of his re-election by the general meeting of shareholders held in June 17, 2015 it happened to belong to this typology.	OTHER SHAREHOLDERS OF THE COMPANY	Doctor in Economic Sciences from the Autonomous University of Barcelona and Master of Arts in Industrial Economics by the University of Sussex (Great Britain). He has been Deputy in the Congress of Deputies and in the European Parliament; General Secretary of the Patronat Català Pro-Europa; Senator in the Senate Spanish; President Consión de Economía y Hacienda del Senado. Member of the Budget, Industry, Trade and Tourism Commissions of Request, of the Mixed Commission of the Spanish Delegation of the Western European Union and the CDDC Executive Committee; Vice President and member of the Bureau of the Liberal International and responsible for international relations with Latin America. He is currently a member of Comité Central de la Liga Europea de Cooperación Económica (LECE) in Brussels. He is a member of the Board of the Foundation Jean Monnet pour l'Europe, Lausanne (Switzerland), both Non-profit entities. He is President of Axis Consultoría European S.L. and Director of Nuevo Micro Bank SAU and of Miquel and Costas & Miquel S.A.

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	Counselor initially qualified as Independent that on the occasion of exceeding the limit of twelve years in the continued exercise of his directorship, as Article 529 duodecies 4-i) of the 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.	OTHER SHAREHOLDERS OF THE COMPANY	Degree in Economics and MBA by IESE (Instituto de Estudios Superiores de la Empresa). It has been General Administrator of PAS, S.A.; Chairman of Caja de Barcelona; Executive Chairman of Banca Catalana and Tunnel del Cadí, CESA; Chairman of the Council of Saving of CECA; Vice President and Director of ACESA, and Director of FECSA, HIDRUÑA and INDO INTERNACIONAL. Currently, he is Chairman of EDM Holding, S.A. and Director of the following companies: EDM HOLDING S.A., CEMENTOS MOLINS S.A., KAWAKAN S.L., SOCIOPARTNER S.L., and Others Companies IIC.

Total number of Other external directors	3
% of the entire board	30.00

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
MR. EUSEBIO DÍAZ-MORERA PUIG-SURERDA	20/06/2018	INDEPENDENT	OTHER EXTERNAL

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 2018	Exercise 2017	Exercise 2016	Exercise 2015	Exercise 2018	Exercise 2017	Exercise 2016	Exercise 2015
Executive	0	0	0	0	0.00	0.00	0.00	0.00

	Number of female directors				% of total female directors of each type			
	Exercise 2018	Exercise 2017	Exercise 2016	Exercise 2015	Exercise 2018	Exercise 2017	Exercise 2016	Exercise 2015
Proprietary	1	1	1	0	10.00	10.00	10.00	0.00
Independent	0	0	0	0	0.00	0.00	0.00	0.00
Others External	0	0	0	0	0.00	0.00	0.00	0.00
Total:	1	1	0	0	10.00	10.00	10.00	0.00

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

- [3] 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 of selection of the directors followed by the Society favors the diversity of knowledge, experience and gender. Gender diversity is one of the aspects that the Council is considering, its purpose being to continue doing it in the selection processes.

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 sought:

Explanation of measures

The article 12.2 b) of Regulations of the Board, 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

During the year 2018 they have not produced any vacancy on the Board of Directors so has not carried out the verification of compliance with the policy of selection of directors.

The Company, and in particular the Board is particularly interested in that no discrimination occurs any the basis of gender but 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
MR. ANTONIO CANET MARTÍNEZ	Belonging to the Board of Directors of the Company, however be less than that required to be considered as proprietary participation, in addition to his knowledge of the industry, being part of one of the papermaking industry groups derived that merged in 1975 and led to a new configuration of the Company

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
 [3] 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 powers of representation and administration of a managerial nature that incorporate faculties of both solidary and joint nature.

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	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. JAVIER BASAÑEZ VILLALUENGA	S.A. PAYÁ MIRALLES	SECRETARY	NO
MR. JAVIER BASAÑEZ VILLALUENGA	PAPELES ANOIA, S.A.	CHAIRMAN	NO
MR. JAVIER BASAÑEZ VILLALUENGA	CELULOSA DE LEVANTE, S.A.	SECRETARY	NO
MR. JORGE MERCADER MIRÓ	CELULOSA DE LEVANTE, S.A.	DIRECTOR	NO
MR. JORGE MERCADER BARATA	FOURTUBE, S.L.	DIRECTOR (PERSONAL REPRESENTATIVE)	NO
MR. JORGE MERCADER BARATA	MIQUEL Y COSTAS DEUTSCHLAND, GMBH	SOLE DIRECTOR	NO
MR. JORGE MERCADER BARATA	PAPELES ANOIA, S.A.	DIRECTOR	NO
MR. JORGE MERCADER BARATA	S.A. PAYA MIRALLES	DIRECTOR	NO
MR. JORGE MERCADER BARATA	TERRANOVA PAPERS, S.A.	CHAIRMAN (PERSONAL REPRESENTATIVE)	NO
MR. JORGE MERCADER BARATA	CELULOSA DE LEVANTE, S.A.	DIRECTOR	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

Name or Company name of director	Company name of Group entity	Position	Does the director hold executive Functions?
MR. JORGE MERCADER BARATA	MIQUEL Y COSTAS TECNOLOGIAS, S.A.	CHAIRMAN	NO
MR. JORGE MERCADER BARATA	MIQUEL Y COSTAS LOGISTICA, S.A.	CHAIRMAN (PERSONAL REPRESENTATIVE)	NO
MR. JORGE MERCADER BARATA	CLARIANA, S.A.	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:

[3] 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)	3,840
---	-------

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)	

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 BASSETS	MANAGER OF MB PAPELES ESPECIALES, S.A.
MR. JAVIER ARDIACA COLOMER	MANAGER OF THE MISLATA FACTORY.
Total senior management remuneration (€k)	2,391

In April 2018, Mr Jordi Bernadro Arrufat, who served as Manager of the company of the Celulosa de Levante Group, S.A.

The total amount of compensation for the year includes, exceptionally, compensation and the variable remuneration derived from compliance with the 2016-2018 Triana Plan and the 2016-2018 Social Security Plan, the accrual and consolidation of which take place in 2018, by be this the end of the triennium

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

- [] Yes
[3] 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.

Article 15 of the Regulations governing the Board of Directors, on the "Appointment of Directors", sets down:

"1. 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.

2. Los Consejeros designados deberán cumplir los requisitos exigidos estatutariamente para el ejercicio del cargo y no podrán estar incurso en las causas de inhabilitación establecidos legalmente.

3. Los Consejeros ejercerán su cargo durante el plazo previsto en los Estatutos Sociales, pudiendo ser reelegidos.

4. La Sociedad tiene establecido un programa de orientación a los nuevos Consejeros y de actualización a los Consejeros con mandato en vigor, a cargo de la Secretaría del Consejo."

Article 23 of the Articles of Association sets down, in relation to the directors, that it will not be necessary for them to hold the status of shareholders, but that they will always be elected and re-elected by the General Meeting and will hold the position for a period of four years.

Article 13.6 of the Regulations governing the Board of Directors sets down:

“El Consejo una vez al año, evaluará la calidad y eficiencia del funcionamiento del Consejo; el desempeño de sus funciones por el Presidente y por el primer ejecutivo, y el funcionamiento de las Comisiones.”

Article 16 of the Regulations governing the Board of Directors sets down on the termination of the directors:

“1. 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.

2. El Consejero 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 C.N.M.V. 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 Law and in article 13.6 of the Regulations of the Board of Directors of the Company regarding the annual evaluation of the operation of the administrative bodies, in the year the Directors have evaluated the performance of the functions of the Board of Directors, those of its Specialized Committees, those of its Chairman and those of the Vice-Chairman-CEO.

From the annual assessment carried out, it is concluded that the overall result of the assessment has been positive and that the Directors consider it to be completely satisfactory: (i) the quality and efficiency of the functioning of the Board of Directors, as well as their composition and operation, (ii) the operation and composition of its committees, (iii) the performance of the Chairman of the Board of Directors of its functions, and (iv) the actions of the company's first executive.

After assessing the considerations of all the Directors, the Board has considered that it is not necessary to adopt a plan to correct deficiencies

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.

The independent External Consultant that has assisted the Board of the Company during the periodic evaluation, provides legal advice in the contract and securities market.

C.1.19 Indicate the circumstances under which directors are obliged to resign.

Article 16.2 of the Regulation of the Board of Directors establishes that the Board will propose to the General Meeting the removal of directors in the event that they are involved in incompatibility or legal prohibition, when their continuation on the Board could compromise interests of the Company or when the reasons for which they were appointed disappear. Understanding this last circumstance in respect of a proprietary director when carrying out the sale of the total shareholding of who owns or whose interests they represent and such participation also decrease to a reduction in the number of Proprietary Directors.

Article 25.3 of the Board of Directors' Regulations establishes in relation to the director's obligation that they must inform the Company of those personal circumstances that affect or may affect the credibility or reputation of the Company, particularly any criminal cases they may be involved in and the relevant proceedings. The Board may request the Director, after reviewing the situation as presented, to resign and this decision must be strictly

In addition by the Board, may require the Director to resign because of and generally because of non-compliance of the general obligations of the Director set forth in Article 19 of that Regulation.

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.

Article 23, paragraph 7 of the Articles of Association sets down: In the case of impossibility of attending a Board Meeting, each one of its members may delegate their representation and vote to a Director in writing and with a special character for each session.

Article 13.5 of the Regulations of the Board of Directors sets down: Representation by another director will be done with instructions about the determinations to adopt in the treatment of the different points on the Agenda for the meeting.

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	1
--------------------	---

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	8

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. JOAQUIN COELLO BRUFAU	MEMBER OF AUDIT COMMITTEE
MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA	CHAIRMAN OF AUDIT COMMITTEE
MR. ÁLVARO DE LA SERNA CORRAL	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:

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 in Article 11.2 f) of the Regulations of the Board, the Committee Audit issues for each year completed a report expressing his opinion on the independence of the auditors.

Article 11.2 e) of the Regulations of the Board of Directors includes among the basic responsibilities of the Audit Committee the requirement to maintain a close relationship with external auditors, so as to receive any information which could jeopardize their independence, and additionally for subsequent related discussion by the Committee, and to provide any other information related to the development process of the audit, including information related to current legislation governing auditing standards and auditing techniques. In any event, the Committee should receive from the auditor's written confirmation of their independence from the company or entities related to the company, whether directly or indirectly, and information relating to any additional services provided to any such entities by the auditors or by persons or entities related to them in compliance with the provisions of the legislation on auditing.

In relation to financial analysts, investment banks and rating agencies, the Company preserves its independence by publicly disclosing to the market any and all information supplied to such agents, without providing preferential treatment to any of them.

Therefore, article 27 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 (thousands euros)	43	32	75
Amount of tasks other than audit services / total amount invoiced by the Audit Company (in %)	60.40	62.19	61.16

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	17	17

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	56.67	56.67

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.”

For every meeting of the Board of Directors, prepares a dossier given, explained and debated if it contains detailed information on all topics that are processed in the session. Those matters of greater complexity, such as the annual budget, investment plan, strategic plan and others of special significance, will receive this treatment in a particularly strong manner. The directors, in the period which passes between meetings of the Board, may ask for all the complementary information that they may 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

Article 25.3 of the Regulations In relation to the information duties of the Board of Director of the Council, it establishes 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. Concurrently, 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:

Indicate whether these contracts must be disclosed and/or approved by the company or group governance bodies:

	Board of directors	General Meeting
Body authorising the clauses	Yes	No
	Yes	No
The general meeting of the clauses is reported?		3

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. ANTONIO CANET MARTÍNEZ	BOARD MEMBER	Other External
MR. CARLES-ALFRED GASOLIBA BOHM	BOARD MEMBER	Other External
MR. JOAQUÍN FAURA BATLLE	BOARD MEMBER	Independent
MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA	BOARD MEMBER	Other External
JOANFRA, S.A.	SECRETARY	Proprietary Director

% executive directors	0.00
% proprietary directors	16.67
% independent directors	33.33
% other external	50.00

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 procedure of the Human Resources, Nominations and Remuneration Committee, are regulated in Article 23 of the Articles of Association and Article 12 and related provisions of the Regulations of the Board of the Company.

As of December 31, 2018, it is composed of six 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.

Article 12.6 of 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 2018 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 to appoint a consultant external to assist the Board of Directors in the performance of its annual evaluation, in that of its specialized Committees, in that of the Chairman and in that of the Vice-Chairman-General after verification of its independence; Proposal for re-election of the Director to whom his term expired; evaluation and proposal for the incorporation of a new member within the Human Resources, Appointments and Remuneration Committee and within the Audit Committee; proposal for the appointment of a new Coordinating Director.

AUDIT COMMITTEE		
Name	Position	Type
MR. JOAQUÍN COELLO BRUFAU	BOARD MEMBER	Independent
MR. JOAQUÍN FAURA BATLLE	CHAIRMAN	Independent
MR. ÁLVARO DE LA SERNA CORRAL	BOARD MEMBER	External Proprietary Director

% 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 Article 23 of the Articles of Association and Article 11 and related provisions of the Regulations of the Board of the Company.

As of December 31, 2018, 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 a fluid relationship with external auditors to receive information on any issues that may jeopardize their independence, for consideration by the Committee, and any others related to the accounts development process and the auditing technical standards. The Committee must in any case receive written confirmation annually from the auditors of their independence from the entity or from entities directly or indirectly linked to it, and information on any additional services provided to these entities by said auditors or by persons or entities linked to them, in line with the provisions of the legislation on auditing 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 the exercise 2018, the Audit Committee, It has met six times to discuss, among others, the following issues: supervision Financial Statements and the management information of the Company and the consolidated group, review and reporting to the Board on Intermediate Management Report, in relation to the Half-yearly interim reports, analysis and study of financial policy, informing the Board of Directors, examine the communications received through the Communications Channel, examine the Internal Control for the prevention of criminal risks. authorization of the contract with PricewaterhouseCoopers Auditores, S.L., for the rendering of due diligence services in relation to the purchase of the company Clariana, S.A. and its subsidiary Boncompte Sierra S.L.U.

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. JOAQUIN COELLO BRUFAU// MR. JOAQUÍN FAURA BATLLE // MR. ALVARO DE LA SERNA CORRAL
Date of appointment as Chairman	20/06/2018

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 2018		Exercise 2017		Exercise 2016		Exercise 2015	
	Number	%	Number	%	Number	%	Number	%
HUMAN RESOURCES, NOMINATIONS AND REMUNERATIONS COMMITTEE	1	0.00	1	0.00	1	0.00	0	0.00
AUDIT COMMITTEE	0	0.00	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	532
FIDELITY INTERNATIONAL LIMITED	MIQUEL Y COSTAS & MIQUEL S.A	Corporate	Dividends and other distributed profit	270
SANTA LUCIA S.A. COMPAÑIA DE SEGUROS Y REASEGUROS	MIQUEL Y COSTAS & MIQUEL S.A	Corporate	Dividends and other distributed profit	615
INDUMENTA PUERI, S.L.	MIQUEL Y COSTAS & MIQUEL S.A	Corporate	Dividends and other distributed profit	1,109
SANTANDER ASSET MANAGEMENT S.A. SGIIC	MIQUEL Y COSTAS & MIQUEL S.A	Corporate	Dividends and other distributed profit	752
EDM GESTION S.A. SGIIC	MIQUEL Y COSTAS & MIQUEL S.A	Corporate	Dividends and other distributed profit	471

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)
MR. ANTONIO CANET MARTÍNEZ	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	148
JOANFRA, S.A.	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	1.008
MR. JORGE MERCADER MIRÓ	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	1.822
MR. JAVIER BASAÑEZ VILLALUENGA	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	34
MR. ÁLVARO DE LA SERNA CORRAL	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	13
MR. CARLES-ALFRED GASÒLIBA BÖHM	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	24
MR. EUSEBIO DÍAZ-MORERA PUIG-SUREDA	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	14
MR. JORGEMERCADER BARATA	MIQUEL Y COSTAS & MIQUEL S.A	Board Member	Dividends and other distributed profit	59
MRS. MARINA JURADO SALVADO	MIQUEL Y COSTAS & MIQUEL S.A	Executive	Dividends and other distributed profit	17
MR. JAVIER ARDIACA COLOMER	MIQUEL Y COSTAS & MIQUEL S.A	Executive	Dividends and other distributed profit	10
MR. JOSEP PAYOLA BASSETS	MIQUEL Y COSTAS & MIQUEL S.A	Executive	Dividends and other distributed profit	14

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)
MR. JAVIERGARCÍA 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	3
MS. OLGA ENCUENTRA CATALÁN	MIQUEL Y COSTAS & MIQUEL, S.A.	Board Member	Dividends and other distributed profit	5
MS. JOSE MARIA MASIFERN VALÓN	MIQUEL Y COSTAS & MIQUEL, S.A.	Executive	Dividends and other distributed profit	10
MR. IGNASI NIETO MAGALDI	MIQUEL Y COSTAS & MIQUEL, S.A.	Executive	Dividends and other distributed profit	3

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 Act 8.2 of 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.

Article 21.2 of 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

Identify the subsidiary Companies that are listed in Spain:

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.

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.

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 fiscal year: Fiscal. The Tax Agency has opened a process of checking the main taxes to those that the Company and two subsidiaries are subject

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, the Audit Committee make selective monitoring implementation, adequacy and compliance with those rules.

In the tax area, in addition to supervising Corporate Tax, the Value Added Tax and the other taxes to which it is subject, it has responded to the information requirements established by the current inspection.

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.

- 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 Department of Information Systems and adequate human and technical resources are made available for its proper performance.

The Group has a contingency plan for data recovery and to ensure continuity of operations, which is continually revised 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 majority of the valuation, judgment or calculation processes utilized in the preparation and publication of financial statements, as well as other processes relevant to the preparation of Financial Information, are carried out by Internal Services. Outsourced activities, which mainly relate to valuation matters, are intended to compare and check internal estimates.

Third-party subcontracting is the responsibility of the contracting party supervising and monitoring such engagement. Before setting up a collaboration agreement with a subcontracted company, the area of business affected by this ensures the skills, accreditation and technical and legal capacity of the third party.

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 Internal Audit Team 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 Audit Department. 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

The relevant information has been previously described.

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 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

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 Committee audit, and the Human Resources Committee, Nomination and Remuneration Committee analyze the issues referred to in paragraphs a) and d) above and inform the Board of Directors. The Company has a report on the independence of the auditor and a report on the activities of the Committee audit. The latter is available to shareholders who request it from the date of convening the General Meeting until its conclusion.

The Human Resources Committee, Nomination and Remuneration Committee reports in detail to the Board of Directors of its activities and operation.

The Company is in the process of preparing a report on corporate social responsibility policy beginning in the year 2018 that will contain the actions carried out in the year in relation to the same.

The preparation of a report on corporate social responsibility policy during the year is foreseen.

7. The company should broadcast its general meetings live on the corporate website.

Complies Complies partially 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 selection policy advisors followed by the Company meets the requirements listed in letters a), b) and c) being gender diversity one of the aspects that the Board intends to pay particular attention in future selection processes when vacancies occur within it.

- 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

Although they are not a majority, the number of proprietary and independent directors is significant. In addition, it must be taken into account that in the case of one of the directors belonging to the category of Other External Members, in origin their membership of the Board was due in their capacity as proprietary.

The current composition of both the Board and its delegated Committees is rooted in the current regulations that can not be considered in any case as independent directors who have been directors for a continuous period exceeding 12 years, which is why two of Independent directors have been considered as external directors.

- 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

Initially, the number of independent directors on the Board was four, but, due to current regulations, two of them have been re-qualified to the category of Other External Directors.

- 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 latter's 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

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

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, aptitudes and experience appropriate to the functions they have to perform within it.

The Human Resources Committee, Nomination and Remuneration Committee is composed, in accordance with the provisions of article 529 quincecies by non-executive directors, two of which hold the status of independent directors, including their Chairman.

The current composition of both the Board and its delegated Committees is rooted in the current regulations that can not be considered in any case as independent directors who have been directors for a continuous period exceeding 12 years, which is why two of Independent directors have been considered as external directors.

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

The composition of the Human Resources, Appointments and Remuneration Committee is adapted to the provisions of the Capital Companies Act. It is composed of six directors, none of them executives. Two of its members hold the status of independent, not constituting, therefore, a majority of Directors of this category within the committee.

The current composition of both the Board and its delegated Committees is rooted in the current regulations that can not be considered in any case as independent directors who have been directors for a continuous period exceeding 12 years, which is why two of Independent directors have been considered as external directors.

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

The actions carried out by the Company in this matter are not documented in an independent report except for issues related to CO2 emissions and the management of water resources, in which the Group has a report that documents and evaluates the policies followed and the actions carried out in these areas.

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

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 Directors are free to transfer the acquired shares

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

A.3

In relation to the shares of Mrs. Mercedes de la Serna Villalonga and Mrs. Jimena de la Serna Villalonga, indirect shares of Mr. Álvaro de la Serna Corral, it should be noted that in both cases the percentage of voting rights attributed to the shares as well as the total percentage of voting rights amounts to 0.001%.

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

25/03/2019.

Indicate whether any board members have voted against or abstained with respect to the approval of this report.

[] Sí
[3] No



miquel y costas & miquel, s.a.

(Free translation from Spanish)

Mr. Francisco Javier Basañez Villaluenga with DNI No. 36949799-T, in his capacity as Secretary of the Board of Directors of the Mercantile Company Miquel y Costas & Miquel, S.A., established in Barcelona, street Tuset, No. 10, with NIF No. A-08020729.

CERTIFIES:

That dated March 25, 2019, the Board of Directors of Miquel y Costas & Miquel, S.A. approved the Non-financial information statement of the Company for the year 2018. This report consists of 26 pages, and is presented together with the verification report issued by independent lender. These documents is attached as separate section to the Management Report accompanying 2018 financial statements of the Consolidated Group, which have been formulated on the same date by all members of the Board of Directors and unanimously approved.

Barcelona, 26 March 2019.

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

Independent verification report
of Consolidated Non-Financial Information Report
for the year ended December 31, 2018



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 VERIFICATION REPORT

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 31 December 2018 of Miquel y Costas & Miquel, S.A. and subsidiaries (“Grupo Miquel y Costas”) which forms part of Grupo Miquel y Costas’ 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 the Appendix I. “Traceability table under Law 11/2018” included in the accompanying NFIS.

Responsibility of the Directors

The preparation of the NFIS included in Grupo Miquel y Costas’ 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 the Appendix I. “Traceability table under Law 11/2018” in the mentioned NFIS.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure 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 behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) 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.

PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona, España
Tel.: +34 932 532 700 / +34 902 021 111, Fax: +34 934 059 032, www.pwc.es



Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out in relation solely to fiscal year 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. 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 de 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 Grupo Miquel y Costas’ 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 Grupo Miquel y Costas personnel 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 2018 based on the materiality analysis carried by Grupo Miquel y Costas, considering the content required under current commercial legislation.
- Analysis of the procedures used to compile and validate the information presented in NFIS for 2018.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2018.
- Verification, through sample testing, of the information relating to the content of the NFIS for 2018 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 2018 NFIS of Miquel y Costas & Miquel, S.A. and subsidiaries for the year ended 31 December 2018 has not been prepared, in all of their significant matters, 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 the Appendix I. "Traceability table under Law 11/2018" in the mentioned 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.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Ignacio Marull

26th April, 2019

APPENDIX II

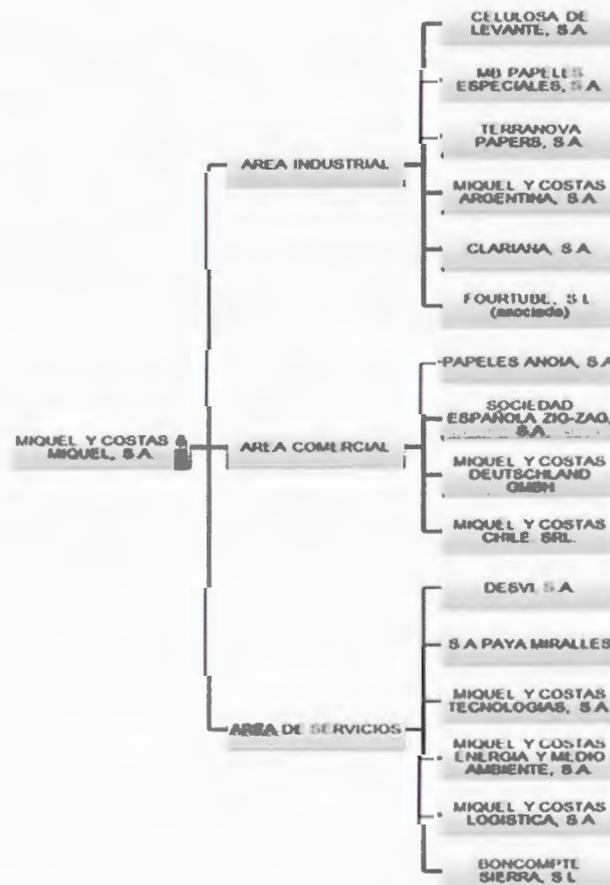
NON-FINANCIAL INFORMATION STATEMENT OF THE MIQUEL Y COSTAS GROUP

(Free translation from Spanish)

This Non-Financial Information Statement, which forms part of the Consolidated Directors' Report for 2018, complies with the general provisions of Law 11/2018 of 28 December, whereby the Spanish Code of Commerce was amended, the revised Spanish Companies Act introduced under Royal Decree-Law 1/2010 of 2 July, and Audit Law 22/2015 of 20 July, relating to non-financial information and diversity, by reference to the Global Reporting Initiative Standards related to the content of the Law, as set out in Appendix I. Traceability table under Law 11/2018.

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:



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 business lines: "Tobacco industry" products, "Industrial products" and "Other", consisting of 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 89% in 2018, the main market being the European Union at a little over 34%, while OECD countries and the rest of the world accounted for almost 26% 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 2018 Annual Accounts, as well as in the corporate website <http://www.miquelcostas.com/esp/InformeGobierno.php?Ejercicio=2018>

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 CO₂ 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 considerable 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. 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.

Miquel y Costas & Miquel, S.A. and its Group companies have been certified under the UNE-EN ISO 14001:2015 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. and Terranova Papers, S.A.

Miquel y Costas & Miquel, S.A. and its Group companies 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, 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. and Celulosa de Levante, S.A. (Celesa).
- The Custody Chain Policy (POLCDC) at the companies Miquel y Costas & Miquel, S.A., MB Papeles Especiales, S.A. and Terranova Papers, 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 €5,199 thousand in 2018 (€2,038 thousand in 2017). The Group's main environmental investments in the production process in 2018 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 2018, after deducting revenue from the sale of by-products, amounted to €3,492 thousand (€2,681 thousand in 2017). They included no extraordinary items and related mainly to fees paid to regional governments for the use of water, raw materials and power consumed in environmental protection activities, and waste collection and treatment.

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	2017	2018 (Includes Clariana,S.A.)
Scope 1	0.92	0.78
Scope 2*	0.64	0.44

*The figure is calculated based on the electricity mix of the Catalan Office for Climate Change (OCCC)

The data for the company Miquel y Costas & Miquel, S.A. are as follows:

t CO2/t prod	2017	2018
Scope 1	0.79	0.75
Scope 2*	0.50	0.39

*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	2017	2018
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 the average for the paper and forestry industry (score of B-).

In the report to the Carbon Disclosure Project, risks are separated into three types:

- Risks of changes to legislation (EU ETS, energy, etc.)
- Risks of changes to physical climate parameters (natural catastrophes and changes to climate conditions)
- Risks of other changes related to the climate (corporate reputation and image)

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: installation of low-emission equipment by Terranova Papers, 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 biomass combustion technologies.
- In the medium term, in the period 2008-2025, a 32% GHG emissions cutting target has been set based on the analysis of investments in more sustainable technologies.
- In the long term, in the period 2030-2050, a 40% GHG emissions cutting target will be applied through the study of new low-carbon-emission technologies for the pulp and paper industry.

Emissions of NO_x and SO_x from the combustion boilers are measured periodically, as indicated in the relevant IEAs.

kg/t prod	2017	2018 (Includes Clariana, S.A.)
NO _x	1.05	0.89
SO _x	0.01	0.02

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, 78% of the pulp purchased in 2018 was certified through the custody chain in place (excluding Clariana, S.A.). €120 million was spent to purchase cellulose pulp, natural fibers, chemical products and other raw materials.

The principal raw materials are wood pulp and textile fibers. This does not include other fibers employed in the production process, such as synthetic fibers, nor those purchased from Group companies.

t fibre	2017	2018 (Includes Clariana, S.A.)
Wood and non-wood fibres	63,469	78,517

Waste is managed through authorised companies, always observing the hierarchy of prevention, reuse, recycling, other types of recovery and disposal.

kg waste/t prod	2017	2018 (Includes Clariana, S.A.)
Hazardous waste	3.44	2.95
Non-hazardous waste	118.62	120.37

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.

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. Water and fiber recovery equipment is employed during production and the fiber is returned to the process. Data for all the Group's plants:

m ³ /t prod	2017	2018 (Includes Clariana, S.A.)
Capture of groundwater	23.18	22.61
Capture of municipal water	0.13	0.14

m ³ /t prod	2017	2018 (Includes Clariana, S.A.)
Discharge	21.35	20.98

The data for the company Miquel y Costas & Miquel, S.A. are as follows:

m ³ /t prod	2017	2018
Capture of groundwater	17.76	16.94
Capture of municipal water	0.13	0.24

m ³ /t prod	2017	2018
Discharge	15.01	15.79

The Group reports water consumption data through the CDP (Carbon Disclosure Project) to demonstrate our commitment to combating climate change.

Score	2017	2018
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 (score of C in both cases).

Finally, the main energy sources are natural gas and electricity.

Consumption of natural gas and electricity	2017	2018 (Includes Clariana, S.A.)
Natural gas (Nm ³ /t prod)	0.43	0.35
Electricity consumed (MWh/t prod)	1.64	1.37

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 (including Clariana, S.A.).

t prod	2017	2018
Product	70,720	93,905

The calculation base for the data reported by the company Miquel y Costas & Miquel, S.A. is as follows:

t prod	2017	2018
Product	41,538	44,469

3. Social and personnel-related matters

The Miquel y Costas Group's headcount at year-end 2018 totals 897 (including the company Clariana, S.A.). The average number of employees during the year was 887, 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	144	447	591
Administrative and technical personnel	98	75	173
Supervisors and middle management	10	88	98
Directors	2	24	26
Senior management	1	5	6
Executive Board directors	0	3	3
Total	255	642	897

The classification by age and gender is as follows:

Classification by age and gender	Women	Men	Total
< 20	0	3	3
21 to 30	17	32	49
31 to 40	52	145	197
41 to 50	97	222	319
51 to 60	60	187	247
> 60	28	54	82
Total	254	643	897

The distribution by country is as follows:

Distribution by country	Women	Men	Total
Spain	235	621	856
Argentina	19	18	37
Chile	0	1	1
Germany	0	2	2
Philippines	0	1	1
Total	254	643	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	118	241	359
Administrative and technical personnel	58	45	103
Supervisors and middle management	4	47	51
Directors	1	10	11
Senior management	1	4	5
Executive Board directors	0	3	3
Total	182	350	532

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	29%	71%	788
Temporary	27%	73%	109
Total			897

Only one Group employee has a part-time contract at the year-end.

The individual figures for Miquel y Costas & Miquel, S.A. are as follows:

Classification by contract	Women	Men	Total
Indefinite	34%	66%	467
Temporary	35%	65%	65
Total			532

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	2	3
21 to 30	17	32	49
31 to 40	48	149	197
41 to 50	32	287	319
51 to 60	10	237	247
> 60	1	81	82
Total	109	788	897

The distribution by category and gender is as follows:

Classification by category and gender	Women		Men		Total
	Temporary	Indefinite	Temporary	Indefinite	
Production personnel	12	135	60	392	599
Administrative and technical personnel	16	77	13	60	166
Supervisors and middle management	1	9	7	80	97
Directors	0	4	0	22	26
Senior management	0	1	0	5	6
Executive Board directors	0	0	0	3	3
Total	29	226	80	562	897

In 2018, 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	3	3
31 to 40	1	2	3
41 to 50	3	6	9
51 to 60	0	2	2
> 60	0	1	1
Total	4	14	18

Lay-offs by professional category and gender	Women	Men	Total
Production personnel	1	7	8
Administrative and technical personnel	3	5	8
Supervisors and middle management	0	0	0
Directors	0	1	1
Senior management	0	1	1
Executive Board directors	0	0	0
Total	4	14	18

Average remuneration broken down by gender, age and professional category is shown below for the Spanish companies:

Category category	MEN		WOMEN		Wage gap by professional
	Age	Average wage	Age	Average wage	
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.miquelcostas.com/esp/InformeGobierno.php?Ejercicio=2018>.

The following data refer to employees with disabilities by gender and contract type for the Spanish companies:

Employees with a disability rating by category and gender	Women	Men	Total
Temporary	0	1	1
Indefinite	1	6	7
Total	1	7	8

The Miquel y Costas Group meets all prevailing legal requirements and, in particular, those related to disabled employees. In this case, in accordance with the Law on the Social Integration of the Disabled (LISMI), in view of the special nature and complexity of work posts in the paper industry from the viewpoint of occupational safety, the Company opts to request the certificate of exceptionality. This legal option and alternative allows the law to be observed by hiring employees through Special Employment Centers to carry out certain production work, which also helps to create jobs. No work posts have been adapted for disabled employees.

The following data on absenteeism for 2018 include hours of sick leave, occupational accidents and maternity/paternity leave:

Absenteeism (hours)	Hours
Hours due to illness	73,300.40
Hours due to occupational accidents	6,253.92
Maternity/paternity leave hours	7,542.86

* Not including data on Clariana, S.A. nor 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 2018 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	0	0	0	0
Miquel y Costas & Miquel, Besós plant	3	0	9.0	0.2
Miquel y Costas & Miquel, Besós plant	2	0	15.2	0.3
Miquel y Costas & Miquel, Mislata plant	2	0	15.2	0.4
Miquel y Costas & Miquel, Capellades plant	1	1	8.1	0.2
MB plant	1	0	7.4	0.2
Terranova plant	0	0	0	0
Clariana plant	6	0	44.9	0.6
Lost-time accidents on the way to/from work				
Plant ⁽¹⁾	No. of accidents (men)		No. of accidents (women)	
Miquel y Costas & Miquel, Tuset offices	0		1	
Miquel y Costas & Miquel, Besós plant	4		0	
Miquel y Costas & Miquel, Besós plant	1		0	
Miquel y Costas & Miquel, Mislata plant	1		0	
Miquel y Costas & Miquel, Capellades plant	0		2	
MB plant	1		0	
Terranova plant	0		0	
Clariana plant	0		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

During this period there was one fatal accident during a train journey from the worker's home to the place of work.

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 2018.

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).

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 2018 is shown below for the Spanish companies:

No. of training hours per professional category	Hours
Production personnel	2,444
Administrative and technical personnel	5,190
Supervisors and middle management	1,576
Directors	623
Senior management	149
Executive Board directors	72
Total	10,054

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. and its Group have drawn up and are committed to maintaining 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 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.

On 27 November 2017, the Board of Directors approved the Code of Ethics, demonstrating 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.miquelcostas-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 whistleblower channel at each work center.

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 2018.

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 centers located in Spain and the most significant corruption-related risks have been evaluated.

Work centers 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.
- 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 2018 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, 85% having received training (the remaining percentage relates to new joiners and workers on sick leave).
- Informed three significant business partners representing 35% of share capital.

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 collabourators 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 €54 thousand during the year.

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 120 reviews having been carried out with an average score of 92.2 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 2018 Consolidated Annual Accounts.

Net profits obtained by country are as follows:

COUNTRY	PROFIT BEFORE TAXES	INCOME TAX PAYMENTS
SPAIN	50,287	10,777
OTHER COUNTRIES (Argentina, Chile and Germany)	-633	45
TOTAL	49,654	10,822

* 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.

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: 1.) business context 2.) organization and structure 3.) markets in which it operates 4.) objectives and strategies 5.) main factors and trends that may affect its future performance.	102-1	1
		102-2	2
		102-3	1
		102-4	4
		102-6	2
		102-7	1
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	3, 4, 6, 11, 14, 15, 19, 20, 22
Results of policies KPIs	The results of the policies, including the relevant non-financial key performance indicators that allow: 1.) monitoring and assessment of progress; and 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, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 22
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 * how the group manages those risks, * explaining the procedures employed to detect and assess them in accordance with the national, European or international reference frameworks for each matter. * Information must be included on any impacts detected, providing a breakdown, particularly of the main short-, medium- and long-term risks.	102-15	1, 5, 7, 15, 18, 20
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; 2.) Resources devoted to preventing environmental risks; 3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks. (e.g. under environmental responsibility legislation).	103	4, 5, 6
		102-11	6
	Pollution		
	1. Measures to prevent, reduce or repair carbon emissions that seriously affect the environment.	103	6, 7, 8
	2. Taking into account any form of atmospheric pollution specific to an activity, including noise and light.	305-7	6, 8
	Circular economy and waste prevention and management		

SCOPE	Content	GRI Standards	Page of report	
	Circular economy;	103	4, 8	
	Waste: Measure for the prevention, recycling, reuse, other forms of recovery and disposal of waste;	103	8	
	Actions to combat food waste.	103	Immaterial	
	Sustainable use of resources			
	<u>Consumption of water and water supply in accordance with local limits;</u>	303-1	8	
	<u>Consumption of raw materials and measures adopted to use them more efficiently;</u>	103	8	
		301-1	8	
	Direct and indirect <u>consumption of energy, measures taken to improve energy efficiency and the use of renewable energies.</u>	103	9	
		302-1	9	
		302-4	9	
	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	7	
		305-1	7	
		305-2	7	
	Measures to adapt to the consequences of climate change;	103	5, 6, 7	
	Medium- and long-term reduction goals set voluntarily for greenhouse gas emissions and the means used to achieve them.	103	7	
	Protection of biodiversity			
	Measures taken to preserve or restore biodiversity;	103	9	
	Impacts of activities or operations on protected areas.	304-2	9	
	Social and personnel-related matters	Employment		
Total number and distribution of employees by gender, age, country and professional category;		103	10, 11	
		102-8	10, 11	
		405-1	10, 11	
Total number and distribution of employment contract types;		102-8	11	
Annual average indefinite contracts, temporary contracts and part-time contracts by gender, age and professional category;		102-8	10, 12	
		405-1	12	
Number of lay-offs by gender, age and professional category;		401-1	12	
Average remuneration and trends by gender, age and professional category or equivalent value;		405-2	13	
Wage gap, remuneration for the same posts or the company's average remuneration;		103	13	
		405-2	13	
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	13	
Implementation of right to disconnect policies;		103	14	
Disabled employees.		405-1	14	
Work organization				
Organization of working hours;	103	14		
Number of hours of absenteeism;	403-2	14		

SCOPE	Content	GRI Standards	Page of report
	Measures to facilitate a work-life balance and encourage the co-responsibility of both parents.	103	11
	Health and safety		
	Health and safety in the workplace;	103	15, 16
	Occupational accidents, particularly frequency and severity, professional diseases, broken down by gender.	403-2	16
		403-3	16
	Labour relations		
	Organization of social dialogue, including procedures to inform, consult and negotiate with personnel;	103	14.15
	Percentage of employees covered by collective bargaining agreements by country;	102-41	15
	Main content of the collective agreements, particularly in relation to occupational health and safety.	403-4	16
	Training		
	Training policies implemented;	103	17
	Total training hours by professional category.	404-1	17
	Universal accessibility for the disabled	103	14
	Equality		
	Measures adopted to promote equal treatment and opportunities for women and men;	103	11
	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.		
	Human rights		
	Application of due diligence procedures in relation to human rights; Prevention of risks of infringement of human rights and, if applicable, measures to mitigate, manage and repair any abuses committed;	103	17, 18
		102-16	17, 18
		102-17	17, 18
		412-2	18
	Claims for the infringement of human rights;	406-1	20
	Promotion and fulfilment of the provisions of the fundamental conventions of the International Labour Organization relating to freedom of association and the right to collective negotiation;	407-1	19
	Elimination of discrimination in the field of employment and occupation;	103	21
		406-1	19, 20
	Elimination of forced or compulsory labour;	409-1	19
	Effective abolition of child labour.	408-1	19
	Corruption and bribery		
	Measures taken to prevent corruption and bribery;	103	18, 19
		102-16	19
		102-17	19
		205-2	20

SCOPE	Content	GRI Standards	Page of report
	Measures to combat money laundering.	205-2	20, 21
	Contributions to foundations and non-profit entities.	413-1	21
	Company's commitments to sustainable development		
Society	The impact of the company's activity on employment and local development;	103	21
		203-2	21
		413-1	21
	The impact of the company's activity on local populations and on the territory;	203-2	21
	Relations and modes of dialogue with members of local communities;	102-43	21
	Associations or sponsorships.	102-12	21
		102-13	21
	Subcontracting and suppliers		
	The inclusion in the procurement policy of social, gender equality and environmental matters; Consideration of social and environmental responsibility in relations with suppliers and subcontractors;	102-9	21
		103	21, 22
		308-1	21, 22
		414-1	21, 22
	Oversight systems, audits and related findings.	103	21
	Consumers		
	Consumer health and safety measures;	103	22
	Claim systems, complaints received and solutions.	103	22
	Tax information		
Profits obtained by country	103	22	
Income tax paid	103	22	
Government grants received	201-4	22	