



**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 2020**

(Free translation from Spanish)



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

The Consolidated Annual Accounts and Directors' Report, of which the Annual Corporate Governance Report and Non financial information Report forms a separate section, for the year ended at 31 December 2020, are formulated under the agreement adopted by the meeting of the Board of Directors of Miquel y Costas & Miquel, S.A. dated on 25 March 2021 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 2021

Chairman of the Board of Directors

Jorge Mercader Miró

Members of the Board:

Joanfra, S.A. represented by
Bernardette Miquel Vacarisas

Álvaro de la Serna Corral

Javier Basañez Villaluenga

Eusebio Díaz-Morera
Puig-Sureda

Joaquín Coello Brufau

Claudio Aranzadi Martínez

Joaquín Faura Batlle

Jorge Mercader Barata
Vice Chair of the Board

Marta Lacambra Puig

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

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(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Consolidated Balance Sheet
at 31 December 2020
(In thousand Euro)

ASSETS	Note	In thousand Euro	
		2020	2019
Non-current assets			
Property, plant and equipment	4	171,666	167,946
Intangible assets	5	3,030	2,537
Non-current financial assets	6,21	32,410	45,450
- At fair value through other comprehensive income		10,813	14,535
- At amortised cost		21,597	30,915
Deferred income tax assets	17.3	3,121	3,043
Current tax assets	17.4	1,710	1,783
Total non-current assets		211,937	220,759
Current assets			
Inventories	7	81,565	93,045
Trade receivables	8,21	41,635	42,460
Sundry receivables	9	251	238
Current financial assets	9	70,911	37,366
- At amortised cost		70,911	37,366
Other current financial assets	9	2,885	3,227
Current tax assets	17.2	-	-
Cash and cash equivalents	10	7,735	6,947
Total current assets		204,982	183,283
TOTAL ASSETS		416,919	404,042

Notes from pages 11 to 106 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 2020
 (In thousand Euro)

EQUITY AND LIABILITIES	Note	In thousand Euro	
		2020	2019 ⁽¹⁾
Total Equity		293,627	280,580
Share capital	11	62,000	62,000
Own shares	11	(30,992)	(21,483)
Share premium	11	40	40
Retained earnings for the period	11	44,878	39,218
Other reserves	11	225,232	203,203
Shareholders' funds		301,158	282,978
Items not reclassified to results for the period:			
Equity instruments through other comprehensive income	11	(1,452)	3,200
Items that may not be reclassified subsequently to results for the year			
Conversion difference	11.2	(6,079)	(5,598)
Accumulated other comprehensive income		(7,531)	(2,398)
Non-current liabilities			
Borrowings	12,21	49,145	54,489
Deferred income tax liabilities	17.3	2,520	2,811
Other non-current liabilities	14	3,872	3,439
Total non-current liabilities		55,537	60,739
Current liabilities			
Borrowings	12,21	18,582	15,879
Trade creditors and other accounts payable	15,21	31,213	32,435
Current tax liabilities	17.2	537	299
Current provisions	16	3,038	1,760
Other current liabilities	16	14,385	12,350
Total current liabilities		67,755	62,723
TOTAL EQUITY AND LIABILITIES		416,919	404,042

(1) Restated figures (Notes 11.2 and 11.3)

Notes from pages 11 to 106 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 2020
 (In thousand Euro)

In thousand Euro	Note	2020	2019
Net turnover	18	274,151	262,633
Variation in inventories		(8,945)	15,661
Own work capitalised	4,5	1,198	1,670
Supplies	7	(85,194)	(101,357)
Other operating income	18	2,912	4,027
Staff costs	19	(44,733)	(45,048)
Other operating expenses	20	(64,738)	(71,492)
Amortisation and depreciation	4,5	(18,113)	(17,584)
Charge to non-financial fixed asset grants	14,26	1,760	1,777
Provision excess		9	66
Impairment and profit/ loss on fixed asset disposals		1	-
Operating profit / (loss)		58,308	50,353
Financial income	21	1,338	2,069
Financial expenses	21	(460)	(560)
Exchange differences	21	(948)	(813)
Impairment and profit/loss on disposal of financial instruments	21	-	-
Net financial results	21	(70)	696
Share of results of associates	6	24	17
Profit / (loss) before tax on activities		58,262	51,066
Corporate income tax	17.2	(13,384)	(11,848)
Profit / (loss) for the year on activities		44,878	39,218
Profit / (loss) attributable to holders of equity instruments of the parent Company		44,878	39,218
Earnings per share basic and diluted (Euro)	22	1.53	1.30

Notes from pages 11 to 106 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 2020
(In thousand Euro)

	Note	2020	2019
Consolidated profit for the year		44,878	39,218
Attributed to equity holders of the parent Company		44,878	39,218
Other comprehensive income- items that are not reclassified to results for the period		(4,662)	(4,112)
From actuarial gains and losses and other adjustment	13	(13)	161
Changes in fair value of investments at fair value through other comprehensive income	6	(4,652)	(4,233)
Tax effect	13, 17	3	(40)
Transfer to the consolidated income statement		(481)	(73)
From Exchange rate differences		(481)	(73)
TOTAL RECOGNISED INCOME AND EXPENSES		39,735	35,033
Attributed to equity holders of the parent Company		39,735	35,033

Notes from pages 11 to 106 are an integral part of the consolidated annual accounts.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
 Consolidated statement of changes in equity for the year ended
 at 31 December 2020
 (In thousand Euro)

Thousand Euro	Share capital and own shares (Note 11.1)	Share premium (Note 11.1)	Other reserves, value adjustments and conversion difference (Notes 11.2 and 11.3)	Retained earnings for the period (Note 11.3)	Other equity instruments (Note 11.3)	Total net equity
Balance at 31 December 2018	51,661	40	180,694	37,277	233	269,905
Initial impact hyperinflation Argentina	-	-	-	-	-	-
Balance at 1 January 2019	51,661	40	180,694	37,277	233	269,905
Profit / (loss) recognized for the year	-	-	(4,185)	39,218	-	35,033
Capital Increases / Reductions	-	-	-	-	-	-
Acquisition/amortization of own shares	(11,144)	-	-	-	-	(11,144)
Conversion differences	-	-	-	-	-	-
Dividends distribution and investments returns	-	-	(13,350)	-	-	(13,350)
Other equity movements	-	-	37,291	(37,277)	122	136
Balance at 31 December 2019	40,517	40	200,450	39,218	355	280,580
Adjustments due to errors 2019 and previous years	-	-	-	-	-	-
Adjustments due to policy changes 2019 and previous years	-	-	-	-	-	-
Balance at 1 January 2020	40,517	40	200,450	39,218	355	280,580
Profit / (loss) recognized for the year	-	-	(5,143)	44,878	-	39,735
Capital Increases / Reductions	-	-	-	-	-	-
Acquisition/amortization of own shares	(9,509)	-	-	-	-	(9,509)
Conversion differences	-	-	-	-	-	-
Dividends distribution and investments returns	-	-	(17,300)	-	-	(17,300)
Other equity movements	-	-	39,215	(39,218)	124	121
Balance at 31 December 2020	31,008	40	217,222	44,878	479	293,627

Notes from pages 11 to 106 are an integral part of the consolidated annual accounts.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
 Consolidated cash flow statement for the year ended
 at 31 December 2020
 (In thousand Euro)

	Note	2020	2019
A) CASH FLOWS FROM OPERATIONS		72,887	43,735
1. Cash flow generated from operations	23	83,273	55,479
2. Other cash flows from operations,		(10,386)	(11,744)
- Interest payments (-),		(475)	(523)
- Receipts of interest and dividends (+),		1,478	2,385
- Payments (receipts) for income tax (-/+),		(11,389)	(13,387)
- Other receipts/(payments) from operations (-/+)		-	(219)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		(42,652)	(25,556)
1. Amounts paid on investments (-)		(124,706)	(88,688)
(-) Group companies and associates		(25)	(17)
(-) Property, plant and equipment and intangible assets		(17,760)	(26,942)
(-) Other financial assets	6, 9	(106,921)	(61,729)
2. Amounts collected from divestments (+)		82,054	63,132
(+) Group companies and associates		69	55
(+) Property, plant and equipment and intangible assets		73	1,456
(+) Other financial assets	6, 9	81,912	61,621
C) CASH FLOWS FROM FINANCING ACTIVITIES		(29,447)	(28,237)
1. Collections and payments for equity instruments		(9,521)	(11,032)
(-) Acquisition of own shares	11.1	(9,508)	(11,144)
(+) Disposals	14	(13)	112
Grants, donations and bequests received		(13)	112
2. Collections and payments for financial liability instruments		(2,626)	(3,855)
(+) Receipts from loans	12	26,476	28,863
(-) Redemption and amortisation of loans	12	(29,102)	(32,718)
3. Dividend payments	11	(17,300)	(13,350)
D) NET INCREASE (DECREASE) IN CASH OR CASH EQUIVALENTS		788	(10,058)
E) Cash or cash equivalents at beginning of the year	10	6,947	17,005
F) Cash or cash equivalents at end of the year	10	7,735	6,947

Notes from pages 11 to 106 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 2020
(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 2020 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.

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

The following subsidiary companies make up the consolidated Group:

- S.A. Paya Miralles established at San Antonio, No. 18, 46920 Mislata, Valencia, its corporate purpose, among others, is activities related to industrial and commercial exploitation of business papermaking and production of all kinds of manipulated cigarette paper, and the purchase, sale and rental of all types of movable property and buildings for business. It has leased its industrial facilities to Miquel y Costas & Miquel S.A.
- Celulosa de Levante, S.A., established at the C-42, Km 8.5, 43500 Tortosa, Tarragona; its corporate purpose is manufacturing and marketing of pulp and its derivatives in various forms and qualities. Under this purpose, the company manufactures pastas from hemp, flax, sisal, hemp, jute, cotton and other plants.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Notes to the annual accounts for the year 2020
(In thousand Euro)

- Papeles Anoia, S.A., established in Carrer Tuset No. 8, 08006 Barcelona; its corporate purpose is mainly processing, finishing, handling, processing, marketing, exporting and importing papers of all kinds and all kinds of snuff related products, and simple and complex compounds of cellulose, paper, plastic, aluminium paraffins and other materials of different origin. Additionally, its corporate purpose contemplated business activities related to real estate industry.
- Desvi, S.A., established in Carrer Tuset, No. 10, 08006 Barcelona; its corporate purpose ranges from the commercial distribution of all kinds of products and technologies from third parties linked to the role of all types, creation, promotion, protection, exploitation and trading of distinctive signs, patents and other assets owned industry and investment in promotion and development of industrial or commercial enterprises.
- Miquel y Costas Argentina, S.A., established in Argentina; its principal activity is the manufacturing, transformation, handling and commercialization of smoking paper booklets and many other types of paper, cardboard and related products, for example machinery and equipment for manufacturing such products.
- Sociedad Española Zig Zag, S.A., established in Carrer Tuset No. 10, 08006 Barcelona; its corporate purpose is selling all kinds of paper, especially smoking paper, in addition to articles related to the paper and tobacco industry.
- M.B. Papeles Especiales, S.A., established in Barcelona; its corporate purpose is the manufacturing, marketing, promotion, distribution, import and export of paper of all kinds of papers, including special papers and processing and handling of papers.
- Miquel y Costas Energía y Medio Ambiente, S.A., established in Carrer Tuset 8-10, 08006 Barcelona; its corporate purpose consists of the management and supervision of industrial, energy and environmental facilities and the construction, management, operation and leasing of power generation plants. Currently the company has leased a cogeneration plant to MB Papeles Especiales, S.A.
- Miquel y Costas Tecnologías, S.A., established in Carrer Tuset, No. 8-10 08006 Barcelona; its corporate purpose includes, among others, the activities of design and installation of products, solutions, applications and systems, industrial technology, performing all sorts of projects and consultancy organization, industrial, R & D, quality and environment.
- Terranova Papers, S.A., established in calle Tuset, no. 10 08006 Barcelona; its corporate purpose includes the manufacturing, marketing, promotion, distribution, import and export of special papers industry sectors such as food and filtration, amongst others.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Notes to the annual accounts for the year 2020
(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., established in Carrer Tuset number 10 08006 Barcelona; its corporate purpose includes the rendering of logistics services for storage, transport and distribution of goods, raw materials, products and machinery, in addition to advice and technical assistance in the provision of these services.
- Clariana, S.A. with registered office at avenida Alemania 48 Vila-Real (Castellón). Its corporate purpose consists of the production and marketing of paper and in general of goods for the stationery industry: the promotion, management and development of all kinds of real estate and urban operations, the disposal and exploitation, even under lease, of properties, buildings, housing and premises and constructions in general, irrespective of their use, resulting from that activity. On 27 August 2019 the public document relating to the merger of Boncompte-Sierra S.L.U (absorbed company) into Clariana S.A (acquiring company) was registered in the Mercantile Register of Castellón.
- Fourtube, S.L., associate company established in Seville, in which the Group has a shareholding of 40% since the end of the year 2011; its main corporate purpose is the manufacturing and marketing of paper and cardboard.

All the Group companies have closed their accounting year at 31 December 2020.

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

1.2 Variations in the consolidation scope

On 25 July 2018, as mentioned in Note 1.1, the Group acquired all the shares of the Spanish company Clariana, S.A. the leading manufacturer of coloured paper in Spain and simultaneously, the sole shareholder of the company Boncompte-Sierra, S.L.U. In 2019, in order to simplify the Group's structure, the company Boncompte-Sierra, S.L.U was merged into Clariana S.A. There were no changes in 2020.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Notes to the annual accounts for the year 2020
(In thousand Euro)

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 2020.

As per IFRS-EU, these consolidated annual accounts for 2020 include, for comparative purposes, the figures for the prior year.

As explained below, during 2020 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 2021.

Standards, amendments and interpretations mandatory for all years beginning in January 1, 2020

IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of materiality" and IAS 1 (Amendment) "Classification of liabilities as current and non-current, IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) "Interest Rate Benchmark Reform", IFRS 3 (Amendment) "Definition of a business", Amendments to references to the conceptual framework in IFRS and IFRS 16 (Amendment) "COVID-19 related rent concessions".

These standards have been taken into account effective 1 January 2020 and their impact which was not significant has been recognised in these consolidated annual accounts.

Standards, amendments and interpretations which have not yet come into effect but which may be adopted early:

IFRS 4 (Amendment) "Extension of the Temporary Exemption from Applying IFRS 9", IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment) " Interest Rate Benchmark Reform: Phase 2".

The amendments have not been adopted early by the Group. The impact of their application is not expected to be significant.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Notes to the annual accounts for the year 2020
(In thousand Euro)

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

As of the date of signature of these consolidated annual accounts, the IASB and IFRIC had published the standards, amendments and interpretations described below, which have not yet been endorsed by the European Union: IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures", IFRS 17 "Insurance contracts, IFRS 17 (Amendment) "Amendments to 17", IAS 1 (Amendment) "Classification of Liabilities as Current or Non-current ", IAS 16 (Amendment) "Property, plant and equipment – Proceeds before Intended Use ", IAS 37 (Amendment) " Onerous Contracts — Cost of Fulfilling a Contract ", IFRS 3 (Amendment) "Reference to the Conceptual Framework " and Annual Improvements to IFRS. Cycle 2018 – 2020, IAS1 (Amendment) "Disclosure of accounting policies", IAS 8 (Amendment) "Definition of accounting estimates".

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 2021 and are expected to be approved by the General Shareholders' Meeting without changes.

(Free translation from Spanish)

MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
Notes to the annual accounts for the year 2020
(In thousand Euro)

2.1.2 Accounting policies

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

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

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

Variations in trade provisions (Note 20), income from grants (Note 18), own work capitalised (Note 4 and 5) and the transfer to results for the year of capital grants (Note 26) are included in the consolidated income statement under "Other operating income", "Own work capitalised" and "Other operating expenses".

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

2.1.3 Comparability

The figures in the consolidated balance sheet and the consolidated income statement for 2019 and 2020 are considered comparable except for the reclassification to fixed assets of certain inventories of spare parts with a finite useful life. See Note 4 for more details.

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 2020
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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.

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

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

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

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

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

During 2019 the Spanish company Clariana, S.A., absorbed the company Boncompte-Sierra, S.L.U. There were no changes in 2020.

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 848 thousand at 31 December 2020 and 2019.

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 2020 and 2019 amounts to 842 thousand Euro.

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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.

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.

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- The costs incurred in development projects (related to the design and testing of new or improved products) are recorded as intangible assets when it is probable that the project will be a success, taking into account its technical and commercial feasibility and when its costs can be reliably estimated. Other development costs are recognised as expenses when incurred. Development costs previously recognised as expense are not subsequently capitalised. Capitalised development costs with a defined useful life are amortised from the beginning of the commercial production of the product on a straight-line basis over a period no longer than three years in which is expected that they will generate profits.
- Computer software is stated at their acquisition cost or production cost and amortised on a straight-line basis over a useful life of three years.
- Greenhouse gas emission rights are stated at the price of acquisition. When rights are acquired free of charge, acquisition price is considered to be their market value at the time of acquisition with a balancing entry under grants. Emission allowances are not amortised and are taken to results for the year as the gas emissions they cover are emitted. They are derecognised as a balancing entry for the provision for the costs generated by the emissions when they are handed over to the Administration in order to settle the obligations assumed

ASSET IMPAIRMENT LOSSES

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

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

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NON-CURRENT INTEREST COSTS

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

CURRENT AND NON-CURRENT FINANCIAL ASSETS

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

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

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

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

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

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

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

- Financial assets at amortised cost:

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

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

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- 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.

In accordance with IFRS 9, the Group has used the simplified approach to assess expected credit losses over the term of the contract. The expected credit loss calculated is not significant (approx. 0.02% of trade receivables balances) and has therefore not recognised any impact on the consolidated annual accounts.

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

- Investments in debt instruments:

Investments in debt instruments held to collect contractual cash flows when these cash flows are solely payments of principal and interest on the principal are measured at amortised cost. Interest income on these financial assets is included in financial income based on the effective interest method. Any gain or loss arising on derecognition is recognised directly in the income statement for the year and is presented in other gains /(losses). Impairment losses are presented separately in the income statement.

These financial assets are included in non-current assets, except for those maturing in less than 12 months of the balance sheet date that are classified as current assets

In accordance with IFRS 9, the Group has applied the expected loss model when estimating possible impairment of financial assets, measured at amortised cost. The application of that model has resulted in an immaterial future expected loss on financial assets (approximately 0.14% of total financial assets) and therefore no impact has been recognised in the consolidated annual accounts.

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

- Financial assets at fair value through other comprehensive income

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

INVENTORIES

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

- Raw materials and other materials supplied are stated at cost of acquisition, on a first-in, first-out basis (FIFO).
- Finished goods and work in progress are stated at standard cost of raw and other materials consumed on a FIFO basis, including the applicable portion of direct and indirect labour costs and other manufacturing overheads.
- Commercial inventories: at acquisition cost, determined in accordance with the average price method.

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

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

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

OWN SHARES

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

DISTRIBUTION OF DIVIDENDS

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

GOVERNMENT GRANTS

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

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BORROWINGS

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

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

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

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

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

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

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

TRADE PAYABLES

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

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CORPORATE INCOME TAX AND DEFERRED TAXES

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

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

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

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

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

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

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

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

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

EMPLOYEE BENEFITS

a) Pension obligations

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

- Defined contribution commitments:

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

Additionally, the Group's employees have had the voluntary option to take advantage of the current Employee Social Security Plan, which accrues in three years (subject to compliance with the conditions established in said Plan). The company commitment is only to take three year contributions of a predetermined amount.

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

- Defined benefit commitments:

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

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

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

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

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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.

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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).

OTHER PROVISIONS

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

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

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

REVENUE RECOGNITION

Ordinary income includes the fair value of the sale of goods and services, net of value added tax, returns and discounts, after eliminating intra-Group and are recognised when control of a good or service is transferred to the customer (thus the concept of control replaces the previous concept of risks and rewards).

The Group recognises revenue when the performance obligation is satisfied through the transfer of the goods or services committed with customers and an amount is recognised that reflects the consideration to which the Group expects to be entitled.

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In this regard, the Group recognises revenue from contracts with customers based on the five step model established in IFRS 5 (Identify the contract with a customer, Identify the separate performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract. Recognise revenue when (or as) the Group satisfies a performance obligation).

Interest income is recognised using the effective interest rate method.

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

LEASES

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

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

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

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

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

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Lease payments are discounted using the interest rate implicit in the lease if this rate may be easily determined. Otherwise, the lessee's incremental borrowing rate is used. Given the difficulty in determining it, the Group uses the incremental rate that it would have to pay in order to borrow the necessary funds to obtain an asset with a similar value to the right-of-use asset in a similar economic environment under similar terms, guarantees and conditions. The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-assessed and adjusted against the right-of-use asset.

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

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

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

Right-of-use assets are amortised on a straight-line basis over the lower of the useful life of the asset and the lease term. The amortization period of current assets is between 2 and 5 years.

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

The opening balance of rights of use at 1 January 2019 was:

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

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The opening balance of lease creditors at 1 January 2019 was:

	Short-term payable	Long- term	TOTAL
Computer equipment	12	11	23
Offices	23	4	27
Vehicles	60	95	155
Other operational elements	305	445	750
Total payable	400	555	955

Notes 14 and 16 set out more details of long and short-term trade payable balances linked to the aforementioned rights of use.

The breakdown of these balances at year end is as follows.

	31-12-2019	31-12-2020
Computer equipment	23	-
Offices	27	119
Vehicles	203	135
Other operational elements	1,335	1,245
Total rights of use	1,588	1,499

Additionally, the movement in these assets in 2020 and 2019 is detailed in Note 4.

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.

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HYPERINFLATION IN ARGENTINA

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

The main impacts of the application of adjustments for hyperinflation in Argentina on the Group's consolidated annual accounts for 2020 and 2019 are summarised below:

Impact of the application of hyperinflation adjustments		
	Thousand euros	Thousand euros
	2020	2019
Sales and services rendered	704	798
Profit before taxes	(244)	(350)
Profit after taxes	(381)	(499)
Equity	1,225	688

In 2020, following the IFRIC's agenda decision concerning hyperinflation in March 2020, the Group reclassified exchange rate and hyperinflation adjustment differences from reserves to translation differences. This reclassification has no impact on consolidated equity for the year. See Note 11.2 for more details.

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).

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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 presentation currency of all financial statements is translated at the year-end exchange rate.

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DISTRIBUTION OF RESULTS

The results for 2020 for Miquel y Costas & Miquel, S.A. will be distributed as agreed by their respective General Meeting of Shareholders.

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

Thousand Euro	2020
Basis of distribution	
Profit for the year (Profit)	30,629
Total	
Application	30,629
Dividends	17,300
Voluntary reserves	12,629
Capitalisation reserve	710
Total	30,629

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.

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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 2020 are as follows:

	Tobacco industry	Industrial products	Others	Consolidated Group
Segment turnover	213,975	88,586	26,075	328,636
Sales to other segments	(37,359)	(9,139)	(7,987)	(54,485)
Consolidated Sales	176,616	79,447	18,088	274,151

Inter-segment sales relate mainly to the sale of products included in the Group value chain and are made at market prices.

- Results by segment, for the year ended at 31 December 2020 are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Operating results by segment	46,830	9,915	1,547	16	58,308
Net finance results and participation of income of associates (non-distributable profit)					(46)
Profit before tax					58,262
Income tax					(13,384)
Profit for the year					44,878

The segment result is determined by the difference between the ordinary income and

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the production and operating expenses, including the depreciation cost. Financial income and expenses are not included.

- Assets by segment, at 31 December 2020, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Distributable assets by segments	177,649	95,343	27,311	(2,406)	297,897
Non-distributable assets					119,022
Total assets					416,919
Investments*	16,163	3,831	2,022	-	22,016

* 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 balances with the public administrations.

- Liabilities by segment, at 31 December 2020, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Distributable liabilities	26,428	13,550	3,958	(15,513)	28,423
Non-distributable liabilities					94,869
Equity					293,627
Total liabilities and equity					416,919

Non-distributable liabilities mainly relate to current and non-current and provisions mainly with the public administrations.

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- Amortization and depreciation of tangible and intangible assets by segment, at 31 December 2020, are as follows:

	Tobacco industry	Industrial products	Others	Consolidation adjustments	Consolidated Group
Amortisation and depreciation	9,245	6,394	2,211	263	18,113

- Information about geographical areas for the year ended at 31 December 2020:

	External turnover
Domestic market	28,615
Other countries	245,536
TOTAL	274,151

	Assets
Spain	408,868
Other countries	8,051
TOTAL	416,919

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 2020:

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

	Percentage	Ordinary income	Segment
1	11.3%	30,513	Tobacco industry
2	7.6%	20,462	Tobacco industry

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Sales by country in 2020 and 2019 are as follows:

COUNTRY	31/12/2020		31/12/2019	
	Amount > 2% revenue	%	Amount > 2% revenue	%
Switzerland	32,682	11.92%	33,500	12.76%
China	28,609	10.44%	31,277	11.91%
Germany	19,499	7.11%	14,544	5.54%
Spain	15,615	5.70%	13,029	4.96%
Italy	15,528	5.66%	15,105	5.75%
Japan	15,080	5.50%	14,208	5.41%
Poland	13,654	4.98%	6,728	2.56%
Russian Federation	12,586	4.59%	10,460	3.98%
USA	10,831	3.95%	13,029	4.96%
Indonesia	9,981	3.64%	8,772	3.34%
Paraguay	7,884	2.88%	5,157	1.96%
Turkey	6,165	2.25%	4,995	1.90%
Romania	5,870	2.14%	5,157	1.96%
Rest Centre and South America	5,614	2.05%	1,235	0.49%
Rest of Africa	28,777	10.50%	41,132	15.66%
Rest of South East Asia	14,423	5.26%	14,510	5.52%
Rest of Europe	13,881	5.06%	1,002	0.38%
Other	9,295	3.39%	18,931	7.21%
Rest Centre and South America	8,177	2.98%	9,862	3.75%
Total	274,151	100.00%	262,633	100.00%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	External turnover
Domestic market	31,277
Other countries	231,356
TOTAL	262,633
	Assets
Spain	395,739
Other countries	8,303
TOTAL	404,042

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

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

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

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

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.

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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.

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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 92% 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 1,626 thousand (Euro 642 thousand in 2019).

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.

Other financial assets at amortised cost mainly relate to promissory notes and bonds of companies with a sound credit rating. Before any acquisition, the Group performs a detailed analysis (review of the issuer, issue rating etc) in order to discard those not meeting its low risk criteria. The issuer's credit quality is reviewed on a regular basis over the financial asset's life.

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.

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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 2020					
Loans	2,859	15,996	32,722	14,398	2,626
Trade payables and other payables	41,680	4,464	0	204	-
At 31 December 2019					
Loans	2,336	13,585	31,326	19,284	4,739
Trade payables and other payables	39,773	3,917	0	204	-

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, as described in Note 3.2.

With this objective, the Group has committed credit facilities to finance its variation in working capital. At the end of 2020 the use of these credit lines was 0% (1.1% in 2019) (Note 12).

3.4 Interest rate risk

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

Taking into account the level of bank borrowings for 2020, the effect of a 50 bp variation in the interest rate would have entailed an increase or decrease of approximately Euro 270 thousand in the Company's financial expenses for the coming year (Euro 286 thousand in 2019).

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3.5 Price risk

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

Considering that a variation of paper pulp prices occurred by 10%, the impact in the consolidated income statement would amount Euro 3,028 thousand approximately (Euro 3,788 thousand in 2019).

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, 2020 and December 31, 2019 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 2020	December 2019
Total equity	293,627	280,580
Net borrowings:		
Long-term borrowings	49,145	54,489
Short-term borrowings	18,582	15,879
Cash at banks and in hand and short-term investments	(78,646)	(44,313)
Long-term financial investments	(32,410)	(45,450)
Total net borrowings	(43,329)	(19,395)
Leverage index	No applicable	Not applicable

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4 PLANT, PROPERTY AND EQUIPMENT

The balances and variations for the years ended at 31 December 2020 and 2019 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
Closing net book value at 31 December 2018	49,146	99,035	11,556	159,737
Cost or valuation	68,629	351,527	11,556	431,712
Accumulated depreciation and impairment loss	(19,483)	(252,492)	-	(271,975)
Net book value	49,146	99,035	11,556	159,737
Year ended 31 December 2019				
Opening book value	49,146	99,035	11,556	159,737
Opening balance IFRS 16	27	928	-	955
Exchange differences	(702)	(469)	-	(1,171)
Additions	237	707	23,118	24,062
Additions IFRS 16	-	633	-	633
Consolidation adjustments and other cost adjustments	24	313	-	337
Hyperinflation - cost	820	490	-	1,310
Disposals	(255)	(8,338)	(60)	(8,653)
Transfers	4,730	18,623	(23,349)	4
Depreciation charge	(1,882)	(15,409)	-	(17,291)
Additions for depreciation IFRS 16	(23)	(479)	-	(502)
Consolidation adjustments and other depreciation adjustments	171	101	-	272
Hyperinflation depreciation	(160)	(380)	-	(540)
Write off of depreciation due to disposals	265	8,071	-	8,336
Depreciation exchange differences	224	233	-	457
Closing net book value at 31 December 2019	52,622	104,059	11,265	167,946
Cost or valuation	73,510	364,415	11,265	449,190
Accumulated depreciation and impairment loss	(20,888)	(260,356)	-	(281,244)
Net book value	52,622	104,059	11,265	167,946
Year ended 31 December 2020				
Opening book value	52,622	104,059	11,265	167,946
Exchange differences	(657)	(688)	(91)	(1,436)
Additions	3	3,601	18,053	21,657
Additions IFRS 16	92	-	-	92
Consolidation adjustments and other cost adjustments	-	(25)	-	(25)
Hyperinflation - cost	441	485	-	926
Disposals	-	(1,724)	-	(1,724)
Disposals IFRS16	-	(181)	-	(181)
Transfers	7,186	13,926	(21,059)	53
Depreciation charge	(2,040)	(15,766)	-	(17,806)
Additions for depreciation IFRS 16	-	(8)	-	(8)
Consolidation adjustments and other depreciation adjustments	110	385	-	495
Transfer depreciation	(62)	22	-	(40)
Hyperinflation depreciation	(67)	(325)	-	(392)
Write off of depreciation due to disposals	-	1,651	-	1,651
Depreciation exchange differences	66	392	-	458
Closing net book value at 31 December 2020	57,694	105,804	8,168	171,666
Cost or valuation	80,575	379,809	8,168	468,552
Accumulated depreciation and impairment loss	(22,881)	(274,005)	-	(296,886)
Net book value	57,694	105,804	8,168	171,666

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The additions in 2020 amounted to Euro 21,657 thousand (Euro 24,062 thousand in 2019) and relate mainly to constructions in progress resulting from continued investment in the Group's various production plants. These additions include gross additions of 3,567 thousand euros as a result of the reclassification from inventories of certain spare parts older than one year and with a finite life.

The additions for 2020 include Euro 1,136 thousand (Euro 1,592 thousand in 2019) relating to own work capitalised by the Group.

The consolidated income statement includes lease expenses relating to the rent of machinery and buildings amounting to Euro 12 thousand (Euro 50 thousand in 2019).

The Group has established proper controls to identify indications of possible impairment losses. In 2020 and 2019 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 2020 totals Euro 561 thousand (Euro 580 thousand in 2019), and the depreciation charge for the year 2020 totals Euro 17 thousand (Euro 18 thousand in 2019).

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 property, plant and equipment are not subject to guarantees. There are irrevocable commitments to acquire property, plant and equipment amounting to Euro 655 thousand at year end (there were no purchase commitments in the previous year).

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The Group has property, plant, and equipment outside of Spain totalling a net book value of Euro 2,342 thousand in 2020 (Euro 2,572 thousand in 2019).

There have been no capitalised interests on the Group assets during 2020 and 2019.

There are no significant non-operating assets.

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

At 31 December 2020 the value of fully-depreciated assets amounts to Euro 185,446 thousand (Euro 175,614 thousand in 2019).

5 INTANGIBLE ASSETS

Balances and movements for the years ended 31 December 2020 and 2019 of the items included under "Intangible assets" are as follows:

	Software	Industrial property	Development expenses	Gas emission rights	Intangible assets under construction	Total
At 31 December 2018	467	37	169	610	349	1,632
Cost	8,299	152	2,089	610	349	11,499
Accumulated amortisation and impairment	(7,832)	(115)	(1,920)	-	-	(9,867)
Net book value	467	37	169	610	349	1,632
Year ended 31 December 2019						
Opening net book value	467	37	169	610	349	1,632
Exchange differences	(50)	(19)	-	-	-	(69)
Hyperinflation - cost	110	18	-	-	-	128
Additions	4	-	-	2,044	309	2,358
Disposals	-	-	-	(1,133)	-	(1,133)
Transfers	280	-	(3)	-	(277)	-
Amortisation charge	(250)	(9)	(34)	-	-	(293)
Amortisation disposals	(9)	-	3	-	-	(6)
Business combination	-	-	-	-	-	-
Amortisation exchange differences	(36)	-	(2)	-	-	(38)
Hyperinflation - amortisation	(143)	101	-	-	-	(42)
At 31 December 2019	373	129	133	1,521	381	2,537
Cost	8,642	152	2,086	1,521	381	12,782
Accumulated amortisation and impairment	(8,269)	(23)	(1,953)	-	-	(10,245)
Net book value	373	129	133	1,521	381	2,537

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	Software	Industrial property	Development expenses	Gas emission rights	Intangible assets under construction	Total
At 31 December 2020						
Opening net book value	373	129	133	1,521	381	2,537
Exchange differences	(69)	(23)	-	-	-	(92)
Hyperinflation - cost	47	13	-	-	-	60
Additions	3	1	-	2,061	355	2,420
Disposals	-	-	-	(1,595)	-	(1,595)
Transfers	(122)	-	-	-	(373)	(495)
Business combination	-	-	-	-	-	-
Amortisation charge	(268)	(4)	(35)	-	-	(307)
Amortisation disposals	483	-	-	-	-	483
Business combination	-	-	-	-	-	-
Amortisation exchange differences	73	-	3	-	-	76
Hyperinflation - amortisation	(57)	-	-	-	-	(57)
At 31 December 2020	463	116	101	1,987	363	3,030
Cost	8,501	143	2,086	1,987	363	13,080
Accumulated amortisation and impairment	(8,038)	(27)	(1,985)	-	-	(10,050)
Net book value	463	116	101	1,987	363	3,030

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

The Group has intangible assets outside of Spain totalling a net book value of Euro 22 thousand at 31 December 2020 (Euro 24 thousand at 31 December 2019).

Additions for 2020 include Euro 62 thousand (Euro 78 thousand in 2019) relating to own work capitalised. Additionally, the Group invested Euro 3,077 thousand in R&D-I in 2020 (Euro 3,611 thousand in 2019).

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

(Free translation from Spanish)

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6 NON-CURRENT FINANCIAL ASSETS AND INVESTMENTS IN ASSOCIATES

The balances and movement for the years ended at 31 December 2020 and 2019 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 2018	427	50,869	125	-	51,421
Additions	-	18,754	-	-	18,754
Disposals	(55)	(7,224)	-	-	(7,279)
Fair value adjustments	-	(4,233)	-	-	(4,233)
Transfers (Note 9)	-	(13,230)	-	-	(13,230)
Share in profit/losses	17	-	-	-	17
Balance at 31 December 2019	389	44,936	125	-	45,450
Additions	-	5,476	-	-	5,476
Disposals	(68)	(3,287)	-	-	(3,355)
Fair value adjustments (Note 11.3)	-	(4,652)	-	-	(4,652)
Transfers (Note 9)	-	(10,533)	-	-	(10,533)
Share in profit/losses	24	-	-	-	24
Balance at 31 December 2020	345	31,940	125	-	32,410

The heading “Investments in 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 68 thousand was repaid (Euro 55 thousand in 2019), leaving a balance of Euro 70 thousand at 31 December 2020 (Euro 138 thousand in 2019). The loan bears interest of 3.5% and matures in 2022.

The 2020 item “Other financial investments” includes long-term investments maturing after 2020 and bearing interest at effective rates of between 1.86% and 4.75% (0.18% and 4.75% in 2019), which are not equivalent to the asset’s yield. Also included are financial investments in listed shares of Iberpapel Gestión, S.A., representing a 5.58% shareholding at year-end 2020 (5.08% at end-2019), at a cost of Euro 11,878 thousand and a fair value of Euro 10,596 thousand (Euros 14,294 thousand at end-2019). Fair value adjustments are carried in the consolidated statement of recognised income and expense.

(Free translation from Spanish)

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

	Shareholding	2020	2019
Fourtube, S.L.	40%	276	251
Total cost		276	251
Net book value		276	251

The Group's participation in results of the associated company (Fourtube, S.L.) and its main figures are as follows at 31 December 2020 and 2019:

2020

Name	Registered office	Assets	Equity	Liabilities	Profit/(Loss)	Shareholding (%)
Fourtube, S.L.	Sevilla	719	567	152	61	40%
		719	567	152	61	

2019

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

7 INVENTORIES

The breakdown of inventories at 31 December 2020 and 2019, in thousand Euro, is as follows:

	2020	2019
Commercial products	3,090	2,984
Raw materials and other supplies	22,558	25,235
Finished goods and work in progress	55,078	64,023
Prepayments to suppliers	839	803
TOTAL	81,565	93,045

(Free translation from Spanish)

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The cost of inventories recognised as an expense and included in the cost of sales totals Euro 85,194 thousand in 2020 (of which Euro 82,623 thousand relate to purchases and Euro 2,751 thousand to the positive variation in inventories) and Euro 101,357 thousand in 2019 (of which Euro 96,175 thousand relate to purchases and Euro 5,182 thousand to the positive variation in inventories).

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

	2020	2019
Euro	54,041	60,576
USD	26,566	34,060
Other currencies	2,016	1,539
Total	82,623	96,175

The Group has recorded impairment losses on the inventory, whose amount for impairment registered in the income statements for the year 2020 totals Euro 1,366 thousand (Euro 792 thousand in 2019).

There are no purchase commitments with suppliers at 31 December 2020 and 2019.

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

8 TRADE AND OTHER RECEIVABLES

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

The balances for the years ended at 31 December 2020 and 2019 of trade receivables for sales and services are as follows:

	2020	2019
Trade receivables	41,635	42,460
Doubtful debtors	462	451
Less: Provision for impairment of accounts receivable	(462)	(451)
Balance at 31 December	41,635	42,460

(Free translation from Spanish)

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

	2020	2019
Euro	31,756	34,067
	9,046	7,401
GBP	12	9
Other currencies	821	983
Total	41,635	42,460

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	17.6%
Other	9.9%

At 31 December 2020, accounts receivable that are not due total Euro 33,936 thousand (Euro 33,642 thousand in 2019).

The Group considers that accounts receivable, except for the impaired amount by Euro 462 thousand in 2020 (Euro 451 thousand in 2019), included in this note, have not suffered any impairment.

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

	2020	2019
Less than 3 months	5,865	7,553
Between 3 and 6 months	884	731
More than 6 months	950	534
Total	7,699	8,818

(Free translation from Spanish)

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The movement in the accounts receivable under bad debt provisions for the years 2020 and 2019 has been as follows:

	2020	2019
Balance at 1 January	451	1,768
Charge for the year (Note 20)	25	149
Recoveries of balances provided for (Note 20)	(14)	(6)
Write off of balances provided for	-	(1,460)
Balance at 31 December	462	451

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. During the present year, a direct expense was recognised in the income statement for uncollectible trade receivables amounting to Euro 8 thousand (Euro 15 thousand in 2019).

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 2020 and 2019 of other current financial assets are as follows:

	2020	2019
Sundry receivables	251	238
Public Administrations	2,717	3,114
Derivatives	259	-
Current financial asset investments	70,652	37,366
Accruals	168	113
	74,047	40,831

The breakdown of accounts with Public Administrations for the years 2020 and 2019 is as follows:

	2020	2019
Public Treasury (VAT receivable)	2,220	2,410
Other taxes refundable	497	704
	2,717	3,114

(Free translation from Spanish)

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The movement in current financial asset investments for 2020 and 2019 has been as follows:

	2020	2019
Balance at 1 January	37,366	36,277
Additions	101,445	42,975
Transfers (Note 6)	10,533	13,230
Disposals	(78,692)	(55,116)
Balance at 31 December	70,652	37,366

The short-term financial investments registered at the end of 2020 total 70,661 thousand Euro (36,976 thousand Euro in 2019), as well as the accrued financial interests in 2020 of 250 thousand Euro (390 thousand Euro in 2019), maturing within twelve months and paying an effective interest rate that varies within a range of 0.21% to 2.90% for the year 2020 (0.34% to 4.88% in 2019) which is not equal to the return on assets.

10 CASH AND OTHER CASH EQUIVALENTS

The balances for the years ended at 31 December 2020 and 2019 of cash and other cash equivalents are as follows:

	2020	2019
Cash at banks and in hand	7,735	6,947
	7,735	6,947

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

(Free translation from Spanish)

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11 EQUITY

11.1 Share capital, own shares and share premium

The breakdown of share capital at 31 December 2020 and 2019 is as follows:

	Number of shares (thousand)	Nominal Value of Ordinary shares (thousand Euro)
Balance at 31 December 2019	31,000	62,000
Balance at 31 December 2020	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:

	2020	2019
Balance at 1 January	29,703	30,400
Capital increase and reduction, acquisition and allocation due to exercise of options on treasury shares	(725)	(697)
Balance at 31 December	28,978	29,703

At 31 December 2020, the share capital is represented by 31,000,000 ordinary shares (31,000,000 shares in 2019), supported by entries of Euro 2.00 each one, fully subscribed and paid.

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

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

The Board of Directors, under the resolution adopted by the Ordinary and Extraordinary General Meeting held in June 22, 2016, is authorized to issue fixed-income securities, both simple and convertible and / or exchangeable for company shares, in a maximum amount of Euro 100,000 thousand in one or several times within five years. On 2019 and 2020, the Board of Directors did not use the aforementioned authorization.

(Free translation from Spanish)

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

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

There was no movement in 2020 and 2019.

At the dates of December 31, 2020 and 2019, 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	
	2020	2019
Jorge Mercader Miró	15.61	14.82
M ^a del Carmen Escasany Miquel	11.74	11.67
Indumenta Pueri S.L	11.40	8.66
Bernadette Miquel Vacarisas	11.75	11.45

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.

(Free translation from Spanish)

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The breakdown and movement of own shares in equity for the years 2020 and 2019, is as follows:

Description	Number of shares	Value of the operation (Thousand Euro)	Average price (Euro)	Nominal value (Thousand Euro)
Balance at 31-12-2018	600,193	10,339	17.23	1,200
Acquisition of own shares				
Subscription and acquisition on capital increase	696,817	11,144	15.99	1,394
Capital decrease	-	-	-	-
	-	-	-	-
Balance at 31-12-2019	1,297,010	21,483	16.56	2,594
Acquisition of own shares				
Subscription and acquisition on capital increase	725,001	9,509	13.11	1,450
Capital decrease	-	-	-	-
	-	-	-	-
Balance at 31-12-2020	2,022,011	30,992	15.33	4,044

During 2020 the parent company made use of the authorisation for the derivative acquisition of treasury shares and within the framework of the Programme for the repurchase of shares reported to the CNMV on 16 January and 27 November 2020 and the special operations which have been communicated on a timely basis, acquired 725,011 shares (696,817 shares in 2019) amounting to Euro 9,509 thousand (Euro 11,144 thousand in 2019).

Treasury shares held at 31 December 2020, after the operations carried out during the year, amount to 2,022,011 (1,297,010 shares in 2019).

SHARE PREMIUM

The balance and variations for the years ended at 31 December 2020 and 2019 are as follows:

	Share Premium
Balance at 31 December 2019	40
Balance at 31 December 2020	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.

(Free translation from Spanish)

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11.2 Cumulative translation differences

The cumulative translation differences in 2020 and 2019 are as follows:

	Cumulative translation differences
Balance at 31 December 2018	(70)
Transfer to cumulative translation differences due to hyperinflation in Argentina (Note 2.3)	(5,455)
Balance at 1 January 2019	(5,525)
Movement for the year 2019	(73)
Balance at 31 December 2019	(5,598)
Balance at 1 January 2020	(5,598)
Movement for the year 2020	(481)
Balance at 31 December 2020	(6,079)

At year end 2020 and 2019 cumulative translation differences relate to Miquel y Costas Chile, S.R.L. and Miquel y Costas Argentina, S.A.

The Group, pursuant to the IFRIC's agenda decision of March 2020 in relation to IAS 29 on hyperinflation, reclassified exchange rate and hyperinflation adjustment differences from reserves to translation differences for all years presented. This reclassification has no impact on consolidated equity for the year.

(Free translation from Spanish)

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11.3 Retained earnings and other reserves

The balances for the years ended 31 December 2020 and 2019 in the items forming “Retained earnings, other reserves and other equity instruments” are set out below:

	Legal reserves of the parent company	Other reserves of the parent company	Reserves in fully consolidated companies	Cumulative conversion differences	Interim dividend	Results for the year	Other equity instruments	Value adjustment (Note 6)	Total
Balance at 31 December 2018	8,260	107,081	64,190	(70)	(6,200)	37,277	233	7,433	218,204
Transfer to cumulative translation diff. Due to hyperinflation in Argentina (Note 2.3)	-	-	5,455	(5,455)	-	-	-	-	-
Balance at 1 January 2019	8,260	107,081	69,645	(5,525)	(6,200)	37,277	233	7,433	218,204
Balance at 31 December 2019	12,400	125,780	71,268	(5,598)	(6,600)	39,218	355	3,200	240,023
Balance at 31 December 2020	12,400	138,801	83,751	(6,079)	(10,200)	44,878	479	(1,452)	262,579

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.

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)

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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 2,121 thousand relating to the legal reserve (Euro 1,738 thousand in 2019), 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, 2020 and 2019 Euro 5,411 thousand. The balance of this account can be used, free of tax, to:

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

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

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

(Free translation from Spanish)

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INTERIM DIVIDEND

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

In accordance with the resolutions of the Board of Directors, approved the distribution of interim dividends in 2020 which are listed below:

- By charge to 2019 profits:
 - Resolution dated 30 March: it was agreed to distribute a third interim dividend out of 2019 profits amounting to Euro 3,300 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.11161354 per share. As it was paid after the year end 2019, this distribution met the relevant regulatory requirements as regards profits and liquidity.

- By charge to 2020 profits:
 - Resolution dated 28 September: it was agreed to distribute a third interim dividend out of 2020 profits amounting to Euro 3,400 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.11628998 per share.
 - Resolution dated 30 November: it was agreed to distribute a second dividend out of 2020 profits amounting to Euro 6,800 thousand which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.23415972 per share.

All of them have been realized in 2020.

During 2019 the Board of Directors agreed to distribute the following interim dividends:

- By charge to 2018 profits:
 - Resolution dated 25 March: it was agreed to distribute a third interim dividend out of 2017 profits amounting to Euro 3,100 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.10300775 per share. Al ser satisfecho con posterioridad al cierre del ejercicio 2018 dicha distribución cumplió con los requerimientos de resultado y liquidez exigidos a nivel regulatorio.

(Free translation from Spanish)

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- By charge to 2019 profits:

- Resolution dated 30 September: it was agreed to distribute an initial interim dividend out of 2019 profits amounting to Euro 3,300 thousand, which in gross unit terms, with the allocation of the proportional part of the dividend rights of treasury shares held, amounted to Euro 0.11095544 per share.
- Resolution dated 25 November: it was agreed to distribute a second interim dividend out of 2019 profits amounting to Euro 3,300 thousand which, in gross unit terms, with the allocation of the proportional part of the dividend rights of the treasury shares held, amounted to Euro 0.11103727 per share, subsequent to the capital increase of November 2019.

All of them have been realized in 2019.

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.

	2020	2019
Dividends	17,300	13,350
Tax effect	(1,722)	(1,533)
Total	15,578	11,817

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)

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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 28 September, 2020 to distribute a first interim dividend of the profits from 2019 of a total amount of 3,400 thousand Euro:

	2020
Profit distribution forecast	
Expected net results after tax at 28 September 2020	<u>21,315</u>
Maximum amount to be distributed as interim dividend	<u>21,315</u>
Interim dividend distributed	<u>3,400</u>
Treasury forecast for 1 year from the date of the interim dividend agreement:	
Available liquidity at date of interim dividend agreement **	114,053
Forecast receipts	161,000
Forecast payments (including interim dividend)	<u>(158,460)</u>
Forecast treasury balances at 26 September 2019	<u>116,593</u>

** Includes unused credit facilities with financial institutions.

(Free translation from Spanish)

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- Provisional resolution of 30 November, 2020 to distribute a second interim dividend of the profits from 2019 of a total amount of 3,300 thousand Euro:

	2020
--	-------------

Profit distribution forecast:

Profit for the period 1 January to 31 December 2019	30,321
Forecast profit for the period 1 January to 30 November 2020	29,040
Maximum amount to be distributed as interim dividend	59,361
Interim dividends paid by charge to 2019	13,700
Interim dividends paid by charge to 2020	3,400
Proposed dividends by charge to 2020	6,800

Treasury forecast for one year from the date of agreement for interim distribution

Available liquidity at the date of agreement for distribution of interim dividend**	120,017
Forecast receipts	161,000
Projected payments (including dividends)	(166,342)
Projected cash and bank balances at 30 November 2021	114,675

**Includes unused credit facilities with financial institutions

SUPPLEMENTARY DIVIDEND

Under the resolution adopted by the General Shareholders Meeting dated in June 30, 2020, 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 2019 amounting to Euro 3,800 thousand.

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

(Free translation from Spanish)

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RETAINED EARNINGS

Relates to the earnings obtained in each year by the companies in the consolidation scope at 31 December 2020 and 2019.

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 2020 this amounts to 479 thousand Euro (Euro 2565 thousand in 2019).

- "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.

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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 at grant date</u>
27/01/2025	1.25

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

The value is taken to the income statement as a staff cost for the year, on an accrual basis, with a balancing item in equity. The amount of Euro 124 thousand was charged to the income statement at 31 December 2020 (124 thousand at 31 December 2019).

12 BORROWINGS

The breakdown of the current and non-current financial debt for the years ended at 31 December 2020 and 2019 is as follows:

	2020	2019
Non-current		
Bank loans	49,145	54,489
	49,145	54,489
Current		
Bank loans	18,511	15,519
Credit facilities	-	274
Interest accrued	71	86
	18,582	15,879
Total borrowings	67,727	70,368

(Free translation from Spanish)

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The movement of short and long-term loans during 2020 and 2019 is the following:

	Long-term Borrowings	Short-term Borrowings
Balance at 31-12-18	66,145	7,718
Obtaining financing and value update	28,863	-
Amortization	(25,000)	(7,718)
Transfers from long to short term	(15,519)	15,519
	54,489	15,519
Balance at 31-12-19	54,489	15,519
Obtaining financing and value update	26,476	-
Amortization	(13,309)	(15,519)
Transfers from long to short term	(18,511)	18,511
	49,145	18,511
Balance at 31-12-20	49,145	18,511

The maturities of non-current borrowings are as follows:

	2020	2019
Up to 1 year	18,582	15,879
Between 1 and 3 years	32,304	30,765
Between 3 and 5 years	14,265	19,066
More than 5 years	2,576	4,658
	67,727	70,368

During 2020 the Group has received 6 loans from credit institutions, 2 of them granted by the Centre for the Development of Industrial Technology (CDTI) and 4 by financial institutions, for a total of Euro 26,446 thousand, with repayment terms of 3 to 10 years including grace periods ranging from 1 year to 3 years.

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

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The Group at 31 December 2020 has loans at a zero interest rate with an outstanding capital of 5,060 thousand Euro (5,687 thousand Euro at 31 December 2019).

The rate of non-subsidized loans is fixed.

Of total loans at 31 December 2020, Euro 1,822 thousand relates to loans secured through a bank guarantee (Euro 2,140 thousand at 31 December 2019).

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 20,538 thousand Euro (26,170 thousand Euro in 2019) of which at the end of 2020 and 2019 had not provided Euros and 274 thousand Euro, respectively. Credit lines with a maturity of less than one year are subject to upcoming renovations in the year 2021.

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

	2020	2019
Euro	67,727	70,094
AUD	-	204
JPY	-	-
GBP	-	65
USD	-	5
Total borrowings	67,727	70,368

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 2020 which totals Euro 50 thousand (Euro 48 thousand in 2019) (Note 19).

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The Group companies have also promoted a PPSE that has been nourished by company contributions, as the conditions established in the previous three years have been met, for those employees who have voluntarily chosen to take advantage of the PPSE.

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

13.2 Defined benefit commitments

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

- Commitments with retired personnel

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

- Commitment with current personnel

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

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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:

	2020	2019
Charges in the consolidated income statement:		
- Financial restatement (Financial expenses) (Note 21.4)	-	1
- Current services costs (Note 19)	11	10
- Expected return on plant-related assets (Note 21.4)	-	(1)
	<u>11</u>	<u>10</u>
Charges/(credits) in Equity:		
- Actuarial gains and losses	(13)	161
- Tax effect	3	(40)
	<u>(10)</u>	<u>121</u>

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

	2020	2019
Current value of committed liabilities	(527)	(512)
Fair value of plan-related assets	198	228
Liabilities on the balance sheet (Note 14)	<u>(329)</u>	<u>(284)</u>

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

	2020	2019
Opening balance	228	272
Expected return on plan-related assets	-	1
Actuarial gains / (losses)	(9)	36
Contributions paid net of returned premiums	(21)	(9)
Closing balance	<u>198</u>	<u>228</u>

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The movement in the fair value of the committed liabilities:

	2020	2019
Opening balance	512	592
Interest costs	-	1
Current services costs	12	10
Past service cost	-	109
Actuarial (gains) / losses	5	(197)
Contributions paid	(2)	(3)
Closing balance	527	512

- Valuation of defined benefit commitments:

Group management has engaged an independent actuary to prepare an actuarial valuation at 31 December 2020 and 2019 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 31/12/2019	0.000%
Interest rate for valuing liabilities with current personnel at 31/12/2020	0.000%
Interest rate for valuing liabilities with retired personnel at 31/12/2019	0.000%
Interest rate for valuing liabilities with retired personnel at 31/12/2020	0.000%
Expected return on assets with current personnel	0.000%
Expected return on assets with retired personnel	0.000%
Annual growth in pensions at the beginning of 2020	0.25%
Annual growth in pensions at the end of 2020	0.25%
Mortality tables	PER-2020
Hypothesis of permanence	ORDER EHA/3433/2006 COD21
Retirement age	63 years

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

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

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

14 OTHER NON-CURRENT LIABILITIES

The breakdown of this account at the 2020 and 2019 year end is as follows:

	2020	2019
Grants	1,042	1,351
Long-term staff liabilities (Note 13.2)	329	284
Deposits and guarantees	23	23
Other	2,478	1,781
	3,872	3,439

(Free translation from Spanish)

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a) Grants

The detail and movement of grants is as follows:

	Government grants	Subsidised interest rate	Emission rights (Note 25.2)	Total
Balance at 31-12-2018	1,164	173	122	1,459
Increases	138	146	1,558	1,842
Transferred to income statement	(194)	-	(1,583)	(1,777)
Decreases	-	(173)	-	(173)
Balance at 31-12-2019	1,108	146	97	1,351
Increases	17	116	1,464	1,597
Transferred to income statement	(199)	-	(1,561)	(1,760)
Decreases	-	(146)	-	(146)
Balance at 31-12-2020	926	116	-	1,042

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

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

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Government grants at 31 December 2020 and 2019 include the capital grants from the Government of Catalonia, Energy Agency of Valencia, the C.D.T.I. and the ICAEN, mainly for the Group investments in environmental investigation for improving energy efficiency.

b) Long-term staff liabilities

The movement of long-term staff liabilities during 2020 and 2019 is as follows:

Balance 31-12-18	320
Provisions (Note 13)	10
Payments/collections	6
Actuarial gains and losses	(52)
Balance 31-12-19	284
Provisions (Note 13)	11
Payments/collections	18
Actuarial gains and losses	14
Balance 31-12-20	329

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 329 thousand as of 31 December 2020 (Euro 284 thousand in 2019).

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 2019 and 2020.

There is also a provision to cover risks related to the Group's operation amounting to Euro 0 thousand in 2020 and 8 thousand in 2019.

Additionally, this heading includes Euro 571 thousand relating to lease liabilities as a result of the application of IFRS 16 (Euro 628 thousand in 2019) and Euro 1,648 thousand (Euro 886 thousand in 2019), primarily relating to provisions for accrued variable remuneration. The current portion of this last item is included in accrued wages and salaries" (See Note 16).

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15 TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE

This section only reflects the balance at 31 December 2020 and 2019 of trade creditors and payables. Of Euro 31,213 thousand in this balance at 31 December 2020, 3,527 thousand relate to trade creditors in foreign currency, basically US Dollars, translated into Euro (In 2019, of Euro 39,406 thousand in this balance at 31 December 2019, 32,435 thousand relate to trade creditors in foreign currency, basically US Dollars, translated into Euro).

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

Additionally, the balance of Euro 31,213 thousand includes short-term fixed asset creditor balances amounting to Euro 2,790 thousand in 2020 (Euro 3,479 thousand in 2019).

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 2020 and 2019 it is as follows:

	31/12/2020	31/12/2019
	Days	Days
Average payment period to creditors	34	32
Ratio of operations paid	36	33
Ratio of operations pending payment	20	15
	Thousands of Euro	Thousands of Euro
Total payments made	104,305	115,417
Total outstanding payments	8,325	8,744

(Free translation from Spanish)

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16 SHORT TERM PROVISIONS AND OTHER CURRENT LIABILITIES

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

	2020	2019
Non-trade creditors	8,096	6,255
Accrued salaries	5,092	4,991
Provision for gas emission rights (note 25.2)	2,459	1,577
Other current provisions	579	183
Accrued expenses	-	-
Accrual	777	643
Advance payments from customers	420	461
Other liabilities		
	17,423	14,110

Provisions for variable compensation and associated objectives established and agreed with the staff concerned are included under the heading of accrued salaries. In 2020 and 2019 a portion of these variable compensation is classified in the long term because it has a maturity of more than 1 year.

The Group has not received guarantees associated with these liabilities. Of the total of "Short-term provisions" and "current liabilities" of the Group at 31 December 2020, an amount of 359 thousand Euro are in non-euro currency (299 thousand Euro in 2019).

"Other liabilities" relate to the short-term amount as a result of the application of IFRS 16 (see note 2.3 "Leases").

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

a) Non-trade creditors

	2020	2019
Taxes payable to Public Administrations	6,901	5,365
Social Security	874	870
Other taxes payable	321	20
	8,096	6,255

The balance of creditor Treasury at year-end 2020 and 2019 includes essentially the amounts provided in respect of Income Tax of Physical Persons Tax and Value Added.

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b) Other current provisions.

The Group records short-term provisions amounting to Euro 579 thousand (Euro 183 thousand in 2019), that mainly include contingent liabilities amounting to Euro 145 thousand relating to the business combination with Clariana, S.A. (Euro 145 thousand in 2019). Additionally, a provision for taxes has been established amounting to Euro 350 thousand.

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 2019 were as follows:

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

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

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

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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:

	2020	2019
Profit before tax	58,262	51,066
Elimination of results of foreign companies for non-tax group consolidation*	(1,293)	(614)
Adjustments to taxable income	<u>(2,714)</u>	<u>(345)</u>
Taxable income	<u>54,255</u>	<u>50,107</u>
Result of tax rate on taxable income	13,564	12,527
Deductions and credits	<u>(603)</u>	<u>(715)</u>
Tax consolidation group	<u>12,961</u>	<u>11,812</u>
Corporate income tax expense for the year – non tax group *	552	290
Shortfall / excess corporate income tax expense for the previous year and other adjustments	3	4
IAS / IFRS adjustments and others	<u>(132)</u>	<u>(258)</u>
Tax expense	<u>13,384</u>	<u>11,848</u>

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

During the current year the Group applied the reduction to the corporate income tax base amounting to Euro 1,385 thousand (Euro 866 thousand in 2019) 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 2020 is 22.99% against 23.2% in the prior year.

Adjustments to the tax base mainly relate to the capitalisation reserve and other permanent differences.

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 Anoa, S.A., Celulosa de Levante, S.A., MB Papeles Especiales, S.A., Miquel y Costas Tecnologías, S.A., S.A. Payá Miralles and Clariana, S.A.) have performed.

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The Group has applied in the calculation of income tax for 2020 tax incentives amounting to Euro 603 thousand (Euro 715 thousand in 2019) mainly relating to deductions for the environment, research and development and technological innovation.

The companies not included in the tax group in 2020 are the foreign subsidiaries and Clariana, S.A. (Euros 88 thousand in 2019).

The Group's tax loss carryforwards at 31 December 2020 and 2019 amount to Euros 488 thousand, all of which were generated in 2018.

The Group has no unused tax credits in 2020 and 2019.

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.

	2020	2019
Net tax payable		
From Miquel y Costas & Miquel, S.A.	515	535
From subsidiaries consolidated for tax purposes		
Sociedad Española Zig-Zag, S.A.	1	1
S.A. Payá Miralles	56	15
Papeles Anoia, S.A.	133	87
MB Papeles Especiales, S.A.	334	275
Miquel y Costas Tecnologías, S.A.	(41)	(71)
Celulosa de Levante, S.A.	(231)	(147)
Desvi, S.A.	(85)	(50)
Miquel y Costas Logística S.A.	29	21
Miquel y Costas Energía y Medio Ambiente , S.A.	34	38
Terranova Papers, S.A.	(523)	(444)
Clariana, S.A.	315	39
Total	537	299

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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 2020 and 2019 is as follows:

	2020	2019
Deferred income tax assets:		
- Deferred income tax assets to be recovered in more than 12 months	2,885	2,847
- Deferred income tax assets to be recovered in 12 months	236	196
	3,121	3,043
Deferred income tax liabilities:		
- Deferred income tax liabilities to be paid in more than 12 months	2,195	2,486
- Deferred income tax liabilities to be paid in 12 months	325	325
	2,520	2,811

The breakdown of deferred income tax assets and liabilities for 2020 and 2019 is as follows:

	2020	2019
Deferred income tax assets:		
Pension premiums	27	27
Limitation on the deduction of depreciation	848	1,022
Revaluations RD 16/2012	728	864
Accruals	1,143	913
Business combination	36	36
Other	339	181
	3,121	3,043

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	2020	2019
Deferred income tax liabilities:		
Profit generated by business combinations	212	212
Accelerated tax depreciation	1,616	1,888
Business combination	200	200
Hyperinflation	422	438
Other	70	73
	2,520	2,811

The movements in deferred income tax assets and liabilities for 2020 and 2019 are as follows:

	2020	2019
Opening balance	232	503
Business combination	-	(164)
Charged in the income statement	366	(62)
Charged directly to equity	3	(45)
Closing balance	601	232

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).

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

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

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

In September 2019 the Group was notified of the tax assessment resulting from the tax inspection. According to the assessment, Euro1,851 thousand is payable to the tax authorities which was placed on deposit by the Company on 5 November 2019. In keeping with the opinion of their advisors, the Directors have solid arguments to consider that following the submission of the relevant appeals, that amount will not give rise to a liability for the Group, and have recognised, with respect to the payment made, a long-term deferred tax asset amounting to Euro 1,710 thousand at 31 December 2020 (Euro 1,783 thousand at 31 December 2019), Euro 73 thousand having been recovered this year.

At the date of preparation of these annual accounts, the Group's returns for corporate income tax and the other main taxes to which it is subject are open to inspection since 2017. The Directors do not expect any additional significant liabilities to arise in the event of a tax inspection of these years.

18 NET TURNOVER AND OTHER OPERATING INCOME

Net turnover of the Group in 2020 and 2019 has totalled Euro 262,633 thousand and Euro 259,257 thousand, respectively, and relate to the sales of paper for cigarettes, paper for industrial use and printing and special pulp.

Furthermore, net turnover in 2020 includes Euro 51,333 thousand relating to sales in foreign currency (Euro 45,049 thousand in 2019).

Net turnover and other operating income by product lines in 2020 and 2019 have been as follows:

	2020	2019
Sales	274,151	262,633
Operating grants	373	856
Other sales and other ordinary income	2,539	3,171
Total	277,063	266,660

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Net turnover by geographic area in 2020 and 2019 is as follows:

	2020	2019
Domestic market	28,615	31,277
Exports		
European Union	83,824	84,382
OECD countries	75,648	70,358
Other countries	86,064	76,616
Total	274,151	262,633

19 STAFF COSTS

Staff costs of the Group in 2020 and 2019 have been as follows:

	2020	2019
Wages and salaries	34,233	34,130
Social Security	10,123	10,315
Contribution to pension fund (Note 13.1 and 13.2)	61	58
Long-term benefits to staff equity instruments (Note 11.3)	123	124
Severances	193	421
TOTAL	44,733	45,048

The average number of employees in 2020 and 2019 has been as follows:

Professional category	2020	2019
Members of the Boards of Directors (executives)	3	3
Senior Management	6	6
Executives	25	25
Managers and Middle Management	104	110
Administrative and Technical personnel	179	181
Production staff	576	577
TOTAL	893	902

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The breakdown by gender and category at the 2020 and 2019 year end, is as follows:

Professional category	2020		2019	
	Men	Women	Men	Women
Members of the Boards of Directors (executives)	3	-	3	-
Senior Management	5	1	5	1
Executives	23	2	24	1
Managers and Middle Management	97	9	102	8
Administrative and Technical personnel	82	102	80	101
Production staff	441	142	436	136
TOTAL	651	256	650	247

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

Professional category	2020		2019	
	Men	Women	Men	Women
Managers and Middle Management	1	-	1	-
Administrative and Technical personnel	1	-	1	1
Production staff	3	-	3	-
TOTAL	5	-	5	1

(Free translation from Spanish)

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20 OTHER OPERATING EXPENSES

Other operating expenses at 31 December 2020 and 2019 break down as follows:

	2020	2019
Leases and royalties	-	180
Independent professional services	4,186	3,818
Transport	9,446	8,919
Insurance premiums	1,320	1,056
Repairs and maintenance	5,469	5,157
Travel, publicity and advertising	3,352	4,805
Supplies	16,867	23,590
Subcontracted work	17,219	17,393
Other operating expenses	4,978	4,824
Variation in trade provisions (Note 8)	19	158
Provision for gas emission allowances	1,882	1,592
Total other operating expenses	64,738	71,492

“Other operating expenses” include an amount by Euro 2,966 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 3,188 thousand in 2019).

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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 2020 and 2019, are as follows:

Financial Assets at 31 December 2020	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 at amortised cost	125	-	345	-	21,127
Financial assets available for sale	-	-	-	-	10,813
Total Non- Current Financial Assets	125	-	345	-	31,940
Investments at amortised cost	-	-	-	-	70,652
Loans and receivables	-	41,365	-	251	-
Total Current Financial Assets	-	41,635	-	251	70,911

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

(Free translation from Spanish)

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Financial Liabilities at 31 December 2020	Banks Loans (Note 12)	Trade payables (Note 15)	Other payables (Note 14 and 16)
Liabilities at fair value with changes in results	-	-	-
Hedging derivatives	-	-	-
Other Financial Liabilities at amortized cost	49,145	-	571
Total Non – Current Financial Liabilities	49,145	-	571
Liabilities at fair value with changes in results	-	-	-
Hedging derivatives	-	-	-
Other Financial Liabilities at amortized cost	18,582	31,213	1,197
Total Current Financial Liabilities	18,582	31,213	1,197

Financial Liabilities at 31 December 2019	Banks Loans (Note 12)	Trade payables (Note 15)	Other payables (Note 14 and 16)
Liabilities at fair value with changes in results	-	-	-
Hedging derivatives	-	-	-
Other Financial Liabilities at amortized cost	54,489	-	628
Total Non – Current Financial Liabilities	54,489	-	628
Liabilities at fair value with changes in results	-	-	-
Hedging derivatives	-	-	-
Other Financial Liabilities at amortized cost	15,879	32,435	1,104
Total Current Financial Liabilities	15,879	32,435	1,104

Income and expenses arising from financial instrument category for 2020 and 2019 are as follows:

	2020	2019
Investment at amortised cost (Note 21.4)	1,079	1,635
Other financial liabilities at amortized cost (Note 21.4)	(460)	(558)
Total net	619	1,077

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).

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

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

21.2 Financial derivatives

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

The breakdown of the hedged exchange rate positions at 31 December 2020 is as follows:

Currency	Maturity	Nominal *	Profit/ (loss)
USD	2021	12,766	268
JTY	2021	(10,200)	-
AUD	2021	436	(8)
NOK	2021	334	(1)
Total (Pérdida) / Beneficio			259

*Expressed in Thousand Euro

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

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

*Expressed in Thousand Euro

(Free translation from Spanish)

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

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

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

21.3 Fair value estimation

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

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

The following table presents the Group's assets and liabilities measured at fair value at December 31, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets	10,813	259	-	11,072
Liabilities				
Financial liabilities	-	-	-	-

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

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets	14,535	103	-	14,638
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.
- Other techniques, such as analysis of discounted cash flows, are used to analyse the fair value of other financial instruments.

(Free translation from Spanish)

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21.4 Net financial results

The summary of the financial results at 31 December 2020 and 2019 is as follows:

	2020	2019
Financial income:		
- Other interest and income from cash and other cash equivalents	259	433
- Investments held to maturity	1,079	1,635
- Expected return from pension-related assets	-	1
Total Financial Income	1,338	2,069
Financial expenses:		
- Other financial liabilities at amortized cost- Bank Interest	(460)	(558)
- Other Bank Interest	-	(1)
- From restatement of provisions for employee benefits	-	(1)
Total financial expenses	(460)	(560)
Exchange differences:		
- Exchange losses	(2,835)	(3,093)
- Exchange gains	1,887	2,280
Total exchange differences	(948)	(813)
Impairment and result from disposal of financial instruments		
- Investments in capital	-	-
Total impairment and result from disposal of financial instruments	-	-
Net financial results	(70)	696

(Free translation from Spanish)

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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.

	2020	2019
Profit attributable to the Group's shareholders (in Euro thousands)	44,878	39,218
Weighted average number of ordinary shares in circulation (thousands)*	29,412	30,099
Basic earnings per share (Euro)	1.53	1.30

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

(Free translation from Spanish)

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23 CASH FLOW GENERATED BY OPERATIONS

	2020	2019
Profit for the year before tax	58,262	51,066
Adjustments:	19,811	14,750
– Depreciation of property, plant and equipment (Note 4)	17,806	17,291
– Amortisation of intangible assets (Note 5)	307	293
– (Profit)/loss on sale of fixed assets	-	-
– Valuation corrections due to impairment	593	418
– Impairment and result from disposal of financial instruments (Note 21)	-	-
– Variation in provisions	1,125	(1,153)
– Release of grants (Note 26)	(1,760)	(194)
– Financial income (Note 21)	(1,338)	(2,069)
– Financial expenses (Note 21)	460	560
– Net exchange differences (Note 21)	1,013	(396)
– Other income and expense	1,605	-
Variations in working capital:	5,200	(10,337)
– Inventories	7,339	(11,266)
– Trade receivables	342	7,979
– Other current financial assets	(56)	(6)
– Trade and other payables	(2,425)	(7,238)
– Other current liabilities	-	194
– Other non-current assets and liabilities	-	-
Cash generated from operations	83,273	55,479

Cash generated from operations at 31 December 2020 has increased by Euro 31,284 thousand in respect last year.

(Free translation from Spanish)

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24 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

24.1 Information on related parties

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

Furthermore, in accordance with the information received from the related parties during 2020 and 2019, 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 2020 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	370,000	4,470,000	15.613%
Mr. Eusebio Díaz-Morera Puig-Sureda	Director	73,805	10,954	0.273%
Mr. Álvaro de la Serna Corral	Director	30,800	752	0.102%
Mr. Javier Basañez Villaluenga	Director	82,600	-	0.266%
Joanfra, S.A.	Director	2,480,000	-	8.000%
Mr. Joaquin Faura	Director	8,536	-	0.028%
Mr. Jorge Mercader Barata	Vice Chair	145,000	-	0.468%
Total		3,190,741	4,481,706	24.750%

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

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

(Free translation from Spanish)

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24.3 Remuneration of the Board of Directors

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

- a) Board members who are directors of the Company have received for their executive duties during the year 2020, through fixed compensation, expenses and other items, 1,089 thousand Euro (1,079 thousand in 2019) and variable remuneration amounting to 1,047 thousand Euro (898 thousand in 2019). No contributions were made to the long-term savings schemes this year or in the previous year. Additionally, during 2017 upon the termination of the previous plan, the "2016 Stock Option Plan" was formalised which at year end 2020 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 during which the beneficiaries may exercise the options.
- b) For all members of the Board of Directors, the maximum total remuneration is equivalent to 5% of the net profits of the company Miquel y Costas & Miquel, S.A., following compliance with applicable legal and by-law requirements. The amount accrued in this respect in 2020 and 2019 totals Euro 1,531 thousand (5% of profit after tax) and Euro 1,516 thousand (5% of profit after tax), respectively, which is recognised in Other operating expenses in the income statement and is 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 28 thousand has been paid in the current year (18 thousand Euro in 2019).

Except for the abovementioned concepts there is no receivable or payable balance to the members of the Board of Directors as of 31 December 2020 and 2019.

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 2020 and 2019 no advances or loans have been granted to the Directors.

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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 2020 was 1,530 thousand Euro (1,475 thousand in 2019).

During 2017 the “2016 Stock Option Plan” was formalised. At year-end 2020 it is in the “Vesting Phase”. This phase will last for five years and will subsequently give rise to the start of the “Exercise Phase”, which will last for five years. This phase will mark the start of the period in which beneficiaries may exercise the options (Note 11.1).

The Group has no agreements in place with the members of Senior Management who are not executive directors other than those established in the Workers’ Statute for indemnities due to resignation or wrongful dismissal or if the employment relationship ends as a result of a takeover bid.

Members of senior management who are not executive directors are:

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

25 ENVIRONMENTAL POLICY

25.1 Environmental assets and expenses

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

Total net investment after deducting grants received and tax deductions applied has totalled Euro 3,976 thousand in 2020 (Euro 9,183 thousand in 2019).

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The Group's main environmental investments in 2020 in the production process focused on reducing energy consumption, thus contributing to the prevention of climate change.

With respect to investment not directly related to the production process, resources were primarily invested in projects enhancing and improving the drying of sewage sludge and the installation of new photovoltaic panels, guaranteeing a more sustainable environmental alternative compared with conventional energy consumption thanks to the use of renewable sources such as solar energy.

Total expenses allocated to the protection and improvement of the environment, deducting the income obtained on the sale of byproducts, have totalled Euro 4,035 thousand in 2020 (Euro 3,754 thousand in 2019), of which there are not any unusual items, and relate basically to the local taxes for the use of water in the Regions, consumption of raw materials and energy in environmental protection equipment and other waste treatment.

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

25.2 Greenhouse gas emissions allowances

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

The breakdown of the movement during 2020 and 2019 of this intangible asset is as follows:

	2020	2019
Opening balance	1,577	633
Increase due to new emissions	2,476	1,583
Return of emission rights from last year	(1,594)	(639)
Business combination	-	-
Closing balance	2,459	1,577

The amount of the provision at 31 December 2020 relates to the units not yet returned in respect of current year emissions measured at fair value at year end.

(Free translation from Spanish)

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The movement in 2020 and 2019 under emissions allowances (Note 14) is as follows:

Thousand Euro	2020		2019	
	Tn CO2	Value	Tn CO2	Value
Opening balance	3,662	97	14,826	122
Rights granted	61,094	1,464	62,372	1,558
Consumption for the year	(64,756)	(1,561)	(73,536)	(1,583)
Closing balance			3,662	97

The Group has not sold emission allowances in 2020 or 2019.

Based on Royal Decree 18/2019, the companies Miquel y Costas & Miquel and Celesa have taken part in the process for the gratuitous assignment of emission allowances for 2021-2025 which is in the approval phase.

The companies MB, Terranova, Clariana and Paya Miralles (included in the previous plan) requested their exclusion from the emission allowance trading plan for 2021-2025 on the understanding that they operate facilities with low emissions. This request was approved by the competent regional authorities this year, the commitment being to apply the mitigation measures described in Royal Decree 317/2019.

26 INVESTMENT GRANTS OF NON-FINANCIAL ASSETS

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

	2020	2019
Capital grants transferred to the income statement (Note 14)	199	194
Greenhouse gas emission allowances (Note 14)	1,561	1,583
Total	1,760	1,777

(Free translation from Spanish)

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27 CONTINGENCIES AND COMMITMENTS

Contingencies

The parent company and the Group are involved in litigations and disputes in the ordinary course of business. In 2020 there were no significant events and therefore there are no changes other than the submission of a contentious-administrative appeal against the assessment agreement raised by the tax inspectorate in relation to corporate income tax. In keeping with their advisors, the Directors continue to hold that, based on prevailing accounting legislation, the parent company should not recognise any additional amount in its consolidated annual accounts. The events that have taken place from the year end to the date of issue of this report are described in the following section on subsequent 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 2,302 thousand at 2020 year-end (Euro 2,620 thousand in 2019), mainly responding to submissions for public contests, grants, proceedings in courts and tax authorities.

Commitments

The Group has no significant sales-purchase commitments signed at year end 2020 except for those mentioned in Note 4. There were no commitments in 2019.

28 AUDITORS' REMUNERATION

The fees accrued to PricewaterhouseCoopers Auditores, S.L., for auditing (usual and exceptional) and other assurance services for the year 2020 total Euro 136 thousand (Euro 150 thousand in 2019) and Euro 1 thousand (Euro 1 thousand in 2019), respectively. Other assurance services include in 2020 and 2019 the issue of reports on agreed-upon procedures on the statement of packaging compliance.

During 2020 Euro 0 thousand accrued in fees to other companies of the PwC network as a result of other services provided to the Group (Euro 0 thousand in 2019).

The fees accrued in 2020 by other auditors of subsidiaries (Miquel y Costas Argentina, S.A. for audit and other assurance services amounted to Euro 22 thousand in 2020 (Euro 23 thousand in 2019 for Miquel y Costas Argentina, S.A.). In 2019 and 2020 this includes the verification of the non-financial information statement.

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29 IMPACTS COVID-19

The early and rigorous roll-out of internal protocols helped to prevent and minimise the risks of the spread of the coronavirus with respect to people and the Group's operations, enabling work centre to continue operating and therefore to deliver on their commitments in an exceptional situation.

During the different phases of the first state of emergency, some production assets were impacted by force majeure contingencies as production employees were affected by the total lockdown mandated in the Odena basin (Anoia region) by the authorities and which forced temporary lay-off proceedings to be introduced on the grounds of force majeure.

After the end of the first state of emergency and as a result of the fall in demand in the graphic arts and printing market triggered by the pandemic, partial temporary lay-off proceedings were brought in for economic, production and organisational reasons, affecting part of the workforce at the Mislata and Clariana production sites.

The parent company and its subsidiaries have analysed the possible accounting implications as a result of the pandemic and have not detected to date any effects which warrant specific disclosure.

In view of the evolution of the business in 2020 compared with the same period in the previous year, no risk is considered to exist regarding the application of the going-concern principle or the Group's ability to fulfil its obligations. No changes have been made to rental contracts in effect and there are no workforce restructuring plans for this reason. The parent company has not only maintained its dividend distribution policy throughout 2020 but in December brought forward the payment usually made in April of the following year. The parent company is not looking to make any adjustments to the stock option plan in effect besides those required under prevailing regulations.

With respect to the measurement of assets and liabilities on the balance sheet, the impact of items such as customer collectability, the net realisable value of inventories, investments in Group companies and associates or the recoverability of tax assets, has been assessed and where necessary, the corresponding value adjustment has been made. No significant impact has in any event been detected.

The exceptional expenses resulting from the situation caused by COVID-19 during the year amount to Euro 275 thousand and include, among other things, supplies of disinfectants, masks and gloves, tests and equipment in order to address the new health and safety measures defined and to some extent, the aforementioned employment measures.

At the present date, it is unknown whether there will be any future economic impacts deriving from the health crisis and the Group therefore continues to pay special attention to its business continuity plans and operational resilience, through ongoing monitoring.

(Free translation from Spanish)

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30 SUBSEQUENT EVENTS

In January 2021 the Provincial Court of Barcelona delivered a judgement in the trial against the former distributor in Italy Tobacco's Import-Export SPA and confirmed the appropriateness of the termination of the distribution agreement by Miquel y Costas & Miquel, S.A, requiring the distributor to pay the pertinent indemnity for damages through the payment of Euro 1,999 thousand. On 1 February the defendant filed an appeal against the judgement with the Supreme Court and the admission process is under way.

No other significant subsequent events for the reporting period are known at the date of preparation of these consolidated annual accounts.

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APPENDIX I

SUBSIDIARY COMPANIES IN THE CONSOLIDATION SCOPE 2020

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	3,000	96.67%	3.33%	4
Miquel y Costas Argentina, S.A.	Argentina	Manufacture and sale of paper	1,565	0.00%	100.00%	2
MB Papeles Especiales, S.A.	Barcelona	Manufacture and sale of special papers	722	99.9958%	0.0042%	1
Miquel y Costas Tecnologías, S.A.	Barcelona	Other technical services	500	45.00%	55.00%	4
Papeles Anoia, S.A.	Barcelona	Trading of all types of paper	2,054	99.00%	1.00%	1
Miquel y Costas Energía y Medio Ambiente, S.A.	Barcelona	Thermal electric plant	766	0.00%	100.00%	4
Payá Miralles, S.A.	Valencia	Industrial assets lease	1,878	99.89%	0.11%	4
Sociedad Española Zig-Zag, S.A.	Barcelona	Sale of paper	60	93.47%	6.53%	4
Terranova Papers, S.A.	Barcelona	Manufacture and sale of processed and handled paper	12,000	41.17%	58.83%	1
Miquel y Costas Deutschland, GMBH	Germany	Trading of all types of paper	25	0.00%	100%	4
Miquel y Costas Chile, SRL	Chile	Trading of all types of paper	29	0.00%	100%	4
Miquel y Costas Logística, S.A.	Barcelona	Logistics, storage, transport and distribution services	100	50.00%	50.00%	4
Fourtube, S.L.	Sevilla	Manufacture of paper	350	0.00%	40%	3
Clariana, S.A.	Vila-Real (Castellón)	Paper production and marketing	157	60%	40%	1

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

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

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

SUBSIDIARY COMPANIES IN THE CONSOLIDATION SCOPE 2019

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%	1

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

Note 1: The companies marked with a reference (1) are audited by PricewaterhouseCoopers Auditores, S.L.

Note 2: The companies marked with a reference (2) are audited by P&A Consultores, S.A.

Note 3: The companies marked with a reference (3) are audited by Mazars Auditores S.L.P.

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

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MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED DIRECTORS' REPORT FOR 2020
(IN THOUSAND EURO)

CONSOLIDATED RESULTS

During the successive declarations of a state of emergency which began with Royal Decree 463/2020 of 14 March, as a result of COVID-19, the Miquel y Costas Group's activities have been regarded as essential, so, other than in a limited number of exceptional cases, the Group has been able to operate throughout the healthcare crisis.

The early and rigorous roll-out of internal protocols helped to prevent and minimise the risks of the spread of the coronavirus with respect to people and the Group's operations, enabling work centre to continue operating and therefore to deliver on their commitments in an exceptional situation.

During the different phases of the first state of emergency, some production assets were impacted by force majeure contingencies as production employees were affected by the total lockdown implemented in the Odena basin (Anoia region), which was decreed by the authorities and forced temporary lay-off proceedings to be brought in on the grounds of force majeure.

After the end of the first state of emergency and as a result of the fall in demand in the graphic arts and printing market triggered by the pandemic, partial temporary lay-off proceedings were brought in for economic, production and organisational reasons, affecting part of the workforce at the Mislata and Clariana production sites.

Within this context, the main figures for results are set out below, all expressed in thousand euro.

<i>Thousand Euro</i>	2020	2019	Variation
Net turnover	274,151	262,633	4.4%
Gross operating profit (EBITDA) ¹	76,421	67,937	12.5%
Operating profit	58,308	50,353	15.8%
Profit before tax (PBT)	58,262	51,066	14.1%
Profit after tax (PAT)	44,878	39,218	14.4%
Cash-flow after tax (CFAT) ²	62,991	56,802	10.9%

Consolidated revenues for 2020 amounted to Euro 274.2 million, up Euro 11.5 million compared with the same period in the previous year.

¹ Operating income plus depreciation.

² Profit after tax plus amortization.

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By line of business, the Tobacco Industry business grew sales mainly thanks to the positive performance of paper and pulp sales in this line. The Industrial Product line also registered an increase in sales, primarily driven by Terranova's robust performance in the second half of the year which offset the fall in demand for certain special papers. Finally, "Others" posted an unequal performance, the fall in coloured paper due to the impact of the COVID-19 pandemic being particularly noteworthy.

The parent company's sales in the year amounted to Euro 168.6 million in line with the previous year.

Consolidated operating profits grew by 15.8% compared with the same period in 2019. All lines of business reflected the favourable evolution of pulp and energy prices and the fall in costs resulting from the investment programme.

In this way, the Tobacco Industry line posted improved results along with the Industrial Product line, driven by demand and the strong performance of the operations of Terranova and MB. Despite the fall in sales mentioned above, thanks to the improvement in costs, the results of the "Others" line were in line with the previous year.

The exceptional expenses resulting from the situation caused by COVID-19 during the year amount to Euro 275 thousand and include, among other things, supplies of disinfectants, masks and gloves, tests and equipment in order to address the new health and safety measures defined and to some extent, the aforementioned employment measures.

Consolidated profit before tax amounted to Euro 58.3 million, up Euro 7.2 million compared with the previous year, representing an increase of 14.1%, considering hyperinflation in Argentina to be insignificant.

On the other hand, profit after tax amounted to Euro 44.9 million, which is up 14.4% on the previous year. The effective tax rate estimated for the period amounted to 23.0%, slightly less than the previous year's 23.2%.

With respect to the parent company, profit after tax this year amounted to more than Euro 30.6 million, up 1.0% on the same period in the previous year, largely driven by the improvement in supply and energy prices and the return on investments.

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MIQUEL Y COSTAS & MIQUEL, S.A. AND SUBSIDIARY COMPANIES
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CONSOLIDATED BALANCE SHEET

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

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

<i>In thousand Euro</i>	December 2020	December 2019
Net Fixed Assets ³	174,696	170,482
NOF ⁴	77,163	92,588
Other assets/Other liabilities Non-Current ⁶	(1,561)	(1,885)
Capital used	250,299	261,185
Equity	(293,627)	(280,580)
Net Financial Debt ⁵	43,329	19,395

Capital employed decreased by almost Euro 11.0 million, particularly, due to the variation in NOF, which is primarily attributable to the fall of Euro 11.6 million in raw materials and finished products and the increase in accounts payable and current provisions amounting to Euro 2.9 million.

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

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

⁵ Deferred tax assets and liabilities, non-current tax assets and other non-current liabilities

⁶ Current and non-current financial assets, cash and cash equivalents less current and non-current bank borrowings

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FINANCIAL POSITION

The consolidated Group's financial position, based on the information prepared in accordance with the international standards adopted, was as follows at year end and compared with the previous year:

<i>Thousand Euro</i>	December 2020	December 2019
Long-term borrowings	(49,145)	(54,489)
Short-term borrowings	(18,582)	(15,879)
Treasury and Current financial investments	78,646	44,313
Long-term financial investments ⁶	32,410	45,450
Total net financial position⁵	43,329	19,395
Equity	293,627	280,580
Leverage index	n.a.	n.a.

The net financial position at year end reflects a debtor balance of Euro 43.3 million, which is Euro 23.9 million higher than that at the 2019 year end.

Given the uncertainty generated by the international spread of COVID-19 and in order to guarantee the Group has the necessary flexibility and liquidity in light of the difficulty in forecasting events, the Group increased its cash and cash equivalent position by Euro 34.3 million to Euro 78.6 million at 2020 year end.

Net operating cash flow generated in 2020 amounted to Euro 63.0 million, up 10.9% on the previous year, 2019. The parent company's cash flow amounted to Euro 39.5 million, up Euro 0.5 million on 2019.

Funds generated were primarily applied in investment in tangible and intangible assets in an amount of Euro 18.5 million, the acquisition of treasury shares, in an amount of Euro 9.5 million, the payment of dividends, in an amount of Euro 17.3 million and the increase in liquid assets or positions classified as outlined above.

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STOCK EXCHANGE INFORMATION

The parent's stock market activity in 2020 is reflected in the following figures:

Trading days	257 days
Nº shares traded	8,328,718 shares
Value traded	Euro 106,223 thousand
Maximum quotation	Euro 16.72/ share
Minimum quotation	Euro 10.10 / share
Average quotation	Euro 12.76 / share
Final quotation	Euro 14.72 / share

TREASURY SHARES

During 2020 the parent company made use of the authorisation for the derivative acquisition of treasury shares granted to the General Shareholders' Meeting on 20 June 2018 within the framework of the Programme for the repurchase of shares reported to the CNMV, on 16 January and 27 November 2020 and the special operations which have been reported on a timely basis, and acquired 725,001 listed shares, representing 2.34% of share capital.

It should be noted that the stock option plan framed within the current employee remuneration plan is in the vesting period.

RELATED PARTIES OPERATIONS

During 2020, 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.

Similarly, during this period there is no record of any significant operations being carried out by the parent company and other Group companies with the directors or executives or parties related to them, as is attested to by the express representations made by them, which must be reported, as established in section 1a) of article 229 of the Spanish Companies Act, except for the dividends paid, the remuneration received as directors and / or executives and if appropriate, the remuneration linked to the parent company's financial instruments.

In 2020 capital was increased in the subsidiaries Miquel y Costas Argentina, S.A. and DESVI, S.A. These capital increases were fully subscribed by Group companies which already had investments in these investees.

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Except for the aforementioned capital increases and dividends paid, there were no significant operations which might trigger a conflict of interest between the Group companies. The operations performed i) formed part of the ordinary business of the companies or entities in terms of purpose and conditions and (ii) while forming part of the Company's ordinary business, were completed on an arm's length basis and are immaterial, understood as those not warranting disclosure in order to present a true and fair view of the Group's equity, financial position and results.

ENVIRONMENT

During 2020 the Group continued to carry out various actions aimed at preserving the environment and continuing to ensure the responsible use of natural resources, focusing investments in this area on energy saving and optimising energy consumption and reducing waste, favouring the development of the circular economy in its production activities.

Apart from the management effort, and in terms of financing, it applied financial resources amounting to Euro 8.0 million, aimed at reducing water and energy consumption and cutting the generation of waste coupled with waste management.

As a result of its commitment to sustainability and the circular economy, in 2020 the Group obtained an A-rating, for "leadership", the maximum rating assigned by the independent body CDP in the categories of CDP Climate Change and CDP Water. This classification is particularly important as it has only been awarded to 10 Spanish companies according to Europapress, the Group being the only one of its size and industrial sector.

R&D&i ACTIVITY

In 2020 the Group continued its R&D +i activities and expansion, and devoted Euro 3.2 million. During this period, activities continued and focused mainly on research, largely aimed at obtaining new products and the technological innovation of production processes.

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PERSONNEL

The Group's top priority during the health crisis has been to implement all measures at its disposal to protect the health and safety of its employees and in turn, deliver on its commitments with stakeholders and specifically, customers and suppliers.

The situation has been managed through the Crisis Committee which was set up on 2 March last year. The Committee monitors in real time the unfolding of the pandemic and takes the necessary measures, guided by the need to look after the Group's employees. Additionally, this Committee coordinates actions in terms of managing and upholding its customers and suppliers' interests and anticipating actions that guarantee supplies and minimise the impacts that the situation triggers. To date, the measures adopted have proven to be effective, avoiding the spread of the virus at work locations and enabling the continuity of the business.

The average number of employees of the Group in 2020 was 893, in line with 2019. The funds assigned during the period to health and safety and occupational risk prevention amounted to Euro 2.9 million while funds invested in sundry training programmes were significantly reduced compared with previous years as a result of the current health situation caused by the pandemic.

MAIN RISKS AND OPPORTUNITIES

Given the international nature of the operations of the Company and most Group companies, they are exposed to exchange rate risk, their functional currency differing from the currencies used in operations on different markets. The effects of foreign currency fluctuations on sales are partly offset by cash flows in the opposite direction generated by imports. Additionally, given that in aggregate, the Group is a net exporter, the additional risk of fluctuation is mitigated through the arrangement of hedging.

At the same time, the Group operates in very different markets and with very different customers that expose it to insolvency risks linked to commercial loans. In order to control and if appropriate, minimise the risk, the Group has established and follows a strict internal credit rating policy and additionally, covers exposure through credit insurance.

Because the Group uses energy sources, mainly electricity and gas, it is affected by the price volatility of these products. In order to reduce the impact, the Group assigns a significant part of its investments to technologies aimed at improving production performance and so, reducing consumption and reliance on external energy sources, coupled with the effective management of supplies of such resources,

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The parent company and most of its subsidiaries present a solid balance sheet structure that provides strength and operational and structural financing capacity. When it is considered that there is objective evidence concerning the advisability of adjusting the value of a financial asset, a value adjustment is made based on judgements and estimates that are obtained from the information prepared by independent third parties.

The constant effort in research, development and innovation, essential in a global and competitive market, enables the Group to apply its know-how to obtaining and using new products based on new and often exclusive cutting-edge technology, in order to maintain and increase productivity and output of its product range and consistently satisfy demand for top quality, setting the stage for increasing needs going forward.

The parent company and the Group are involved in litigations and disputes in the ordinary course of business. In 2020 there were no significant events and therefore there were no changes other than the submission of a contentious-administrative appeal against the assessment agreement raised by the tax inspectorate in relation to corporate income tax. In keeping with their advisors, the Directors continue to hold that, based on prevailing accounting legislation, the parent company should not recognise any additional amount in its consolidated annual accounts. The events that have taken place from the year end to the date of issue of this report are described in the following section on subsequent events.

Although the Group has adopted all measures at its disposal in order to minimise the impact of COVID-19 on its workforce and operations, there is the risk of new surges which could affect both the Group's operating activities and demand. The Group has therefore worked and is working with potentially adverse scenarios within the framework of this pandemic and continues to have in place action plans to minimise its impact

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SUBSEQUENT EVENTS

In January 2021 the Provincial Court of Barcelona delivered a judgement in the trial against the former distributor in Italy Tobacco's Import-Export SPA and confirmed the appropriateness of the termination of the distribution agreement by Miquel y Costas & Miquel, S.A, requiring the distributor to pay the pertinent indemnity for damages through the payment of Euro 1,999 thousand. On 1 February the defendant filed an appeal against the judgement with the Supreme Court and the admission process is under way.

No other significant subsequent events for the reporting period are known at the date of preparation of these consolidated annual accounts.

OUTLOOK

The Group's results in the fourth quarter of the year evidence the return on the investments made and better energy prices than expected, thus consolidating the improvement in results compared with that period in 2020.

The Group considers that this performance in terms of results will continue in the first quarter of 2021, exceeding those in the same period in the previous year.

However, as from the second quarter, the rise in raw material and energy prices and the volatility in demand make it difficult to predict how the situation will play out.

In any event, the Group expects to consolidate 2020 results in 2021 thanks mainly to the good start to the year and the return on the investments made.

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 2020, 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).

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