Iberpapel Gestión, S.A. and subsidiaries

Consolidated Annual Accounts and
Consolidated Management Report
at December 31, 2018

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Iberpapel Gestión, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Iberpapel Gestión, S.A. (the parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Measurement of biological assets	
The Group's biological assets consist of tree plantations. As indicated in Note 2.8 of the accompanying notes to the accounts, these assets are recognised in the consolidated annual accounts at fair value less estimated costs to sell. We focus on this area due to the significance of the value of the biological assets (€18,420 thousand at 31 December 2018), and the fact that the calculation requires the use of certain assumptions entailing significant judgements. The Group bases on management's expert assessments the quantification of fair value change to the assets depending on their degree of maturity.	Our audit procedures included, among others, the verification of the process implemented by Group management to assess the value of the biological assets. We also confirmed the professional competence, independence and integrity of the management experts, assessing the valuation method and comparing significant assumptions and critical judgement areas. Additionally, we carried out substantive audit procedures to test the completeness of the information furnished to the management experts, including a sample of deeds to check ownership of the plantations. The procedures described above revealed that the assumptions used to value the Group's biological assets are within a reasonable market range.
Revenue recognition	
As mentioned in Note 2.23 of the accompanying notes to the accounts, the Iberpapel Group's revenue is obtained from three different activities: paper sales, electricity sales and timber sales. Paper sales account for 80% of the Group's revenue. The revenue is recognised when the Group has transferred control to the buyer and the buyer has accepted the products. Electricity sales account for 18% of revenue. The Group has a cogeneration plant and a biomass plant. These sales are regulated by Ministerial Order ETU/130/2017 of 17 February, by means of remuneration parameters in order to guarantee the economic and financial stability of the power system and assure a certain profitability. Timber sales account for 2% of the Group's revenue, relating mainly to timber obtained from the plantations owned by the Group in Argentina and Uruguay, which is sold by local companies.	Firstly, we gained an understanding of and assessed the accounting policies employed by management to determine and account for the revenue recognised, particularly the criteria and solutions applied when adopting IFRS 15. As regards paper sales, we assessed the correct application of the revenue recognition policy and the design, implementation and operating effectiveness of the relevant revenue controls. We also obtained confirmation of the balance for the year for a sample of customers and we verified also for a sample, the correct recognition of revenue for the period and operations cut-off. In addition, we analysed a sample of standard and non-standard account entries and other adjustments made during the preparation of the consolidated annual accounts, selected on the basis of certain characteristics.

Key audit matter	How our audit addressed the key audit matter
In 2018, the Group's adoption of IFRS 15 "Revenue from contracts with customers" required the assessment by management of its impact on the financial information. We focus on the revenue recognition area in view of its relevance to the Group's consolidated annual accounts, the different revenue sources and the possibility of material misstatements due to infringements in this area, as is assumed in accordance with prevailing auditing standards.	For electricity sales, we checked the correct recognition of all electricity revenue by reviewing the invoices issued and subsequent collection, as well as verifying that the revenue recognition policy is suitable in accordance with the regulatory framework governing the activity (Ministerial Order ETU/130/2017 of 17 February), assisted by an expert. As regards timber sales, we checked that they are correctly accounted for by comparing all invoices issued with subsequent receipts and the correct accrual of revenue. The findings of our procedures corroborate the Company's accounting treatment and the information included in the consolidated annual accounts in connection with this area, not detecting significant differences.
Measurement of the investment in the Hernani plant extension As indicated in Note 6 of the accompanying notes to the accounts, the Group has recognised property, plant and equipment amounting to €19,238 thousand, consisting of the most significant additions to increase production capacity at the Hernani plant of the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. The project entails an estimated investment of approximately €180 million, as agreed by the Board of Directors of Iberpapel Gestión, S.A. on 25 April 2017. In addition, at the year end the Group has made commitments to acquire property, plant and equipment totalling €48,028 thousand for this project. We paid particular attention to the operation in view of its relevance to the consolidated annual accounts and the impact of the investments made on the Group's business.	Our audit procedures included examining the agreements signed, for which we held meetings with Group management to verify the status of the investment plan for the Hernani plant production capacity increase project and the plan for the use of the existing facilities. We also verified the proper recognition of the fixed asset additions by means of a test of detail of a sample of additions. The findings of our procedures corroborate the Company's accounting treatment and the information included in the consolidated annual accounts in connection with this area, not detecting significant differences.

Other information: Consolidated management report

Other information comprises only the year 2018 consolidated management report, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the management report and if not, we are required to report that fact.

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

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2018 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 28, 2019.

Appointment period

The General Ordinary Shareholders' Meeting held on April 24, 2018 appointed us as auditors of the Group for a period of one year, as from the year ended December 31, 2018.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period of three years and we have audited the accounts continuously since the year ended December 31, 1997.

Services provided

Non-audit services provided to the audited Group are detailed in note 31 to the accompanying consolidated annual accounts for 2018.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Alvaro Moral Atienza (21428)

February 28, 2019

IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Directors' Report at 31 December 2018

IBERPAPEL GESTIÓN, S.A.

Consolidated Annual Accounts and Consolidated Directors' Report for 2018

On 27 February 2019, pursuant to Articles 253 of the Spanish Companies Act and 37 of the Code of Commerce, the Board of Directors of Iberpapel Gestión, S.A. issues the Consolidated Annual Accounts and Consolidated Directors' Report for the year ended 31 December 2018.

The Board of Directors

	Signature
Mr. Iñigo Echevarría Canales	
Mr. Néstor Basterra Larroude	
Mr. Iñaki Usandizaga Aranzadi	
Mr. Martín González del Valle Chávarri	
Ms. María Luisa Guibert Ucín	
Mr. Gabriel Sansinenea Urbistondo	
Mr. Iñaki Martínez Peñalba	
Mr. Jesús Alberdi Areizaga	

Madrid, 27 February 2019

CONTENT OF THE CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018 AND 2017

CONSOLIDATED BALANCE SHEET
(Thousand euro)

		Year ended at 31 December	
	Note	**2018**	**2017**
NON-CURRENT ASSETS		**158,883**	**144,804**
Property, plant and equipment	6	133,739	124,696
Biological assets	7	18,420	13,640
Intangible assets	8	1,641	1,510
Deferred tax assets	19	2,665	1,547
Financial receivables	9	2,418	3,411
CURRENT ASSETS		**224,062**	**208,498**
Inventories	11	20,204	15,859
Trade and other receivables	10	38,744	41,213
Cash and cash equivalents	12	165,114	151,426
TOTAL ASSETS		**382,945**	**353,302**

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018 AND 2017

CONSOLIDATED BALANCE SHEET
(Thousand euro)

		Year ended at 31 December	
	Note	2018	2017
TOTAL EQUITY		**255,358**	**236,771**
Share capital	13	6,624	6,558
Share premium account	13	13,633	13,633
Treasury shares	13	(2,727)	(2,418)
Cumulative translation difference	15	(6,465)	(17,365)
Retained earnings and other	14	248,655	236,363
Interim dividend		(4,362)	
NON-CURRENT LIABILITIES		**74,504**	**78,195**
Borrowings and government grants	9, 18	68,235	73,901
Deferred tax liabilities	19	509	1,622
Provisions	20	5,760	2,672
CURRENT LIABILITIES		**53,083**	**38,336**
Trade and other payables	9, 17	32,129	28,552
Current tax liabilities	17	5,172	4,531
Borrowings and government grants	9, 18	13,245	2,816
Provisions for other liabilities and charges	20	2,537	2,437
TOTAL LIABILITIES		**127,587**	**116,531**
TOTAL LIABILITIES AND EQUITY		**382,945**	**353,302**

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018 AND 2017

CONSOLIDATED INCOME STATEMENT
(Thousand euro)

	Note	Year ended at 31 December 2018	2017
CONTINUING ACTIVITIES			
Revenue	21	221,071	217,053
Other income	21	4,775	3,696
Change in inventories of finished goods and work in progress	22	3,938	(2,519)
Raw materials and consumables utilised	22	(88,231)	(84,907)
Employee benefit expense	23	(19,289)	(20,102)
Depreciation and amortisation	22	(10,926)	(10,874)
Other net (expense)/income	22	(81,352)	(76,314)
Operating profit		**29,986**	**26,033**
Net financial income/(expense)	24	(744)	(578)
Profit/(loss) on disposal of non-current assets	6	7	476
Profit before tax		**29,249**	**25,931**
Income tax	25	(4,042)	(3,025)
Profit from continuing activities after tax		**25,207**	**22,906**
PROFIT FOR THE YEAR		**25,207**	**22,906**
Profit attributable to:			
Parent company's owners		25,207	22,906
Earnings per share from continuing activities attributable to the holders of equity instruments during the year			
Basic €/share	26	2.387	2.168
Diluted €/share	26	2.387	2.168

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018 AND 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Thousand euro)

		Year ended at 31 December	
	Note	**2018**	**2017**
Profit for the year		**25,207**	**22,906**
Other comprehensive income:			
Foreign currency translation differences	15	(1,892)	(5,163)
Other comprehensive income, net of tax		**(1,892)**	**(5,163)**
Total comprehensive income for the year		**23,315**	**17,743**
Attributable to:			
Parent company's owners		23,315	17,743
Non-controlling interests			
Total comprehensive income for the year		**23,315**	**17,743**
Total comprehensive income attributable to the parent company's owners:		23,315	17,743
Continuing activities		23,315	17,743

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 December 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Thousand euro)

		Attributable to the Company's shareholders					
	Notes	Share capital	Share premium	Treasury shares	Cumulative translation difference	Retained earnings	Total equity
Balance at 1 January 2017		**6,558**	**13,633**	**(1,060)**	**(12,202)**	**220,520**	**227,449**
Profit/(loss) for 2017						**22,906**	**22,906**
Other comprehensive income:							
Currency translation differences	15				(5,163)		**(5,163)**
Total comprehensive income					**(5,163)**	**22,906**	**17,743**
Transactions with owners:							
Capital reductions							
Capital increases							
Dealings in treasury shares (net)	**13**			**(1,358)**			**(1,358)**
Dividend payment						**(7,063)**	**(7,063)**
Out of profits						(7,063)	**(7,063)**
Change in internal dividends							
Balance at 31 December 2017		**6,558**	**13,633**	**(2,418)**	**(17,365)**	**236,363**	**236,771**

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Thousand euro)

			Attributable to the Company's shareholders					
	Notes	Share capital	Share premium	Treasury shares	Cumulative translation difference	Retained earnings	Interim dividend	Total equity
Balance at 31 December 2017		**6,558**	**13,633**	**(2,418)**	**(17,365)**	**236,363**		**236,771**
Impact of hyperinflation					12,792	(3,818)		8,974
Adjusted balance 1 January 2018		**6,558**	**13,633**	**(2,418)**	**(4,573)**	**232,545**		**245,745**
Profit/(loss) for 2018						**25,207**		**25,207**
Other comprehensive income:								
Currency translation differences					(1,892)			(1,892)
Total comprehensive income					**(1,892)**	**25,207**		**23,315**
Transactions with owners:		**66**				**(66)**		
Capital reductions								
Capital increases		66				(66)		
Dealings in treasury shares (net)	**13**			**(309)**				**(309)**
Dividend payment:						**(5,947)**	**(4,362)**	**(10,309)**
Out of profits						(5,947)	(4,362)	(10,309)
Other changes in equity						**(3,084)**		**(3,084)**
Balance at 31 December 2018		**6,624**	**13,633**	**(2,727)**	**(6,465)**	**248,655**	**(4,362)**	**255,358**

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018 AND 2017

CONSOLIDATED CASH FLOW STATEMENT (Thousand euro)

		Year ended 31 December	
	Notes	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		**38,423**	**35,968**
Cash generated from operations	27	45,130	39,184
Interest		(480)	(70)
Taxes paid (net)		(6,227)	(3,146)
CASH FLOWS FROM INVESTING ACTIVITIES		**(13,477)**	**23,321**
Acquisition of property, plant and equipment	6	(13,127)	(2,724)
Acquisition of intangible assets	8	(44)	(59)
Investment in biological assets		(946)	(1,472)
Held-to-maturity investments		640	27,576
CASH FLOWS FROM FINANCING ACTIVITIES		**(11,258)**	**60,396**
Acquisition of treasury shares	13	(309)	(1,358)
Issuance of borrowings			70,135
Repayment of borrowings	18	(640)	(1,318)
Dividends paid to Company shareholders		(10,309)	(7,063)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**13,688**	**119,685**
Cash and bank overdrafts at beginning of the year	12	151,426	31,741
Exchange gains/(losses) on cash and bank overdrafts			
CASH AND BANK OVERDRAFTS AT THE END OF THE YEAR	**12**	**165,114**	**151,426**

The accompanying notes on pages 12 to 76 are an integral part of these consolidated annual accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Thousand euro)

1. General information

IBERPAPEL GESTIÓN, S.A. has a group (the Group) made up of 17 companies at the end of 2018: IBERPAPEL GESTIÓN, S.A., the parent company, and 16 subsidiaries. Appendix I to these notes contains additional information on the fully-consolidated companies. All the parent company's shares are listed on the Madrid and Bilbao stock exchanges.

The Group has a single production plant in Hernani and makes sales basically in Spain, its core business being the manufacture and selling of writing and printing paper.

For the purposes of preparing the consolidated annual accounts, a group is understood to exist when the parent company has one or more subsidiaries, i.e. companies over which the parent has direct or indirect control.

IBERPAPEL GESTIÓN, S.A., the Group's parent company, was set up in Huelva on 21 July 1997 as a limited liability company ("sociedad anónima"). It is entered in the Guipúzcoa Commercial Register on page SS-19511, sheet 43 of volume 1910, book 0, section 8 of the Companies Book.

The General Shareholders' Meeting held on 24 April 2018 approved agenda item six on the amendments to Articles 21, 22 and 24 of the Bylaws.

Article 21 on the maximum number of Board members. The amendment sets the maximum number of members of the Board of Directors at eight.

Article on the amount of remuneration for each director due to membership of the Board committees and the inclusion of the remuneration for the members of the new Corporate Social Responsibility Committee.

Inclusion of a new paragraph 24.4 in Article 24 on the functions, composition and remit of the new Corporate Social Responsibility Committee.

The amendment was entered in the Guipúzcoa Commercial Register on 8/06/2018, entry 60.

The General Meeting also approved agenda item seven on the capital increase of €65,583.00 charged to voluntary reserves, through the issuance of 109,305 new shares of the same class and series, the amendment of Article 5 of the Bylaws (share capital) and the delegation of powers to the directors in connection with the capital increase.

The Board of Directors carried out the capital increase in the meeting of 25 September 2018. Article 5 of the Bylaws was amended accordingly. It now reads as follows: Share capital consists of SIX MILLION SEVEN HUNDRED AND TWENTY-THREE THOUSAND EIGHT HUNDRED AND NINETY-SEVEN EUROS, FORTY CENTS (€6,623,897.40).

Capital is divided into ELEVEN MILLION THIRTY-NINE THOUSAND EIGHT HUNDRED AND TWENTY-NINE (11,039,829) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

The share capital increase and resulting amendment to Article 5 was entered in the Guipúzcoa Commercial Register on 12 November 2018, entry 63.

IBERPAPEL GESTIÓN, S.A.'s registered office is at Avenida de Sancho el Sabio 2-1°, San Sebastián.

The parent company's corporate objects are described in Article 2 of its By-laws, consisting of:

i) Commercial transactions of all kinds, for its own account or for the account of third parties, relating to any goods or objects.

ii) Ownership and exploitation of all kinds of municipal, rural, agricultural, forestry and industrial properties.

iii) Subscription, derivative acquisition, ownership, possession, administration, purchase or sale of securities and shares, except those which relate to activities regulated by Law 46/84 or by specific legislation.

There were no changes to the consolidation scope in 2018 or 2017.

These consolidated annual accounts were issued by the Board of Directors on 27 February 2019 and will be submitted to the Annual General Meeting within the stipulated time period. The parent company's directors consider that they will be approved without significant changes.

2. Summary of the main accounting policies

The main accounting policies applied when preparing these consolidated annual accounts are described below. These policies have been applied consistently to all the years presented unless otherwise stated.

2.1. Basis of presentation

The Group's consolidated annual accounts at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union and approved by European Council Regulations, in force at 31 December 2018, IFRIC interpretations and commercial law applicable to companies reporting under EU-IFRS.

The consolidated annual accounts have been prepared on a cost basis, as modified by the measurement of forestry assets under IAS 41.

The preparation of consolidated annual accounts under IFRS requires the use of certain critical accounting estimates; management must also exercise judgement when applying the Group's accounting policies. Note 4 explains the areas that require a higher degree of judgement or complexity and where assumptions and estimates are significant.

2.2. Consolidation principles

Subsidiaries are all companies (including special-purpose entities) in which the Group has the power to manage financial and operating policies, which is generally accompanied by more than one half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control when it does not hold over 50% of voting rights but is able to direct financial and operating policies by means of *de facto* control. This *de facto* control may arise in circumstances in which the number of voting rights held by the Group, as compared with the number and dispersion of other shareholdings, affords the Group the power to direct financial and operating policies, etc.

Subsidiaries are consolidated as from the date on which control is transferred to the Group and de-consolidated as from the date that control is lost.

Intercompany transactions, balances, income and expenses from transactions between Group companies are eliminated. Losses and gains from intragroup transactions recognised as assets are also eliminated. Subsidiaries' accounting policies have been brought into line with the policies adopted by the Group, where necessary, for consistency.

Appendix I to these notes set outs the identification details of the 16 fully-consolidated subsidiaries.

2.3. Comparability

The 2018 information contained in these notes is presented together with the information for 2017, for comparative purposes.

In the interests of comparability, it should be noted that simplified retrospective approach has been applied to recognise the cumulative effect at the date of first-time adoption (1 January 2018) of IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers.*

In addition, as Argentina has been classed as a hyperinflation country since July 2018 with retrospective effect to 1 January 2018, the Group has revised its policy for presenting the Argentinian subsidiaries in the financial statements.

2.4. Changes in accounting policies

a) *Adoption of IFRS 9 – Financial instruments*

IFRS 9 supersedes the provisions of IFS 39 on the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Company decided to apply IFRS 9 with effect as from 1 January 2018. Following the analysis performed, we consider that there are no significant changes to the recognition and derecognition of financial assets with respect to IAS 39.

Furthermore, the adoption of the new IFRS 9 by the Iberpapel Group requires a new credit loss calculation method based on the expected loss model as compared with the previous incurred loss model.

The Company has applied impairment requirements to both financial assets carried at amortised cost and financial assets carried at fair value through equity.

With the exception of credit-impaired financial assets (which are addressed separately), expected credit losses have been measured as follows:

- 12-month expected credit losses (expected credit losses resulting from default events that are possible within the following 12 months at the reporting date of these annual accounts).

- Lifetime expected credit losses (expected credit losses resulting from all possible default events over the financial instrument's lifetime). In cases in which credit risk has increased considerably since the initial requirement or for contract assets or for trade receivables which, under IFRS 15, do not contain a significant financing component.

A detailed analysis was conducted of the impact of application bearing in mind that the financial assets are mainly: a) balances receivable from third parties due to paper sales that are mostly secured by credit insurance providing coverage for 90% of balances pending receipt; or b) balances receivable for energy sales that are ultimately borne by Spain's Central Government.

Following the analysis, the conclusion was drawn that the impact of this impairment model on the consolidated annual accounts is immaterial.

Financial liabilities:

The application of IFRS 9 has not significantly affected the classification and measurement of the Group's financial liabilities.

b) *Adoption of IFRS 15 - Revenue from contracts with customers*

The Group has adopted IFRS 15 *Revenue from contracts with customers* using the simplified retrospective approach to recognise the cumulative effect of first-time adoption at 1 January 2018.

All the revenue recognised in the income statement is “ordinary revenue” and therefore IFRS 15 is applicable.

An itemised, disaggregated analysis has been performed of the main contracts with customers. This analysis has taken into account the specific features of each contract as regards the performance obligations acquired by Iberpapel in each case. Following the analysis, we may conclude that there are no significant impacts on the amounts recognised in the balance sheet at the date of first-time adoption (1 January 2018) and the year end (31 December 2018), although the presentation of certain amounts in the balance sheet breakdowns has been modified in these notes to the accounts.

The following tables show the adjustments recognised for each individual item. Items unaffected by the changes are not included. The adjustments are explained in more detail in Notes 10 and 20.

Thousand euro	**Current assets**	**Contract assets**	**Trade and other receivables**
Balance at 31 December 2017	**208,498**		**41,213**
IFRS 15		5,209	(5,209)
Balance at 1 January 2018	**208,498**	**5,209**	**36,004**
Balance at 31 December 2018	**224,062**	**6,833**	**31,911**

Thousand euro	Non-current liabilities	Provisions	L/T contract liabilities
Balance at 31 December 2017	**78,195**	**2,672**	
IFRS 15		(1,200)	1,200
Balance at 1 January 2018	**78,195**	**1,472**	**1,200**
Balance at 31 December 2018	**74,504**	**1,126**	**4,634**

Thousand euro	Current liabilities	Customer contract liabilities	Trade and other payables
Balance at 31 December 2017	**38,336**		**28,552**
IFRS 15		352	(352)
Balance at 1 January 2018	**38,336**	**352**	**28,200**
Balance at 31 December 2018	**52,083**	**437**	**31,692**

c) Presentation of the impact of hyperinflation on equity

In order to present more relevant, reliable information, the Group includes in reserves of consolidated companies all the effects of hyperinflation on equity, that is the restatement of the financial statements of companies operating in hyperinflationary economies and the equity effect generated by translating their respective financial statements to euro at the year-end exchange rate. Iberpapel has decided to reflect the effects in a reserve account instead of presenting them in Other comprehensive income on the line Currency translation differences. This presentation policy change entails a reclassification from the item Currency translation differences to the item Retained earnings, so the consolidated equity figure does not change.

d) Hyperinflation in Argentina

In recent years, Argentina's economy has shown high inflation rates, so the Iberpapel Group has periodically assessed the country's quantitative and qualitative inflation indicators. Inflation in Argentina spiked considerably as from the second quarter of 2018 and the data show that cumulative inflation for the last three years has exceeded 100%, which is the quantitative reference value laid down by IAS 29 *Financial reporting in hyperinflationary economies*. Consequently, the Argentinian economy is considered to be hyperinflationary in 2018, so the inflation adjustments for companies whose functional currency is the Argentine peso have been applied in these accounts.

This means, under IFRS:

- Adjusting the historical cost of non-monetary assets and liabilities and equity items from the date they were acquired or included in the consolidated statement of financial position to the year end has been adjusted to reflect changes in the currency's purchasing power as a result of inflation. The ratios published by the FACPCE in technical resolution 6 "Financial statements in constant currency", as defined by resolution JG 539/18, have therefore been used.

- Reflecting in the income statement the impact of inflation for the year on the net monetary position.

- Translating all items in the Argentinian companies' financial statements at the year-end exchange rate, which was 41,10 pesos per euro at 31 December 2018 (31/12/2017: 22.32 pesos per euro).

- The figures for years prior to 2018 must not be altered.

The main impacts on the consolidated financial statements reflected at the start of 2018 due to the above-mentioned aspects were increases in property, plant and equipment and in biological assets.

The equity effects of hyperinflation are disclosed on the line "Retained earnings". At 1 January 2018, the total impact on equity is €8,974 thousand and includes the transfer of €12,792 thousand in respect of currency translation differences prior to the classification of Argentina as a hyperinflationary economy, due to the full retrospective application of IAS 29.

2.5. Segment reporting

Operating segments are presented taking into account the quantitative thresholds described in paragraph 10 of IFRS 8, particularly segments the revenue of which accounts for more than 10% of the Group's total revenue.

2.6. Foreign currency transactions

a) Functional and presentation currency

The items included in the annual accounts of each of the Group companies are measured using the currency of the principal economic environment in which each company operates ("functional currency"). The consolidated annual accounts are presented in euros, which is the Group's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are converted to the functional currency using exchange rates in force at the transaction dates, or the measurement dates in the case of items that are remeasured. Foreign exchange gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated foreign currency are recognised in the income statement.

Exchanges losses and gains on loans and cash and cash equivalents are presented on the income statement line "Financial income or expense".

Translation differences in respect of non-monetary items such as equity instruments held at fair value through profit or loss are presented as part of the fair value gain or loss. Currency translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

c) Group entities

The results and financial position of the Group companies that have a functional currency different from the presentation currency, except for the Argentinian companies, are translated to the presentation currency as follows:

i) The assets and liabilities on each balance sheet presented are translated at the closing exchange rate at the balance sheet date;
ii) The income and expenses in each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates existing at the transaction dates, in which case income and expenses are translated at the rates on the transaction dates); and
iii) All resulting exchange differences are recognised in other comprehensive income.

2.7. Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation and cumulative impairment losses, except for land, which is presented net of impairment losses.

Historical cost includes expenses directly attributable to purchases of property, plant and equipment.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset may be reliably determined. The carrying amount of the assets replaced is written off for accounting purposes. All other repair and maintenance expenses are charged to the income statement in the year in which they are incurred.

Land is not depreciated. Other assets are depreciated on a straight-line basis over the following estimated useful lives:

	Years of estimated useful life
Buildings	33 years
Plant	3/28 years
Machinery and tooling	5/20 years
Furniture	10 years
Data-processing equipment	4 years
Vehicles	10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

In 2015, the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) restated the estimated useful life of the assets referred to as Machine Four (MP-4) and Cellulose Plant Extension (CEL-2), based on a report issued by the independent expert Galtier Franco Ibérica. The directors applied an estimated useful life of 28 years as from the moment the assets were put into use, which is within the range of useful lives envisaged in the independent expert's report.

The new depreciation plan was submitted to the Guipúzcoa Provincial Finance Department and was approved on 21 April 2015.

When an asset's carrying amount is higher than its estimated recoverable amount, the carrying amount is immediately written down to the recoverable amount.

Gains and losses on the sale of property, plant and equipment are calculated by comparing the income obtained with the carrying amount and are included in the income statement.

2.8. Biological assets

Iberpapel's biological assets comprise tree plantations (silviculture). On each balance sheet date, the Group initially recognises biological assets at fair value less estimated costs to sell.

Gains or losses on the initial recognition of a biological asset at fair value less estimated costs to sell and gains or losses resulting from all successive fair value changes less estimated costs to sell are included in net profit or loss for the year.

Government grants associated with a biological asset are recognised when and only when they are payable.

a) Determining inventories

The Group counts its biological assets every two years, grouping them together on the basis of their physical and geographic characteristics, as explained below:

i) It considers that the basic unit for grouping the biological assets is the "batch", i.e. the set of biological assets associated with a specific plot of land and with common physical characteristics.

ii) As the main physical characteristics when defining batches, the Group takes into account the species of the biological asset and its level of maturity, as the basic value parameters.

b) Basic characteristics of batches

Geographical location and common physical properties are stated for each batch of biological assets. The main characteristics are:

i) Species: The biological asset species identifies the different families of a group of biological assets (trees).

ii) Quality: A characteristic that identifies the differing qualities of each species (seed, clone).

iii) Average Annual Increase (AAI): A value that establishes the annual growth of biological assets for each batch, estimated based on measurements by technical personnel and statistical data.

iv) Degree of maturity: A code that identifies the degree of the asset's biological transformation:

Immature: Assets that are not ready for harvesting or the biological transformation is insignificant.

Mature: Assets that are ready for harvesting or picking, or are able to support regular production, harvesting or picking.
Agricultural product: products obtained through processing or picking mature biological assets.

c) Measurement of Biological Asset Batches

Once the qualitative and quantitative characteristics of each batch have been ascertained, fair value less estimated costs to sell is calculated.

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date.

Costs to sell are incremental costs directly attributable to the disposal of the asset, excluding financial expenses and income taxes.

In order to determine the fair value and costs to sell of biological assets, the quoted prices of standing timber in the most significant active markets have been used in each case. When active markets are not significant or when there are no active markets for the biological markets identified, the following are used:

i) most recent transaction price in the market, assuming that there have been no major changes in economic circumstances between the transaction and balance sheet dates;

ii) market prices of similar assets, as adjusted to reflect existing differences; and

iii) industry references.

When biological transformation since the initial costs were incurred is limited or the price impact of biological transformation is not expected to be significant, costs incurred are treated as a valid approximation of fair value.

2.9. Intangible assets

a) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire the specific software and ready it for use. These costs are amortised over the estimated useful life of the software (4 years).

Costs associated with developing or maintaining computer software are expensed when incurred. Costs directly related to the production of identifiable and unique software controlled by the Group that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets.

b) Research and development expenses

Research expenditure is recognised as an expense when incurred. Costs incurred in development projects (associated with the design and testing of new products or upgrades) are recognised as an intangible asset when the project is likely to be successful, taking into account its technical and commercial feasibility, and provided the costs may be reliably estimated. Other development expenditure is expensed when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs with a finite useful life are amortised from the start-up of the product's commercial production on a straight-line basis over the period in which profits are expected to be generated, without exceeding five years.

c) CO_2 emission allowances

CO_2 emission allowances allocated are carried at fair value at the start of the year, credited to "Borrowings and government grants", since the Administration's transfer of the allowances is a grant. Since the assets are quoted on a regulated market, fair value matches the quoted value of these allowances at that date. Emission allowances acquired are carried at acquisition price.

"Other net (expense)/income" in the consolidated income statement reflects the cost of all the year's emissions, credited to the account "Short-term provisions for liabilities and charges".

This provision will be maintained until the obligation is settled by handing the allowances over to the Administration, by 30 April of the following year.

Additionally, government grants will be taken to income in the "Other income" account as the costs mentioned in the previous paragraph are recognised.

2.10. Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets.

2.11. Non-financial asset impairment losses

Intangible assets that have an indefinite useful life are not amortised and are tested annually for impairment. Other non-financial assets are tested for impairment provided that an event or change in circumstances indicates that carrying amount might not be recoverable. An impairment loss is recognised to reflect the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (cash-generating units). Impaired non-financial assets, other than goodwill, are tested at each balance sheet date to identify any reversal of the loss.

2.12. Financial assets

2.12.1 Classification

As from 1 January 2018, the Group classifies its financial assets in the following categories:

a) those that are subsequently measured at fair value (whether through profit or loss or through equity); and

b) those that are measured at amortised cost.

2.12.2 Recognition and measurement

A financial asset is initially recognised by the Group at its fair value plus, in the case of a financial asset not recognised at fair value through profit or loss, transaction costs directly attributable to the purchase. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

The subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and on the characteristics of the asset’s cash flows. The Group classifies debt instruments in three measurement categories:

1. Amortised cost: Assets that are held to collect contractual cash flows are carried at amortised cost when those flows consist only of principal and interest payments. Interest income on these financial assets is included in financial income using the effective interest method. Any gain or loss that arises on derecognition is taken directly to the income statement for the year. Impairment losses are presented as a separate item in the income statement.

2. Fair value through other comprehensive income: Assets that are held to collect contractual cash flows and to sell the financial assets, where cash flows from the assets consist only of principal and interest payments, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken to other comprehensive income, except impairment gains or losses, ordinary interest income and exchange gains or losses, which are taken to the income statement. Where the financial asset is derecognised, the gain or loss previously accumulated in other comprehensive income is reclassified from equity to profit or loss in other gains and losses. Interest

income on these financial assets is included in financial income using the effective interest method. Exchange gains and losses are disclosed in other gains and losses and the impairment loss is presented as a separate income statement item.

3. Fair value through profit or loss: Assets that do not fulfil the criteria to be carried at amortised cost or at fair value through other comprehensive income are recognised at fair value through profit or loss. A gain or a loss on an investment in a debt instrument that is subsequently measured at fair value through profit or loss is taken to the income statement and presented net in other gains and losses in the year it arises.

2.12.3 Impairment

As from 1 January 2018, impairment is assessed based on expected credit losses associated with its assets at amortised cost and at fair value through other comprehensive income on a prospective basis. The impairment method applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Iberpapel Group applies the simplified approach permitted by IFRS 9, which requires losses expected over the life of the receivables to be recognised at the time they are initially recorded.

2.12.4 Disposals

Financial assets are derecognised when they expire or the rights to receive cash flows from the financial assets are assigned and substantially all the risks and rewards of ownership have been transferred.

2.12.5 Accounting policies applied to 31 December 2017

IFRS 9 has been applied retrospectively, but the Group has opted not to restate comparative information. Accordingly, the comparative information furnished is still accounted for under the previous accounting policy, although the impact is not material, as explained above.

Impairment was assessed at each balance sheet date if there were objective evidence that a financial asset or a group of financial assets were impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred if there were objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact that could be reliably estimated on the estimated future cash flows of the financial asset or group of financial assets.

2.13. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw materials, direct labour, other direct costs and manufacturing overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable costs to sell.

Agricultural products included in this caption are carried at fair value, pursuant to IAS 41 Agriculture.

2.14. Receivables and other current assets

Trade receivables are amounts owed by customers for sales of goods or services in the ordinary course of business. If the receivable is expected to be collected in one year or less (or in the ordinary operating cycle, if longer), it is classified as a current asset. Otherwise, they are presented as non-current assets.

Bank deposits maturing after more than 90 days and less than 12 months are included in this category as current assets.

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less the provision for impairment.

2.15. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term, highly-liquid investments with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

2.16. Share capital

Ordinary shares are classed as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When a Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax) is deducted from equity attributable to the Company's shareholders through to redemption, reissue or disposal. When these shares are sold or subsequently reissued, any amount received, net of any incremental directly attributable transaction cost and the corresponding income tax effects, is included in equity attributable to the Company's shareholders.

2.17. Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be collected and all applicable terms will be fulfilled.

Government grants related to costs are deferred and recognised in the income statement over the period necessary to match them to the costs intended to be offset.

Government grants for the acquisition of property, plant and equipment are included in non-current liabilities as deferred government grants and credited to the income statement on a straight-line basis over the estimated lives of the relevant assets.

2.18. Trade payables

Trade accounts payable are payment obligations arising from the purchase of goods or services from suppliers in the ordinary course of business. Payables are classified as current liabilities if payment falls due within one year (or they fall due in the normal operating cycle, if longer than one year). Otherwise they are presented as non-current liabilities.

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

2.19. Borrowings and government grants

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of costs necessary to obtain them) and the repayment value is recognised in the income statement over the period of the borrowings using the effective interest method.

Commissions paid to arrange credit lines are recognised as debt transaction costs provided that it is probable that part or all of the credit facility will be utilised. In this case, the commissions are deferred until the line is utilised. Insofar as it is not probable that all or part of the credit line will be used, the commission is capitalised as an advance payment for liquidity services and is amortised over the period during which the facility is available.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

2.20. Current and deferred taxes

Tax expense for the period comprises current and deferred tax. Tax expense is recognised in the income statement, except where it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases for assets and liabilities and their carrying amounts in the consolidated annual accounts. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither reported results nor taxable results. Deferred income tax is determined applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences may be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.21. Employee benefits

a) Termination benefits

Termination benefits are the result of decisions taken by Group companies to terminate employment before the normal retirement age or when the employee voluntarily accepts redundancy in exchange for the benefits, which are recognised when a demonstrable commitment has been made to terminate the employment of current workers under a detailed formal plan that cannot be withdrawn, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

b) Pension commitments

The Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) makes periodic defined contributions to the pension fund "Geroa", as stipulated in the collective agreement for pulp, paper and cardboard manufacturers in Guipúzcoa province.

2.22. Provisions

Provisions for environmental restoration, restructuring and litigation are recognised when:

i) There is a present legal or constructive obligation as a result of past events;
ii) It is more probable than not that an outflow of funds will be required to settle the obligation; and
iii) The amount may be reliably estimated.

Provisions are carried at the present value of payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23. Revenue recognition

Ordinary revenue includes the fair value of the consideration received or receivable on the sale of goods and services in the ordinary course of business. Revenue is recognised net of value added tax, returns, rebates and discounts, and after eliminating intra-Group sales.

The Group companies recognise revenues when the amount may be reliably determined, it is likely that future profits will flow to the company and the specific conditions for each of its activities are met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a) Paper sales:

The Group makes and sells mainly writing and printing paper in the wholesale market.

Sales are recognised when control has been transferred, which is essentially when the paper is handed over to the carrier in domestic sales and when the products are delivered at the customer's facilities in international sales (based on the applicable Incoterm).

Revenue is recognised when the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the products in accordance with the sale contract, the acceptance conditions have expired or there is objective evidence that the necessary acceptance criteria have been met.

A receivable is recognised when control is transferred, which is when the consideration becomes unconditional. Revenue from these sales is recognised based on the price specified in the order and only to the extent that it is highly probable that there will be no significant reversal. No financing component is deemed to exist given that sales are made with an average credit period of 60 days, which is consistent with market practices.

b) Electricity sales:

The Iberpapel Group recognises revenue from cogeneration electricity (biomass and/or gas) as it is generated and sold.

The customers are a supplier of electricity to end customers and the Spanish National Market and Competition Commission.

Invoices are issued monthly and an annual regularisation payment is received at the end of the year.

They are collected at 30 days and there is no historical data raising doubts as regards collectability.

c) Timber sales

Iberpapel sells logged timber under sale agreements.

Revenue is recognised when control is transferred, which is when the timber leaves the plantations, and is calculated based on the quantity delivered at the price agreed. Invoices are issued monthly and collection takes place at approximately 30 days.

d) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the carrying amount is written down to the recoverable amount, discounting estimated future cash flows at the instrument's original effective interest rate and unwinding the discount as a reduction in interest income. Interest income on impaired loans is recognised either when the cash is collected or on a cost-recovery basis as conditions warrant. This income is recognised in the consolidated income statement item "*Net financial income/(expense)*".

2.24. Dividend payment

The payment of dividends to shareholders is recognised as a liability in the consolidated annual accounts in the year in which the dividends are approved.

2.25. Leases

Leases in which the lessor retains a substantial part of the risks and rewards of ownership are classified as operating leases. Operating lease payments, net of any incentive received from the lessor, are charged to the income statement on a straight-line basis over the lease term.

The subsidiaries lease certain property, plant and equipment. Leases of property, plant and equipment in which substantially all the risks and rewards of ownership are retained are classed as finance leases. Finance leases are capitalised at lease inception at the lower of the fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is distributed between the liability and finance charge, and a constant interest rate is obtained on the outstanding balance of the debt. Lease obligations, net of finance charges, are included in long-term payables. The interest component of the finance cost is taken to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the outstanding liability for each period. Property, plant and equipment being acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

2.26. Earnings per share

Basic earnings per share are calculated as a quotient formed by net profit for the period attributable to the parent company and the weighted average number of outstanding ordinary shares during the period, excluding the average number of parent company shares held by the Group companies.

Diluted earnings per share are calculated as the quotient formed by net profit for the period attributable to ordinary shareholders, adjusted for the effect of potentially dilutive ordinary shares, and the weighted average number of outstanding ordinary shares during the period, adjusted for the weighted average number of ordinary shares that would be issued if all the potentially dilutive ordinary shares were converted. For such purposes, conversion is deemed to take place at the start of the period or when the potentially dilutive ordinary shares are issued, where they have become outstanding during the period in question.

2.27. List and summary of standards, amendments to standards and interpretations published to date:

2.27.1. The following standards and interpretations have been taken into consideration with effect as from 1 January 2018.

- IFRS 9 - Financial Instruments.
- IFRS 15 - Revenue from contracts with customers.
- IFRS 2 (Amendment) - Classification and measurement of share-based payments.
- IFRS annual improvements - Cycle 2014-2016.
- IAS 40 (Amendment) - Transfers of investment property.
- IFRIC 22 - Foreign currency transactions and advance consideration.

The Iberpapel Group had to change its accounting policies and make certain retrospective adjustments after adopting IFRS 9 and IFRS 15. This is disclosed in Note 2.4. Most of the other amendments mentioned above had no impact on the amounts recognised in previous years and are not expected to significantly affect the current year or future periods.

2.27.2. Standards, amendments and interpretations that are not yet in force but may be early adopted in periods commencing on or after 1 January 2018.

At the signing date of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee has published the following standards, amendments and interpretations that become mandatory in 2019, although the Group has not early adopted them. They are not expected to have a significant effect on the Group's consolidated annual accounts.

IFRS 16 - Leases. This new standard supersedes the current IAS 17. Effective for annual periods beginning on or after 1 January 2019. The standard stipulates that companies must recognise in the statement of financial position the assets and liabilities derived from all lease agreements (except for short-term leases and leases for assets having a low value).

The Group has reviewed all its leases in the past year in the light of the new lease recognition rules under IFRS 16. The standard will mainly affect the accounting treatment of the Group's operating leases.

At the reporting date, the Group has no significant non-cancellable operating lease commitments that would come under this regulatory change and does not therefore envisage any impact on the financial statements.

2.27.3. Standards, amendments and interpretations of existing standards that cannot be early adopted or have not been adopted by the European Union.

At the date these consolidated annual accounts were prepared, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

Standard	Content	Mandatory application in periods commencing on or after
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture	The investor will recognise the entire gain or loss when the non-monetary assets are a business.	Pending adaptation by the EU.
Annual IFRS improvements. Cycle 2015 - 2017: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23	• IFRS 3 "Business combinations": An interest previously held in a joint venture is remeasured when control over the business is acquired. • IFRS 11 "Joint arrangements": An interest previously held in a joint venture is not remeasured when control over the business is acquired. • IAS 12 "Income taxes": All the tax consequences of the payment of dividends are accounted for in the same manner. • IAS 23 "Borrowing costs": Any specific loan originally made to develop a qualifying asset is treated as part of general loans when the asset is ready for use or sale.	As from 1 January 2019, subject to adoption by the European Union in all cases.
IAS 19 (Amendment) "Plan amendment, curtailment or settlement"	Pension costs will be determined when there are changes in a defined benefit plan.	As from 1 January 2019, subject to adoption by the European Union (early-adoption is permitted).
IFRS 3 (Amendment) "Definition of a business"	Additional guidelines to determine the definition of a business.	As from 1 January 2020.
IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"	These amendments clarify the definition of "material", also bringing in omitted or misstated items that may influence decisions by users.	As from 1 January 2020 (early adoption is permitted).

3. Financial risk management and capital management

3.1. Financial risk management

The Iberpapel Group's activities are exposed to various financial risks: market risk (including foreign exchange risk, price risk, cash flow interest rate risk and foreign operations risk), credit risk and liquidity risk. The risk management program is focused on minimising the effects of financial market uncertainty and any potential adverse impact on its financial returns.

a) Market risk

a) Foreign exchange risk

The Group basically operates in euros and is not therefore significantly exposed to foreign exchange risks in foreign currency transactions. Accordingly, this risk is not deemed to be significant and no hedging policies are applied.

Net exchange gains recognised in the 2018 income statement total €269 thousand (2017: €433 thousand), representing 0.92% (2017: 1.67%) of the pre-tax profit for the period. In this regard, Iberpapel considers that a sensitivity analysis of this risk would not add significant information for the users of the consolidated annual accounts.

b) Price risk

The Iberpapel Group is not exposed to price risk with respect to equity and financial instruments.

Timber is the Group's main raw material, price and supply being subject to fluctuations.

Supply risk is mainly mitigated through the availability of timber in our plantations in South America and Spain, as well as by diversifying supply sources mainly through the selection of suppliers on the Cantabrian coast. In addition, a 5% rise in the eucalyptus price would cause Ebitda to fall by approximately 6.80%.

c) Cash flow interest rate risk

Revenues and cash flows from operating activities are relatively independent of fluctuations in market interest rates.

In connection with this risk, Iberpapel recognised long-term borrowings of €66,295 thousand in its statement of financial position at 31 December 2018 (2017: €71,255 thousand), representing 17.31% (2017: 20.17%) of total consolidated liabilities and equity. Of this debt, €65,651 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €165,114 thousand at 31 December 2018 (2017: €151,426 thousand). On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

d) Foreign operations risk

The Group is exposed to foreign exchange risk relating to the Argentine and Uruguayan pesos against the euro, in view of the investments made abroad through subsidiaries. The Argentine peso depreciated 48.27% against the euro from 31 December 2017 to 31 December 2018, while the Uruguayan peso fell 6.98% in the same period.

Foreign operations risk affecting investments in subsidiaries in Uruguay derives mainly from the effect of translating non-current assets, so that the most significant impact is on consolidated equity, in the item "Cumulative translation difference". The Group provides breakdowns of this equity item in these notes to the consolidated annual accounts. Other breakdowns are also provided, such as the location of assets abroad, foreign currency transactions and exchange differences recognised in the consolidated income statement.

b) Credit risk

The Group's main interest-bearing assets are cash, short-term bank deposits and trade and other receivables, which represent the Group's maximum credit risk exposure in relation to financial assets.
The main credit risk is attributable to trade receivables, which are reflected in the balance sheet net of bad debt provisions estimated by management, drawing on prior-year experience and an assessment of the current economic environment. The Group has no significant concentrations of credit risk and exposure is distributed among a large number of counterparties. Virtually all paper sales and therefore the majority of trade receivables are insured with the following companies:

Insurance company	**Rating**
Euler Hermes (Allianz)	AA
Solunión	A
Crédito y Caución	A+
Cesce	A-
Coface	A+

The Iberpapel Group applies the simplified approach under IFRS 9 to measure expected credit losses, applying a value adjustment for lifetime expected losses in the case of trade receivables and contract assets. The companies also distinguish between:

1. Paper business trade receivables: Credit risk is mainly concentrated in the part of the balance not covered by credit insurance.

2. Energy business trade receivables: Expected loss is considered to be close to zero, since the balances are ultimately borne by Spain's Central Government.

3. Other balances: Immaterial and related to timber sales. There is no past experience of relevant losses, so impairment losses are recognised where there are signs of doubtful recovery and, in any event, when the amounts are past due for more than 6-12 months.

Expected credit losses are measured by grouping together trade receivables and contract assets based on the shared credit risk characteristics and the number of days past due. Contract assets are related to unbilled work and have substantially the same risk characteristics as trade receivables for the same types of contract. The conclusion has therefore been drawn that expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Expected loss rates are based on average probability of default for the industrial sector in Europe, distinguishing between high-risk countries (Argentina) and low-risk countries (all other countries). A decreasing rate is applied based on the past due period, as well as a discount to reflect the recovery rate on the basis of the individual guarantee covering each customer (credit insurance contracted). These calculations were made both at 1 January 2018 and at 31 December 2018 taking into account the relevant historical credit losses. Once the calculations had been made, the Company estimated an expected loss of €18 thousand and €22 thousand at 1 January 2018 and 31 December 2018, respectively. The Company has decided not to provision these amounts since they are immaterial.

There follows a breakdown of balances past due and not impaired in the item "Loans and other receivables" by age at year-end 2018 and 2017:

	31.12.2018	31.12.2017
Less than 30 days	33,929	37,094
31 to 60 days	1,278	1,858
More than 61 days	55	45

Previous accounting policy for the impairment of trade receivables

In the previous year, the impairment of trade receivables was assessed under the incurred loss model. Individual trade receivables known to be uncollectable were written off by directly writing down the carrying amount. Other receivables were assessed together to identify objective evidence of impairment not yet identified. For these receivables, estimated impairment losses were recognised in a separate impairment provision. The Group took the view that there was evidence of impairment if any of the following indicators were identified:

- significant financial difficulties for the debtor;
- probability that the debtor will become bankrupt or require a financial reorganisation; and
- default or delay in payment (more than 30 days past due).

As regards cash and short-term bank deposits, the most significant amount relates to interest-bearing deposits at financial institutions with good financial standing.

Cash at bank and bank deposits	Rating	2018
A Banks	BBB+	71,744
B Banks	BB+	52,580
C Banks	A-	23,154
D Banks	BBB-	17,806
Other		955
		166,239

The Group has no direct exposures with the Company's directors at 31 December 2018.

Although these assets are within the scope of IFRS 9 on the impairment of financial assets, the balance at 1 January 2018 and at 31 December 2018 represents low exposure and therefore the expected loss calculation has no significant effect. The loss calculation would be two days at the most due to the opportunities to realise the asset. An approximate impact analysis has been carried out based on different bank credit risks in each country, having concluded that the impact is immaterial.

c) Liquidity risk

Prudent liquidity risk management entails holding sufficient cash and available financing through adequate committed credit facilities, and the capacity to settle market positions.

Management follows up on liquidity forecasts periodically based on expected cash flows and keeps sufficient cash to meet its liquidity needs.

The following table analyses the Group's financial liabilities, grouped together by maturity, on the basis of estimated cash flows:

	Less than 1 year	**1 to 2 years years**	**2 to 5 years years**	**More than 5 years**
At 31 December 2018				
Bank borrowings	7,134	17,911	34,894	13,490
Suppliers and creditors	32,129			
Fixed asset suppliers	6,111			
	Less than 1 year	**1 to 2 years years**	**2 to 5 years years**	**More than 5 years**
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328
Suppliers and creditors	28,552			

3.2. Capital risk management

The leverage ratio is calculated as net debt divided by equity, net debt being total borrowings (bank loans and credit facilities) less "cash and cash equivalents" and "short-term bank deposits", while consolidated equity is the amount shown in the relevant consolidated balance sheet item.

Leverage ratios at 31 December 2018 and 2017 were as follows:

	2018	**2017**
Bank borrowings (Note 18)	73,429	74,071
Less: Cash and bank deposits	(166,239)	(153,197)
Net debt	(92,810)	(79,126)
Consolidated equity	255,358	236,771
Leverage ratio	**(36.34)%**	**(33.42)%**

When analysing sensitivities related to the above-mentioned risks, Group management takes into consideration IAS 1, paragraph 31, which states that the breakdowns required by IFRS are not necessary if they are relatively immaterial, although an assessment must be repeated at each year end to determine whether or not the risks are significant to the Group and thus require more detailed breakdowns, specifically the ones stipulated in IFRS 7, paragraph 40.

3.3. Fair value estimation

The Group records no financial instruments at fair value through profit or loss. It is assumed that the carrying amount less the provision for impairment of receivables and payables approximates fair value. Fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The consolidated balance sheet item "Biological assets" is carried at fair value, pursuant to IAS 41 Agriculture (see Note 2.6).

3.4. Regulations governing power generation companies

The Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. has two operational power cogeneration plants, one using biomass (black liquor), which is included in the cellulose production segment, and the other a gas combined-cycle facility, so the Group stays abreast of the vast body of legislation that has been published since 2013 in this area, the most relevant of which is described below.

Law 15/2012 of 27 December on tax measures for energy sustainability and Royal Decree-Law 2/2013 of 1 February on urgent measures for the electricity system and the financial sector were published. Both laws increased energy costs by levying a 7% linear tax on revenue from electricity generation and an additional tax on the volume of natural gas consumed ("green cent").

On 14 July 2013, Royal Decree-Law 9/2013 came into force, laying the foundations of a new legal and economic scheme for electricity production facilities using renewable energy sources, cogeneration and waste, and a remuneration regime based on standard parameters for standard facilities to be defined. The Royal Decree eliminated regulated tariffs for renewable energy and cogeneration, created the Electricity Self-Consumption Register and announced a new economic scheme designed mainly to guarantee that renewable energy plants obtain a return equivalent to the interest rate on 10-year government bonds plus 300 basis points, by reference to costs and investments in a standard facility, throughout the regulatory useful life. The RD also eliminated the efficiency supplement and the reactive energy supplement applicable to that date, which had a considerable additional impact on the Company's energy balance sheet. Additionally, RD did not bring in any new premiums. Definitive remuneration details were postponed pending publication of a ministerial order, the last tariffs remaining as a reference for provisional settlement in power generation from the publication of the Royal Decree to the publication of the ministerial order.

In 2014, Royal Decree 413/2014 of 6 June on electricity production using renewable energy sources, cogeneration and waste, and Order IET/1045/2014 of 16 June on remuneration parameters for standard facilities, applicable to certain facilities generating electricity from renewable energy sources, cogeneration and waste, were published. Regulations published in the current year have defined remuneration parameters for a period of time: investment remuneration (Ri), operating remuneration (Ro) and operating hours of standard facilities, similar to the Company's cogeneration plants.

In 2015, RD 900/2015 of 9 October was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies, developing the content of Law 24/2013 of 26 December on self-consumption in the electricity industry. Royal Decree 900/2015 regulates the administrative, technical and economic conditions of the types of self-consumption electricity supplies defined in Article 9.1 of Law 24/2013.

Additionally, on 18 December 2015, Order IET/2735/2015 of 17 December was published, stipulating electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters for facilities generating electricity from renewable sources, cogeneration and waste. This Order provides remuneration parameters for cogeneration plants covering the first half of 2016.

Law 24/2013 of 26 December, introduced under Royal Decree 413/2014 of 6 June on power generation using renewable energy sources, cogeneration and waste, contains the basic regulations governing the remuneration framework to allow power generation facilities covered by this scheme to cover the costs necessary to compete in the market on equal terms with other technologies and to obtain a reasonable profit. A remuneration scheme is defined based on standard parameters for each standard facility. Article 14.4 of the Law and Article 20 of the Royal Decree lay down the system for updating the remuneration parameters for standard facilities. For facilities having operating costs that depend essentially on fuel prices, Order IET/1345/2015 of 2 July develops the above-mentioned articles and brings in a methodology for updating remuneration for the operation, applicable half-yearly.

These regulations envisage the review of generation market price estimates for the first three years of the regulatory period, 2014, 2015 and 2016, to adjust them to the actual market prices, pursuant to Article 22 of Royal Decree 413/2014 on market price estimation and adjustment due to market price departures, subsection 3 of which states that when the average annual price in the daily and intraday markets is outside the regulatory limits, an annual positive or negative balance will be generated, referred to as the market price departure adjustment value. The market price departure adjustment value will therefore be calculated annually.

On 7 December 2016, the Ministry of Energy, Tourism and Digital Agenda published in its website the Proposed Order updating remuneration parameters for standard facilities, applicable to certain plants that generate power using renewable energy sources, cogeneration and waste during the regulatory semi-period commencing on 1 January 2017, together with its report analysing the regulatory impact, for the purposes of Article 26.6 of Law 50/1997 of 27 December in which, among other aspects, the amounts of the market price departure adjustment value for each year and standard facility were published. The definitive Royal Decree was published on 22 February 2017 and did not include any changes.

Royal Decree-Law 15/2018 of 5 October on urgent measures for energy transition and consumer protection suspended the 7% tax on electricity generation only for six months. The tax on the value of electricity generation (IVPEE) was created by Law 15/2012 of 27 December on tax measures for energy sustainability, which described it, at least in nominal, formal terms, as a direct tax on “the internalisation of environmental costs derived from electricity generation”. RD 15/2018 also brought in the exemption from tax on hydrocarbons to deactivate the so-called "green cent". This tax was conceived to discourage the use of energy sources tied to hydrocarbons, but the effect has been to push up electricity prices in the wholesale market when prices are set by technologies such as gas.

4. Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

4.1. Significant estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will not exactly match the related actual results. There follow explanations of the most significant estimates and judgements that could affect the following financial year, although Group management considers material adjustments to be unlikely.

a) Useful lives of property, plant and equipment

Group management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. They could change, particularly due to significant technological innovations. Management will increase the depreciation charge where useful lives are shorter than previously estimated and write down or write off technically obsolete or non-strategic assets that have been abandoned or sold. A ±10% change in the estimated useful lives of property, plant and equipment would increase or decrease the 2018 depreciation charge by €1,504 thousand and €(697) thousand, respectively (2017: €1,167 thousand and €1,013 thousand).

The change during 2015 in the useful lives of certain assets owned by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. is reflected in Appendix I.

b) Deferred tax assets

Deferred tax assets are recognised provided that sufficient future taxable income is likely to be obtained against which to apply them.

c) Asset impairment

The Group assesses whether property, plant and equipment are impaired applying the accounting policy indicated and uses assumptions to make the calculations.

4.2. Critical judgements when applying the accounting policies

a) Measurement of forestry assets

The Group makes certain assumptions to determine the value of biological assets. In order to establish fair value, biological assets are grouped together based on qualitative characteristics and are measured on the basis of quantitative characteristics.

5. Segment reporting

The Board of Directors focuses on the business mainly from a product viewpoint, irrespective of the geographic area.

Accordingly, the operating segments obtain ordinary income mainly from the manufacture and selling of paper, selling of electricity generated by means of gas-fired cogeneration and, finally, returns on investments in forestry assets.

Since 2009, when a gas-fired cogeneration plant became operational, separate information has been reported on a new operating segment, "gas-fired electricity cogeneration", the ordinary income accounting for over 10% of the Group's ordinary income. Nonetheless, the Group's ultimate management body assesses business evolution on the basis of a single consolidated income statement and a single consolidated balance sheet.

Segment information for the year ended 31 December 2018 is as follows:

	Paper	**Gas cogen. electricity**	**Forestry and other**	**Group**
Total segment revenue	182,829	43,182	71,110	297,121
Inter-segment sales		(8,107)	(67,943)	(76,050)
Sales to external customers	**182,829**	**35,075**	**3,167**	**221,071**
Depreciation of property, plant and equipment (Note 6)	(7,776)	(2,900)	(187)	(10,863)
Amortisation of intangible assets (Note 8)	(45)	(18)		(63)
Operating profit	**22,249**	**5,192**	**2,545**	**29,986**
Net financial costs and exchange differences (Note 24)	(382)		(362)	(744)
Profit/(loss) on disposal of non-current assets			7	7
Profit before taxes	**21,867**	**5,192**	**2,190**	**29,249**
Income tax	(2,139)	(1,413)	(490)	(4,042)
Profit for the year	**19,728**	**3,779**	**1,700**	**25,207**

	Paper	**Electricity**	**Forestry**	**Group**
Total assets	**275,161**	**52,147**	**55,637**	**382,945**
Of which:				
Fixed asset investments (Notes 6 and 8)	19,251		31	19,282
Total liabilities	**(115,176)**	**(4,474)**	**(7,937)**	**(127,587)**

The 2017 information is set out below:

	Paper	Gas cogen. electricity	Forestry and other	Group
Total segment revenue	178,373	43,642	68,489	290,504
Inter-segment sales		(7,230)	(66,221)	(73,451)
Sales to external customers	**178,373**	**36,412**	**2,268**	**217,053**
Depreciation of property, plant and equipment (Note 6)	(7,755)	(2,859)	(212)	(10,826)
Amortisation of intangible assets (Note 8)	(41)		(7)	(48)
Operating profit	**16,811**	**9,366**	**(144)**	**26,033**
Net financial costs (Note 24)	(269)		(309)	(578)
Profit/(loss) on disposal of non-current assets			476	476
Profit before taxes	**16,542**	**9,366**	**23**	**25,931**
Income tax	(789)	(1,637)	(599)	(3,025)
Profit for the year	**15,753**	**7,729**	**(576)**	**22,906**

	Paper	Electricity	Forestry	Group
Total assets	**247,582**	**48,604**	**57,116**	**353,302**
Of which:				
Fixed asset investments (Notes 6 and 8)	2,606		177	2,783
Total liabilities	**(104,970)**	**(4,903)**	**(6,658)**	**(116,531)**

Inter-segment transfers or transactions are completed at arm's length.

The following tables show the Group's ordinary income and total assets by geographic area:

Sales	**2018**	**2017**
European Union (excluding Spain)	63,546	74,391
Africa and Overseas	16,428	13,220
South America	3,167	2,268
Spain	137,930	127,174
	221,071	**217,053**

Sales are assigned on the basis of the country where the customer is located.

Total assets	**2018**	**2017**
Spain	344,473	317,614
South America	38,472	35,688
	382,945	**353,302**

Total assets are assigned on the basis of the assets' location.

The assets in South America consist basically of land and biological assets in different stages of growth, measured in accordance with IAS 41 (Agriculture).

The geographic distribution of fixed asset investments is as follows:

Fixed asset investment	**2018**	**2017**
Spain	19,170	2,612
South America	112	171
	19,282	**2,783**

A breakdown of sales by category is as follows:

Distribution of sales by category	**2018**	**2017**
Paper sales	177,580	174,490
Electricity sales	40,452	40,295
Timber sales	3,039	2,268
	221,071	**217,053**

6. Property, plant and equipment

Set out below is a breakdown of property, plant and equipment showing movements:

Cost	**Balance at 31.12.16**	**Additions**	**Disposals**	**Translation differences**	**Consolidation adjustments**	**Balance at 31.12.17**
Land and buildings	60,175	116	(41)	(2,472)		57,778
Facilities under construction		1,418				1,418
Plant and machinery	223,462	382		(127)	16	223,733
Fixtures, fittings, tools and equipment	39,008	581		(29)		39,560
Other PPE	1,040	227		(26)		1,241
	323,685	**2,724**	**(41)**	**(2,654)**	**16**	**323,730**
Accumulated depreciation						
Buildings	(11,310)	(714)	9	8		(12,007)
Plant and machinery	(150,523)	(7,787)		61	17	(158,232)
Fixtures, fittings, tools and equipment	(25,671)	(2,267)		33		(27,905)
Other PPE	(840)	(55)		5		(890)
	(188,344)	**(10,823)**	**9**	**107**	**17**	**(199,034)**
Net amount	**135,341**					**124,696**

Cost	**Balance at 31.12.17**	**Additions**	**Disposals**	**Translation differences**	**Consolidation adjustments**	**Balance at 31.12.18**
Land and buildings	57,778	293		673	2	58,746
Facilities under construction	1,418	15,680				17,098
Plant and machinery	223,733	2,020	(77)	711	(57)	226,330
Fixtures, fittings, tools and equipment	39,560	627		(11)		40,176
Other PPE	1,241	618		(34)		1,825
	323,730	**19,238**	**(77)**	**1,339**	**(55)**	**344,175**
Accumulated depreciation						
Buildings	(12,007)	(723)		28		(12,702)
Plant and machinery	(158,232)	(7,946)	77	58		(166,043)
Fixtures, fittings, tools and equipment	(27,905)	(2,111)		10		(30,006)
Other PPE	(890)	(83)		(693)	(19)	(1,685)
	(199,034)	**(10,863)**	**77**	**(597)**	**(19)**	**(210,436)**
Net amount	**124,696**					**133,739**

a) Fully-depreciated assets

At 31 December 2018, fully-depreciated property, plant and equipment still in use amount to €57,262 thousand (2017: €54,898 thousand).

b) Additions

The most significant additions during the year relate to the announcement published on 9 May 2017, which literally reads as follows:

"*The Board of Directors of Iberpapel Gestión, S. A., in its meeting of 25 April 2017, agreed to undertake the "Hernani Project" in its subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U., which will entail an investment of approximately €180 million.*

This investment project is subject to the transfer of a high-voltage line that crosses the plot of land on which the new facilities will be located, the related formalities being in a very advanced stage.

The "Hernani Project" will consist basically of the installation of a new machine with a Yankee dryer cylinder to make MG paper for flexible packaging of various kinds, having an estimated production capacity of 85,000 tonnes per year. The existing cellulose plant is also being reformed and modernised to include technological and environmental improvements (BATs), which will allow an increase of between 15% and 20% in the plant's gross production capacity.

The project is expected to be commissioned in between 24 and 30 months."

c) Commitments

At 31 December 2018, the Group (specifically the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U.) had commitments to purchase property, plant and equipment totalling €48,028 thousand. There were no commitments to acquire property, plant and equipment in 2017.

d) Disposals

There were no significant disposals during 2018 and 2017.

e) Repairs

Maintenance expenses are charged to the income statement when they are incurred, amounting to €9,858 thousand at 31 December 2018 (2017: €9,534 thousand) (see Note 22).

Costs arising from maintenance activities and technical inspections performed at intervals of over 12 months are identified in the accounts as a separate component of property, plant and equipment and are depreciated at a different rate over the period remaining to a major repair, pursuant to IAS 16, paragraph 14.

The acquisition of certain property, plant and equipment was partly financed by government grants received in an accumulated total amount of €13,886 thousand (2017: €13,886 thousand).

f) Insurance

The Iberpapel Group has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

g) Impairment losses

During 2018 and 2017, no significant impairment adjustments to individual property, plant and equipment were recognised or reversed.

7. Biological assets (Eucalyptus)

	2018	2017
Opening balance	**13,640**	**15,419**
Gain (loss) due to physical changes	2,068	1,712
Gain (loss) due to fair value changes	84	37
Decrease due to sales	(469)	(1,225)
Exchange differences and other	3,097	(2,303)
Closing balance	**18,420**	**13,640**

At 31 December 2018, biological assets amounted to €18,420 thousand (2017: €13,640 thousand). As explained in point *iv) Degree of maturity* of Note 2.6 to the consolidated accounts, and in accordance with the accounting policies referred to above, biological assets are measured as follows:

- ✓ "Immature" (fair value hierarchy 3 as per IFRS 13). According to the report from the independent expert "Galtier Franco Ibérica, S.A.", fair value is calculated based on costs incurred, optimum maturity not having been reached, in the amount of €17,024 thousand at 31 December 2018 (2017: €13,592 thousand). The most significant costs include the plant, preparation of the land, cultural work, etc.

- ✓ "Mature" (fair value hierarchy 2 as per IFRS 13): biological assets that are ready for harvesting or picking, according to the report from the independent expert "Galtier Franco Ibérica, S.A.", are measured by reference to the selling price of standing timber in each market in which the asset is located. In 2018, mature biological assets amount to €1,396 thousand (2017: €48 thousand).

8. Intangible assets

Set out below is an analysis of the main intangible asset categories showing movements in assets generated internally and other intangible assets:

Cost	**Balance at 31.12.16**	**Additions**	**Disposals**	**Balance at 31.12.17**
Computer software	1,005	59		1,064
CO_2 allowances	2,145	450	(1,275)	1,320
	3,150	**509**	**(1,275)**	**2,384**
Accumulated amortisation				
Computer software	(823)	(51)		(874)
	(823)	**(51)**		**(874)**
Net amount	**2,327**			**1,510**

Cost	**Balance at 31.12.17**	**Additions**	**Disposals**	**Balance at 31.12.18**
Computer software	1,064	44		1,108
CO_2 allowances	1,320	1,110	(960)	1,470
	2,384	**1,154**	**(960)**	**2,578**
Accumulated amortisation				
Computer software	(874)	(63)		(937)
	(874)	**(63)**		**(937)**
Net amount	**1,510**			**1,641**

a) Fully-amortised assets

At 31 December 2018, fully-amortised intangible assets still in use amount to €778 thousand (2017: €776 thousand).

b) CO_2 emission allowances

As regards greenhouse gas emission allowance trading, a new compliance period commenced in 2013 and will run to 2020. The new period brought in a number of changes, including new target industries, more complex emission monitoring regulations and new allocation rules. In the latter case, European industry benchmarks are used, replacing the national allocation plans.

Three basic concepts apply to the allocation of allowances for the period 2013-2020:

- ✓ No allowances are allocated for electricity generation.
- ✓ 100% of the allowances allocated to sectors exposed to carbon leakage. 100% relates to the findings of the benchmark study of European facilities, as in the case of Papelera Guipuzcoana de Zicuñaga, S.A.U., Appendix I.
- ✓ Industries exposed to carbon leakage may change over the period, on the basis of successive reviews.

The volume of allowances allocated for the period 2013 to 2020 is analysed below:

	2013	2014	2015	2016	2017	2018	2019	2020
CO_2 emission allowances allocated	74,051	72,766	71,464	70,149	68,820	67,478	66,120	64,756

Emission allowances granted in 2018 are recognised at their quoted price of €7.78 per allowance at the beginning of the year (2017: €6.54 per allowance).

In 2018, Papelera Guipuzcoana de Zicuñaga, S.A.U., Appendix I, acquired 61,000 allowances (EUAs) for a total of €1,110 thousand. In 2017, it acquired 50,000 allowances (EUAs) for a total of €245 thousand. In addition, in 2018 the Spanish Ministry of Industry, Trade and Tourism awarded subsidies amounting to €446 thousand, in addition to the assistance awarded under the Order of 27 July 2017 of the Ministry of Economy, Industry and Competitiveness, to offset the indirect costs of the greenhouse gas emissions trading system.

9. Financial instruments

9.1. Financial instruments by category

Non-current assets	2018 Financial assets at amortised cost	2017 Financial assets at amortised cost
Loans to third parties	1,924	2,276
Held-to-maturity investments	480	1,120
Other financial assets	14	15
	2,418	**3,411**

The item "Loans to third parties" includes the long-term amount arising from the review of power generation market price estimates for the first three years of the regulatory semi-period, relating to 2014, 2015 and 2016, adjusted to actual market prices pursuant to Article 22 of Royal Decree 413/2014. This amount has been obtained from Proposed Order of 07 December 2017, which also updates the remuneration parameters for standard facilities applicable to certain plants generating electricity using renewable energy sources, cogeneration and waste for the regulatory semi-period commencing on 1 January 2014. This all relates to the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I).

At year-end 2018, the item "Investments held to maturity" includes the long-term portion of a promissory note deposit at Kutxabank in the amount of €480 thousand (2017: €1,120 thousand), securing the loan granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), the final maturity date of both positions being 9 September 2020.

Current assets	2018 Financial assets at amortised cost	2017 Financial assets at amortised cost
Trade and other receivables (Note 10)	38,744	41,213
Cash and cash equivalents (Note 12)	165,114	151,426
	203,858	**192,639**

Non-current liabilities	2018 Other fin. liabilities at amortised cost	2017 Other fin. liabilities at amortised cost
Borrowings (Note 18)	68,235	73,901
	68,235	**73,901**

	2018	2017
Current liabilities	**Other fin. liabilities at amortised cost**	**Other fin. liabilities at amortised cost**
Borrowings (Note 18)	13,245	2,816
Trade and other payables (Note 17)	32,129	28,552
	45,374	**31,368**

a) Credit quality of financial assets

The credit quality of financial assets that have not yet matured and are not impaired may be assessed on the basis of credit ratings issued by external bodies or, if there are no such ratings, by distinguishing amounts receivable from social security authorities and official bodies which, by nature, do not become impaired, barring specific circumstances.

The Group insures virtually all its paper sales, through its subsidiaries, under credit insurance policies with the companies listed below. The following table shows the relevant Thomson Reuters ratings.

Receivables		**2018**	**2017**
Trade receivables insured through:	**Rating**		
Euler Hermes (Allianz) (A)	AA	2,267	3,229
Solunión (B)	A	2,664	3,027
Crédito y Caución (C)	A+	7,666	8,344
Cesce (D)	A-	16,536	13,046
Coface (E)	A+	5,640	6,921
Other (F)			183
		34,773	**34,750**

		2018
Cash at bank and bank deposits	**Rating**	
A Banks	BBB+	71,744
B Banks	BB+	52,580
C Banks	A-	23,154
D Banks	BBB-	17,806
Other		955
		166,239

10. Trade and other receivables

	2018	2017
Trade receivables	35,580	37,775
Less: Provision for impairment losses on receivables	(807)	(3,025)
Trade receivables – Net	**34,773**	**34,750**
Other receivables	3,331	5,823
Total trade payables	**38,104**	**40,573**
Short-term bank deposits	**640**	**640**
Total current portion	**38,744**	**41,213**

The item "Other receivables" reflects the balance receivable from the Public Treasury in the amount of €2,478 thousand (2017: €2,080 thousand).

Trade receivables relate to goods sold or services rendered in the ordinary course of business. They are generally settled at 30-60 days and are therefore all carried as current balances. They are initially recognised at the amount of the unconditional consideration, unless they contain significant financial components, in which case they are carried at fair value. The Group recognises trade receivables in order to collect contractual cash flows, so they are subsequently measured at amortised cost using the effective interest method.

Contract assets:

The following assets are related to customer contracts:

Thousand euro	2018
Current contract assets related to energy contracts	**6,833**
Impairment losses	
Total contract assets	**6,833**

Contract assets relate to the provision recognised for revenue yet to be invoiced for November and December, and the annual energy regularisation adjustment.

Movements in the provision for impairment of trade receivables are as follows:

	2018	2017
Opening balance	**(3,025)**	**(3,022)**
Provision for impairment of receivables	2,218	(3)
Closing balance	**(807)**	**(3,025)**

In 2018, doubtful trade receivables were regularised against provisions in the subsidiaries, the most significant items being those of the investees Distribuidora Papelera, S.A.U., Moliner, Domínguez y Cia., S.A.U., Central de Suministros de Artes Gráficas Papel, S.A.U. and Iberbarna Papel, S.A.U. in the amounts of €542 thousand, €386 thousand, €642 thousand and €562 thousand, respectively.

The item "Other receivables" includes the short-term portion of the receivable derived from the Proposed Order of 7 December 2016 (Note 9.1) relating to the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I).

In 2017, the item "Short-term bank deposits" included immediately available short-term deposits at credit institutions subject to no penalty for early cancellation nor risk of changes in value. The effective interest rate was between 0.01% and 0.75%. These deposits bore no interest in 2018.

11. Inventories

	2018	2017
Raw materials	3,609	1,715
Other supplies	3,494	3,608
Work in progress	118	68
Finished products	12,255	9,349
Agricultural products	719	744
Prepayments to suppliers	9	375
	20,204	**15,859**

Inventories located abroad are included in "Other supplies" in the amount of €242 thousand (2017: €232 thousand) and in "Agricultural products" in the amount of €719 thousand (2017: €744 thousand).

12. Cash and cash equivalents

	2018	2017
Cash and banks	165,114	137,396
Cash equivalents		14,030
	165,114	**151,426**

The item "Cash and banks" includes current account balances bearing no interest (2017: 0.17%).

13. Capital

	No. shares	Capital	Share premium	Treasury shares	Total
At 1 January 2017	**10,930,524**	**6,558**	**13,633**	**(1,060)**	**19,131**
Capital reduction					
Capital increase					
Acquisition of treasury shares				(1,358)	(1,358)
Balance at 31 December 2017	**10,930,524**	**6,558**	**13,633**	**(2,418)**	**17,773**
Capital reduction					
Capital increase	109,305	66			66
Acquisition of treasury shares				(309)	(309)
Balance at 31 December 2018	**11,039,829**	**6,624**	**13,633**	**(2,727)**	**17,530**

Ordinary shares total 11,039,829 (2017: 10,930,524 shares) with a par value of €0.60 per share (2017: €0.60 per share).

In 2018, the Company acquired 59,365 treasury shares on the stock exchange. A total of €1,996 thousand was paid for the shares. In 2018, 49,122 treasury shares were sold for €1,283 thousand, generating a profit of €405 thousand. At 31 December 2018, the Company held a total of 130,399 treasury shares at an original cost of €2,418 thousand. These shares represent 1.181% of the Company's share capital. They were held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

In 2017, the Company acquired 99,756 treasury shares on the stock exchange. A total of €2,894 thousand was paid for the shares. In 2017, 54,731 treasury shares were sold for €1,536 thousand. At 31 December 2017, the Company held a total of 120,156 treasury shares at an original cost of €2,418 thousand. These shares represented 1.099% of the Company's share capital. They were held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

On 24 April 2018, the Annual General Meeting granted authorisation to the Board of Directors, for a five-year period, including specific substitution powers, so that the Company itself or its subsidiaries could acquire treasury shares, as stipulated by law, cancelling the authorisation granted by the General Meeting on 20 April 2016.

The Annual General Meeting held on 24 April 2018 approved agenda item seven on the capital increase charged to voluntary services (99.80% favourable votes and 0.20% abstentions). Article 5 of the Bylaws (share capital) was amended and powers were delegated to the directors in relation to the capital increase, in the following resolution:

a) Share capital increase charged to reserves.

Increase the Company's share capital out of reserves in the amount of €65,583.00 by issuing 109,305 new shares in the same class and series, carrying the same rights as the shares currently outstanding, with a par value of €0.60 each, represented by book entries to be kept by Iberclear and its member entities in the terms of legislation in force from time to time.

The new shares shall carry the same rights as the rest of the Company's shares as from the date of issuance.

For the purposes of Article 311 of the Spanish Companies Act, the subscription or allotment of the capital increase may be incomplete.

The shares are issued at their par value of €0.60 and without a share premium.

The capital increase shall be charged entirely to the reserve accounts or sub-accounts (from among the ones envisaged in Article 303.1 of the Spanish Companies Act) to be determined by the Board of Directors or the person delegated.

1. Capital increase balance sheet.

The balance sheet that is the basis for the operation is the balance sheet closed at 31 December 2017, duly audited by the Company's auditor and approved by this Annual General Meeting in agenda item one.

2. Allotment of the new shares.

The new shares issued will be allotted free of charge to the Company's shareholders in the proportion of one (1) new share for every 100 free allotment rights. Each Company share shall carry one (1) free allotment right.

The Company or some of its shareholders shall waive the number of free allotment rights necessary in order for the above-mentioned proportion to balance.

The free allotment rights are to be granted to the Company shareholders that are legitimately reflected in the accounting records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) at 11:59 p.m. on the day the capital increase announcement is published in the Commercial Registry's Official Gazette. However, the Board of Directors or the person delegated by the Board may modify the timing of the rights allotment, pursuant to legislation in force at the time, and determine the rest of the relevant dates for the correct execution of the operations relating to the rights allotment, the price of the rights and the price of the Company's new shares.

The free allotment rights for the new shares shall be transferable. The free allotment rights may be traded in the market during the period to be determined by the Board of Directors, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette. During that period, free allotment rights may be acquired in the market in a sufficient number and in the necessary proportion to receive new shares.

3. Share deposit.

The new shares that could not be allotted will remain on deposit and available for persons that attest to the legitimate ownership of the relevant free allotment rights. Once three years have elapsed, the shares that have still not been allotted may be sold pursuant to Article 117 of the Spanish Companies Act, for the account and risk of the interested parties. The cash amount of the said sale shall be held available for the interested parties in the manner stipulated in applicable legislation.

4. Admission to listing.

Request the admission to listing of the new shares on the Madrid and Bilbao Stock Markets and their inclusion in the Stock Exchange Interconnection System (Continuous Market).

5. Delegation.

It is agreed to delegate to the Board of Directors, pursuant to Article 297.1.a) of the Spanish Companies Act, with express powers of substitution, the authority to set the date on which the share capital increase resolution adopted is to be executed, within a maximum period of one (1) year as from the adoption date, and to redraft Article Five of the Bylaws to reflect the new share capital figure and number of shares.

Moreover, it is agreed to delegate to the Board of Directors, also pursuant to Article 297.1.a) of the Spanish Companies Act and also with express powers of substitution, the authority to stipulate the terms of the capital increase for all aspects not envisaged in the preceding paragraphs. In particular, for illustrative, non-restrictive purposes:

(i) Determine the specific reserve account or sub-account in which the capital increase will be charged.

(ii) Waive, if applicable, the number of free allotment rights necessary to balance the proportion of new shares freely allotted.

(iii) Establish the duration of the free allotment rights trading period, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette.

(iv) Declare the capital increase to have been executed and completed.

(v) Amend Article 5 of the Bylaws to reflect the new share capital figure and number of shares.

(vi) Execute the capital increase deed.

(vii) Designate the agent and other advisors in the operation.

(viii) Carry out all steps or formalities that may be necessary or advisable and draw up and sign all documentation that may be necessary or advisable to fully authorise and execute the issue, as well as the admission to listing of the new shares, vis-à-vis any Spanish or foreign, public or private entity or body, including the Commercial Registry, the Spanish National Securities Market Commission, the Stock Market Governing Companies, Sociedad de Bolsas and Iberclear.

(ix) Draw up and publish all announcements that may be necessary or advisable for such purposes.

(x) If applicable, not execute and render void the capital increase resolution.

(xi) In general, in the broadest possible terms, take all steps that may be necessary or merely advisable to fully execute the resolutions adopted, being able to correct, clarify, adapt or supplement the resolutions.

The Board of Directors, in its meeting of 25 September 2018, approved the execution of the fully-paid share capital increase charged to reserves, as agreed by the Annual General Meeting on 24 April 2018 in agenda item seven.

The full text of Article 5 of the By-laws then read as follows:

ARTICLE 5.- Share capital consists of SIX MILLION SEVEN HUNDRED AND TWENTY-THREE THOUSAND EIGHT HUNDRED AND NINETY-SEVEN EUROS, FORTY CENTS (€6,623,897.40).

Capital is divided into ELEVEN MILLION THIRTY-NINE THOUSAND EIGHT HUNDRED AND TWENTY-NINE (11,039,829) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

The Company received 1,274 shares in this capital increase process.

At 31 December 2018 and 2017, the parent company has no knowledge of any legal entity holding an interest of more than 10% in share capital. Significant direct or indirect shareholdings are as follows:

Shareholder's name or business name	% voting rights (direct)	% voting rights (indirect)	% of total voting rights
ONCHENA	8.15%		8.15%
MIQUEL Y COSTAS & MIQUEL, S. A.		5.05%	5.05%
NORGES BANK	4.99%		4.99
MAGALLANES VALUE INVESTORS, S.A., SGIIC		3.17%	3.17%
SANTANDER ASSET MANAGEMENT, S.A., SGIIC		3.00%	3.00%

14. Retained earnings and other reserves

	Reserves in consolidated companies	Reserve for conversion to euros	Retained earnings and other reserves	Total
At 1 January 2017	**119,234**	**12**	**101,274**	**220,520**
Change in reserves of consolidated	3,830		(3,830)	
Dividends			(7,063)	**(7,063)**
2017 profit/(loss)			22,906	**22,906**
Capital reduction				
Capital increase				
Dealings in treasury shares				
Balance at 31 December 2017	**123,064**	**12**	**113,287**	**236,363**
Impact of hyperinflation	(3,818)			**(3,818)**
Balance at 1 January 2018	**119,246**	**12**	**113,287**	**232,545**
Change in reserves of consolidated	8,851		(8,851)	
Dividends			(5,947)	**(5,947)**
2018 profit/(loss)			25,207	**25,207**
Capital increase			(66)	(66)
Hyperinflation	(3,077)		(7)	**(3,084)**
Balance at 31 December 2018	**125,020**	**12**	**123,623**	**248,655**

The accounting policy for recognising transactions in hyperinflationary economies consists of including in reserves both the restatement of non-monetary items and the currency translation differences generating by translating the restated financial statements of the Argentinian subsidiaries to euro at the year-end exchange rate, the effects of which amounted to €8,177 thousand and €(11,261) thousand at 31 December 2018, respectively.

The item "Retained earnings and other reserves" includes the legal reserve amounting to €1,435 thousand (2017: €1,435 thousand) and a restricted reserve for redeemed shares in the amount of €742 thousand (2017: €742 thousand).

Iberpapel Gestión, S.A. records a restricted reserve of €12 thousand for differences arising on the conversion of share capital to euros, in accordance with Law 46/1998 (17 December) on the introduction of the euro.

15. Cumulative translation difference

	Currency translation diff.
1 January 2017	**(12,202)**
Currency translation differences	(5,163)
31 December 2017	**(17,365)**
Hyperinflation	12,792
1 January 2018	**(4,573)**
Currency translation differences	(1,892)
31 December 2018	**(6,465)**

A breakdown of the cumulative translation difference by company or subgroup at year-end 2018 and 2017 is as follows:

	2018	**2017**
Company or subgroup		
Iberpapel Argentina, S.A.		(7,963)
Forestal Los Gurises Entrerrianos, S.A.		(852)
Forestal Santa María, S.A.		(208)
Forestal Loma Alta, S.A.		(2,822)
Forestal Vonger, S.A.		(947)
Los Eucaliptus, S.A.	(5,861)	(3,970)
Samakil, S.A.	(604)	(603)
	(6,465)	**(17,365)**

The Uruguayan peso depreciated 6.98% against the euro from 31 December 2017 to 31 December 2018.

16. Availability and restrictions on Reserves, Retained earnings and Other reserves

There follows a breakdown by company of reserves in consolidated companies at 31 December 2018 and 2017:

	2018	2017
Company or subgroup		
Iberbarna Papel, S.A.U.	91	333
Moliner Domínguez y Cia., S.A.U.	546	546
Distribuidora Papelera, S.A.U.	281	280
Central de Suministros de Artes Gráficas Papel, S.A.U.	429	429
Papelera Guipuzcoana de Zicuñaga, S.A.U.	93,456	86,630
Copaimex, S.A.U.	176	164
Ibereucaliptos, S.A.U.	37,481	36,141
Zicupap, S.A.U.	58	58
Iberpapel Argentina, S.A.	(7,533)	(1,793)
Forestal Los Gurises Entrerrianos, S.A.	(578)	(332)
Forestal Santa María, S.A.	437	(469)
Forestal Loma Alta, S.A.	(1,825)	(724)
Forestal Vonger, S.A.	(357)	115
Los Eucaliptus, S.A.	2,440	1,767
Samakil, S.A.	(110)	(109)
Iberpapel On line, S.L.U.	28	28
	125,020	**123,064**

At 31 December 2018, restricted reserves and retained earnings amounted to €2,189 thousand (2017: €2,189 thousand), consisting of the legal reserve, reserve for conversion of share capital to euros and reserve for redeemed shares.

Appropriations to the legal reserve, which stands at €1,435 thousand, have been made in compliance with Article 274 of the Spanish Companies Act 2010, which stipulates that 10% of the profits for each year must be transferred to this reserve until it reaches at least 20% of share capital.

Until that limit is exceeded, this reserve may only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

A breakdown of contributions to consolidated results from each company included in the consolidated scope, including the portion relating to non-controlling interests, is as follows:

	2018	2017
	Consolidated profit/(loss)	**Consolidated profit/(loss)**
Company/ subgroup		
Iberpapel Gestión, S.A.	(1,597)	(1,340)
Papelera Guipuzcoana de Zicuñaga, S.A.U.	23,126	22,020
Ibereucaliptos, S.A.U.	1,254	1,340
Iberbarna Papel, S.A.U.	259	(243)
Moliner Domínguez y Cía., S.A.U.	20	15
Distribuidora Papelera, S.A.U.	40	62
Central de Suministros de Artes Gráficas Papel, S.A.U.	15	59
Iberpapel Argentina, S.A.	(616)	(61)
Forestal Los Gurises Entrerrianos, S.A.	155	(14)
Forestal Santa María, S.A.	(328)	121
Forestal Loma Alta, S.A.	131	140
Forestal Vonger, S.A.	(28)	57
Los Eucaliptus, S.A.	2,760	560
Samakil, S.A.	2	(1)
Copaimex, S.A.U.	(64)	45
Zicupap, S.A.U.	21	31
Iberpapel On Line, S.L.U.	57	115
	25,207	**22,906**

The proposed distribution of the parent company's 2018 profits, determined in accordance with commercial law and the accounting principles used to prepare the parent company's individual annual accounts, for submission to the Annual General Meeting, and the approved distribution for 2017, are as follows:

	2018	2017
Available for distribution		
Profit/(loss)	13,684	19,262
	13,684	**19,262**
Application		
Interim dividend	4,362	3,244
Supplementary dividend	3,273	2,703
Voluntary reserves	6,049	13,315
	13,684	**19,262**

On 2 February 2018, the parent company paid out an interim dividend for 2017 in the gross amount of €0.30 per share and on 11 May 2018 a supplementary, definitive gross dividend of €0.25 per share was paid out, making a total of €5,947 thousand.

On 11 December 2018, the parent company paid out an interim dividend for 2018 in the gross amount of €0.40 per share for a total of €4,362 thousand.

On 10 March 2017, the parent company paid out an interim dividend for 2017 in the gross amount of €0.30 per share and on 24 May 2017 a supplementary, definitive gross dividend of €0.35 per share was paid out, making a total of €7,063 thousand.

17. Trade and other payables

	2018	**2017**
Trade payables	28,208	24,286
Other payables	3,921	4,266
	32,129	**28,552**
Current tax liabilities	**5,172**	**4,531**
Total	**37,301**	**33,083**

Pursuant to the Ruling of 29 January 2016 from the Spanish Institute of Accounting and Auditing (ICAC), set out below is the information on the deferral of payments to suppliers required by Additional Provision Three "Duty of Information" of Law 15/2010 of 5 July, for 2018 and 2017:

	2018	**2017**
	Days	
Average supplier payment period	22.24	26.43
Ratio of settled transactions	20.30	24.20
Ratio of transactions pending payment	39.29	49.24
	Amount	
Total payments for the year	**345,007**	**288,820**
Total payments pending	**39,120**	**28,169**

18. Borrowings and government grants

	2018	2017
Non-current		
Borrowings	66,295	71,255
Government grants	1,940	2,646
	68,235	**73,901**
Current		
Borrowings	7,134	2,816
Fixed asset suppliers	6,111	
	13,245	**2,816**
Total borrowings and government grants	**81,480**	**76,717**

Non-current "Borrowings" include a loan of €480 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I) (2017: €1,120 thousand), finally maturing on 9 September 2020. It also includes the amount of €65,651 thousand relating to two loans obtained by the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) from two financial institutions, both with a two-year grace period and a six-year maturity to July 2023. In the second half of 2017, the latter company obtained four credit lines with a limit of €105,000 thousand with different banks for a 10-year period.

Current "Borrowings" relate to short-term payables arising from discounted bills in the amount of €2,051 thousand (2017: €2,092 thousand), the short-term portion of the loan of €640 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), finally maturing on 9 September 2020 (2017: €640 thousand) and €4,349 thousand repayable in 2019 on the two loans referred to above.

a) Bank loans and credit facilities

Interest rate exposure and contractual interest review dates applicable to the Group's bank loans and credit lines are as follows:

	6 months or less
At 31 December 2017	135
Total borrowings	**135**
At 31 December 2018	164
Total borrowings	**164**

The overall limit on bank credit lines and loans at 31 December 2018 amounts to €176,120 thousand (2017: €176,760 thousand).

The carrying amounts and fair values of non-current borrowings (bank loans and credit lines) are as follows:

	Carrying amount		**Fair value**	
	2018	**2017**	**2018**	**2017**
Bank borrowings	66,295	71,255	66,295	71,255

The fair values of current borrowings match their carrying amounts, since the effect of discounting is immaterial. Fair values for 2018 are based on cash flows discounted at a rate based on the three-month Euribor rate at 31 December 2018.

Borrowings have the following maturities:

	Less than 1 year	**1 to 2 years years**	**2 to 5 years years**	**More than 5 years**
At 31 December 2018				
Bank borrowings	7,134	17,911	34,894	13,490
Fixed asset suppliers	6,111			

	Less than 1 year	**1 to 2 years years**	**2 to 5 years years**	**More than 5 years**
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328

The effective interest rates at the balance sheet date were as follows:

	2018 %	**2017** %
Bank credit lines and loans	0.650%	0.650%

b) Government grants

The most significant capital grants break down as follows:

Grant date	Purpose	Amount granted	Capital grants to be released to income
30/06/1998	New factory project	8,799	513
26/12/2000	Cellulose plant extension	4,243	849
18/06/2002	Environmental improvements	205	28
05/03/2008	Environmental improvements	90	45
11/10/2011	Stripping column	177	53
11/10/2011	Wastewater treatment plant	172	125
09/01/2015	Wastewater treatment plant	200	164
		13,886	**1,777**

c) Foreign currency balances

The carrying amount of the Group's borrowings is denominated entirely in euros.

19. Deferred taxes

The net movement in the deferred tax account is as follows:

	2018	2017
At 1 January	**(75)**	**(1,362)**
(Charged)/credited to income statement	2,231	1,287
At 31 December	**2,156**	**(75)**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to net current and deferred tax assets and liabilities relating to the same tax authority.

Movements during the year in deferred tax assets and liabilities, setting aside the netting of balances relating to the same tax authority, are as follows:

Deferred tax liabilities	Portfolio provision	Biological assets	Total
At 1 January 2017	**(2,646)**	**(97)**	**(2,743)**
(Charged)/credited to income statement	1,024	97	1,121
At 31 December 2017	**(1,622)**		**(1,622)**
(Charged)/credited to income statement	1,303	(190)	1,113
At 31 December 2018	**(319)**	**(190)**	**(509)**

Deferred tax assets	Tax credits for new fixed assets + R&D&i	Inventories	Other	Total
At 1 January 2017	**1,024**	**124**	**233**	**1,381**
Application of deferred tax assets				
(Charged)/credited to income statement	218	(74)	22	166
At 31 December 2017	**1,242**	**50**	**255**	**1,547**
Application of deferred tax assets				
(Charged)/credited to income statement	1,051	20	47	1,118
At 31 December 2018	**2,293**	**70**	**302**	**2,665**

Deferred tax assets pending offset are recognised to the extent that it is probable that future taxable profits will be available to realise the assets.

Deferred tax assets relate mainly to Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I), which is registered in Guipúzcoa for tax purposes and is therefore subject to the provincial tax scheme, the applicable corporate income tax rate not having changed.

Deferred tax liabilities relate basically to temporary differences in the company Ibereucaliptos, S.A.U. (see Appendix I).

20. Provisions for other liabilities and charges

	CO_2 allowances	Other	Total
At 1 January 2017	**799**	**1,138**	**1,937**
Charged to income statement	956	343	1,299
Additional provisions			
Applied during the year	(799)		(799)
At 31 December 2017	**956**	**1,481**	**2,437**
Charged to income statement			
Additional provisions	2,134		2,134
Applied during the year	(956)	(1,078)	(2,034)
At 31 December 2018	**2,134**	**403**	**2,537**

Additions relate to the provisions for CO2 emission allowances consumed in 2018. Forecast consumption for 2018 stands at 213,071 CO2 emission allowances (2017: 218,264), which have been transferred to the income statement for the year, partly as grant income and partly as expenditure.

Applications of this provision derive from the handover in April 2018 of CO2 emission allowances consumed in 2017 and the balance pending settlement of the provision to cover the impact of Order IET/1045/2015 of 16 June.

The item “Other” includes a provision of €403 thousand for tax accrued on electricity generated (2017: €1,481 thousand).

The item “Provisions” in “Non-current liabilities” includes a provision recorded in 2015 by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) in the amount of €834 thousand arising from different interpretations of the application of the reduced rate of tax on hydrocarbons. The item also includes €292 thousand (2017: €639 thousand) to cover different possible interpretations of the tax scheme applicable to the Argentinian subsidiaries.

20.1. Liabilities related to customer contracts

The following liabilities were recognised in 2018 in connection with customer contracts:

	2018
Contract liabilities - Paper	437
Contract liabilities - Electricity	4,634
Total current contract liabilities	**5,071**

Paper contract liabilities relate to advance payments from customers for firm orders received from their customers.

Electricity contract liabilities relate to the provision of €3,434 thousand posted by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) (2017: €1,200 thousand) arising from the review of power generation market price estimates for this year of the regulatory semi-period, relating to 2017, 2018 and 2019, adjusted to actual market prices pursuant to Article 22 of Royal Decree 413/2014. This amount has been obtained from Proposed Order of 7 December 2016, which also updates the remuneration parameters for standard facilities applicable to certain plants generating electricity using renewable energy sources, cogeneration and waste for the regulatory semi-period commencing on 01 January 2017.

20.2. Revenue recognised in relation to contract liabilities:

The following table shows which revenue recognised in the current year relates to liabilities under contracts that are still in progress and the amount relating to execution obligations that were settled in prior years.

	2018
Revenue recognised and included in the opening balance of contract liabilities	
Paper contracts	**352**

The Group has recognised revenue in the amount of advance payments from customers recorded in the previous year, since the orders have been completed.

21. Revenue and other income

21.1 Disaggregation of revenue from contracts with customers:

Revenue is obtained from the transfer of goods and services over time and at a point in time in the following product lines and geographic areas:

	Paper Order		**Energy Contract**	**Timber**		**2018**
	Domestic	**Exports**	**Spain**	**Argentina**	**Uruguay**	**Total**
Revenue from external customers	**97,606**	**79,974**	**40,452**		**3,039**	**221,071**
Timing of revenue recognition						
At a point in time	97,606	79,974			3,039	221,071
Over time			40,452			

21.2 Outstanding execution obligations:

All contracts have a term of one year or less or are invoiced on the basis of time incurred. The transaction price assigned to these unsettled contracts is not disclosed, as permitted by IFRS 15.

21.3 Other income

	2018	**2017**
Lease income	520	985
Sundry service income	239	815
Grants released to income for the year	1,676	1,187
Other income	2,340	709
Total other income	**4,775**	**3,696**

22. Expenses by nature

	2018	**2017**
Depreciation/amortisation (Notes 6 and 8)	10,926	10,874
Employee benefit expense (Note 23)	19,289	20,102
Changes in inventories of finished goods and work in progress	(3,938)	2,519
Raw materials and consumables used	88,231	84,907
Transport	7,606	8,381
Repairs and maintenance	9,858	9,534
Supplies (gas and electricity)	46,641	41,268
Independent professional services	4,888	5,228
Rent and royalties	774	726
Insurance premiums	1,375	1,442
Other taxes (including electricity tax)	4,359	5,485
CO_2 allowances consumed	2,663	1,432
Other services	3,188	2,818
Total	**195,860**	**194,716**

The item “Rent and royalties” includes €653 thousand in royalties (2017: €643 thousand).

23. Employee benefit expenses

	2018	2017
Wages and salaries	15,130	15,287
Indemnities	65	739
Social security contributions	3,915	3,873
Other benefits	179	203
	19,289	**20,102**

24. Net financial income

	2018	2017
Bank loans and credit facilities	(552)	(266)
Losses on exchange	(355)	(544)
Hyperinflation, Argentinian subsidiaries	(533)	
Other financial expenses	(3)	(5)
Interest expense	**(1,443)**	**(815)**
Yield from fixed income securities	75	126
Gains on exchange	624	111
Interest income	**699**	**237**
	(744)	**(578)**

Restatements due to hyperinflation in 2018 are as follows:

	2018
Company or subgroup	
Iberpapel Argentina, S.A.	(390)
Forestal Los Gurises Entrerrianos, S.A.	149
Forestal Santa María, S.A.	(381)
Forestal Loma Alta, S.A.	120
Forestal Vonger, S.A.	(31)
	(533)

25. Income tax

	2018	2017
Current tax	6,273	4,312
Deferred tax (Note 19)	(2,231)	(1,287)
	(4,042)	3,025

The Group's pre-tax profit differs from the theoretical amount that would have been obtained had the weighted average tax rate applicable to the consolidated companies' profits been applied, as follows:

	2018	2017
Profit/(loss) before tax	**29,249**	**25,931**
Tax calculated at the Group's average tax rate	**(7,575)**	**(7,227)**
Income not subject to taxes		
Tax credits	2,407	3,211
Accelerated reversal of impairment under RD Law 3/2017		525
Deferred tax assets (other)	75	466
Tax credits recognised	1,051	
Income tax expense	**(4,042)**	**(3,025)**

The Group's average tax rate in 2018 was 25.90% (2017: 27.87%).

On the basis of the taxable income generated in previous years and forecast taxable income for the coming years, the directors have no reasonable doubts as to the recoverability of the above-mentioned tax credits recognised and pending application for tax purposes.

Additionally, the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) records €8,175 thousand in tax credits for new fixed assets granted by the Guipúzcoa Provincial Tax Authority, most of which expire from 2034 to 2048. Both amounts are subject to a ceiling with respect to tax payable. Based on the best estimate of recoverability and taking into account the volatility of results, the Company has capitalised the amount of €2,293 thousand.

Legislation governing the assessment of 2018 corporate income tax by the Group companies having their headquarters in Guipúzcoa province is Provincial Regulation 2/2014 (17 January) on corporate income tax in Guipúzcoa province.

The directors of the Group companies headquartered in Guipúzcoa have calculated income tax for 2018 and the years open to inspection in accordance with provincial legislation in force at each year end, on the understanding that the final outcome of various litigation and related appeals filed will not have a significant impact on the annual accounts taken as a whole.

The Group companies referred to in the preceding paragraphs have been applying tax legislation in force at all times and therefore any impact that the Supreme Court Judgement of 9 December 2004 may have on the annual accounts for periods open to inspection is deemed to be remote.

The group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) is not affected by Additional Provision 10 of Provincial Regulation 7/1997 (22 December), which was repealed by Provincial Regulation 3/2000 (13 March).

On 10 March 2016, the Group's subsidiary Ibereucaliptos, S.A.U. (see Appendix I) received notification of the start of a partial tax inspection of corporate income tax for 2010 and 2011. The proceeding was extended to the 2012 tax period on 17 March 2015. It was completed on 25 May 2017, when the Company accepted a favourable tax assessment.

Years open to inspection vary for the Spanish consolidated Group companies, although this generally relates to the last four years. The other foreign subsidiaries are subject to applicable legislation in their respective countries.

In accordance with current legislation, tax assessments may not be considered definitive until the returns filed have been inspected by the tax authorities or the limitation period has elapsed. The parent company's directors do not expect any additional significant liabilities to arise in the event of an inspection.

Pursuant to applicable accounting standards, contingencies deemed to be probable are provisioned in the accounts, while other contingencies that are classed as remote are not recognised as such or disclosed, except where the degree of probability may be considered at least possible.

Deferred tax liabilities have not been recognised in respect of withholdings and other taxes payable on profits not remitted by foreign subsidiaries, since the amounts involved are permanently reinvested and, in any event, the dividend payment policy can be controlled.

26. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of outstanding ordinary shares for the year, excluding treasury shares acquired by the Company (Note 13).

	2018	**2017**
Profit attributable to the Company's shareholders (thousand)	25,207	22,906
Weighted average number of outstanding ordinary shares	10,678,548	10,566,420
Basic earnings per share (€ per share)	**2.387**	**2.168**

The calculation of diluted earnings per share does not differ from the calculation of basic earnings per share, as there are no potentially dilutive shares.

27. Cash generated from operations

	2018	2017
Profit for the year	**25,207**	**22,906**
Adjustments to	**23,850**	**14,985**
Taxes (Note 25)	4,042	3,025
Depreciation of property, plant and equipment (Note 6)	10,863	10,823
Amortisation of intangible assets (Note 8)	63	51
Interest income (Note 24)	(75)	(126)
Interest expense (Note 24)	555	271
Exchange differences (Note 24)	269	433
Hyperinflation in Argentina	533	
Change in provisions	9,276	1,695
Grants released to income for the year	(1,676)	(1,187)
Changes in working capital	**(3,927)**	**1,293**
Inventories	(4,441)	5,335
Trade and other receivables	2,239	(4,257)
Trade and other payables	3,927	(40)
Other current assets and liabilities	(5,681)	255
Cash generated from operations	**45,130**	**39,184**

28. Contingencies

At 31 December 2018, the company Ibereucaliptos, S.A.U. (see Appendix I) has furnished a bank guarantee of €452 thousand (2017: €452 thousand) to the association Comunidad de Regantes del Andévalo Fronterizo, maturing on 31 July 2019, to secure its participation in the first phase of the transformation of farmland owned by the association into irrigated land.

29. Related-party transactions

Transactions effected with related parties, which include key executives and the members of the parent company's Board of Directors, are as follows:

a) Remuneration paid to key executives and Board directors

	2018	2017
Board directors' salaries and other short-term remuneration	924	811
Salaries and other short-term remuneration paid to key executives (senior managers who are not Board directors)	1,296	1,251
	2,220	**2,062**

There follows a breakdown of remuneration accrued to each of the parent company's Board directors for all items.

	Remuneration for membership of the parent company's Board	Remuneration as a senior manager
Mr. Iñigo Echevarría Canales	52	358
Mr. Néstor Basterra Larroude	82	
Mr. Jesús Alberdi Areizaga	72	
Mr. Iñaki Usandizaga Aranzadi	67	
Mr. Martín González del Valle Chavarri	82	
Ms. María Luisa Guibert Ucín	72	
Mr. Gabriel Sansinenea Urbistondo	67	
Mr. Iñaki Martínez Peñalba	72	

In the meeting of 26 October 2017, the Appointments and Remuneration Committee issued a favourable report on the non-salary variable remuneration (non-vesting bonus) of a maximum of €150,000 for the Chairman and Chief Executive Officer of Iberpapel Gestión, S. A., which will vest over a three-year period provided that the new paper machine number 5 in the Hernani investment project becomes operational. The right to this remuneration will be lost, besides the condition stated above, if the employment relationship ends before the bonus accrues or before the scheduled payment date, including unfair dismissal.

The senior managers Mr. Fermín Urtasun Erro and Mr. Carlos Avello Iturriagagoitia will be entitled to receive non-salary variable remuneration (non-vesting bonus) for a gross maximum of €150,000 and €100,000, respectively, subject to the same targets and degree of fulfilment as Iberpapel's Chairman.

On 26 October 2017, the Board of Directors approved the proposal made by the Appointments and Remuneration Committee.

The Group has no pension commitments with former or current Board directors.

The Company has granted no guarantees of any kind for Board members.

The Board of Directors and the members classed as senior managers, as stated in the 2018 Annual Corporate Governance Report, have not received any shares, stock options, advances or loans in the current year or in the previous year.

The company Iberpapel Gestión, S.A. has taken out a third-party liability insurance policy for its directors and executives, having paid the sum of €20 thousand (2017: €8 thousand).

b) Directors' conflicts of interest

As regards the duty to avoid conflicts of interest with the Company, during the year the Board directors fulfilled the obligations stipulated in Article 228 of the Spanish Companies Act. Both the directors and their related parties avoided the conflict of interest scenarios envisaged in Article 229 of the Act, except for cases in which the necessary authorisation was obtained.

c) Key executives

Key executives are senior managers who report directly to the Chairman of the Board.

30. Environment

Having regard to Royal Decree 437/1998 (20 March) on the adaptation of the Chart of Accounts to electricity industry companies, which is partially applicable to the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. as an electricity producer in its cogeneration activity, and with respect to the disclosures to be included in the notes to the accounts on the figures for this activity, it should be noted that the power generation activity commenced in February 1990. The main items and amounts relating to this activity in 2018 and 2017 are set out below:

	2018	**2017**
Balance sheet		
Plant	79,358	78,505
Accumulated depreciation	(45,579)	(41,721)
Profit/(loss)		
Income from sales of gas cogeneration electricity	35,075	36,412
Income from sales of biomass electricity	5,377	3,883
Depreciation of property, plant and equipment	(3,579)	(3,538)
Maintenance	(2,315)	(1,828)
Supplies (natural gas and electricity)	(46,470)	(41,118)

In 2018, environmental protection and improvement expenses incurred by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) were taken directly to the income statement in the amount of €1,133 thousand (2017: €1,336 thousand).

Any contingencies, indemnities and other environmental risks that could be incurred by the above-mentioned Group company are adequately covered by third-party liability insurance.

31. Other information

a) The average number of employees by category during the year is as follows:

	2018	**2017**
Board director	1	1
Executives	8	8
Technical specialists and administrative staff	76	76
Workers and specialists	204	205
	289	**290**

The average number of persons with recognised disabilities employed by the Group in 2018 was 9 (men), four of whom are skilled workers and five are unskilled workers (2017: 12 (men), five of whom were skilled workers and seven were unskilled workers).

b) The gender distribution of the Group's personnel at the year end is as follows:

			2018
	Men	**Women**	**Total**
Board director	1		**1**
Executives	8		**8**
Technical specialists and administrative staff	51	25	**76**
Workers and specialists	200	6	**206**
	260	**31**	**291**

			2017
	Men	**Women**	**Total**
Board director	1		**1**
Executives	8		**8**
Technical specialists and administrative staff	49	27	**76**
Workers and specialists	202	4	**206**
	260	**31**	**291**

c) Fees of auditors and their group or related companies

Fees for audit services rendered by PricewaterhouseCoopers Auditores, S.L. during 2018 totalled €121 thousand (2017: €119 thousand) and €28 thousand relating to the review of the annual corporate governance report (2017: €28 thousand).

Additionally, fees, net of tax, accrued during the year to other companies in PwC's network for ongoing tax advisory services and the review of transfer pricing documentation amounted to €46 thousand (2017: €62 thousand).

Fees for the audit services provided by other companies in 2018 amounted to €15 thousand (2017: €20 thousand).

32. Events after the reporting date

At the date these annual accounts and management letter are authorised for issue, there have been no relevant events since the balance sheet date.

APPENDIX I
(Subsidiaries included in the consolidation scope)

Company name	Address	Shareholding: Cost in thousand euro	Shareholding: % of par value	Shareholder	Consol. basis	Activity	Auditor
Papelera Guipuzcoana de Zicuñaga, S.A.U.	Bº de Zicuñaga, S/N Hernani (Spain)	41,516	100	Iberpapel Gestión, S.A.	a	1	A
Distribuidora Papelera, S.A.U.	C/ Velázquez, 105 Madrid (Spain)	223	100	Iberpapel Gestión, S.A.	a	2	A
Moliner, Domínguez y Cia., S.A.U.	C/Francesc Layret, 52 3º 1ª Badalona (Spain)	60	100	Iberpapel Gestión, S.A.	a	2	A
Ibereucaliptos, S.A.U.	C/ Real, 14. La Palma del Condado (Spain)	25,362	100	Iberpapel Gestión, S.A.	a	3	A
Central de Suministros de Artes Gráficas Papel, S.A.U.	C/ Velázquez, 105 Madrid (Spain)	60	100	Iberpapel Gestión, S.A.	a	2	A
Iberbarna Papel, S.A.U.	C/Francesc Layret, 52 3º 1ª Badalona (Spain)	460	100	Iberpapel Gestión, S.A.	a	2	A
Zicupap, S.A.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	60	100	Iberpapel Gestión, S.A.	a	4	A
Copaimex, S.A.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	475	100	Papelera Guipuzcoana de Zicuñaga, S.A.U.	a	4	A
Iberpapel Argentina, S.A.	C/ General Urquiza, 137 Colón (Argentina)	6,070	96.06	Ibereucaliptos, S.A.U.	a	3	B
Forestal Los Gurises Entrerrianos, S.A.	C/ General Urquiza, 137 Colón (Argentina)	965	99.99	Ibereucaliptos, S.A.U.	a	3	B
Forestal Santa María, S.A.	C/ General Urquiza, 137 Colón (Argentina)	1,388	90.91	Ibereucaliptos, S.A.U.	a	3	B
Forestal Loma Alta, S.A.	C/ General Urquiza, 137 Colón (Argentina)	2,854	90.91	Ibereucaliptos, S.A.U.	a	3	B
Forestal Vonger, S.A.	C/ General Urquiza, 137 Colón (Argentina)	689	90.91	Ibereucaliptos, S.A.U.	a	3	B
Iberpapel Argentina, S.A.	C/ General Urquiza, 137 Colón (Argentina)	88	3.94	Iberbarna Papel, S.A.U.	a	3	B
Forestal Los Gurises Entrerrianos, S.A.	C/ General Urquiza, 137 Colón (Argentina)	18	0.01	Iberbarna Papel, S.A.U.	a	3	B
Forestal Santa María, S.A.	C/ General Urquiza, 137 Colón (Argentina)	41	9.09	Iberbarna Papel, S.A.U.	a	3	B
Forestal Loma Alta, S.A.	C/ General Urquiza, 137 Colón (Argentina)		9.09	Iberbarna Papel, S.A.U.	a	3	B
Forestal Vonger, S.A.	C/ General Urquiza, 137 Colón (Argentina)	18	9.09	Iberbarna Papel, S.A.U.	a	3	B
Los Eucaliptus, S.A.	Paraje Constancia Padrones, N.º 22-2982- and 9370 Paysandú (Uruguay)	26,156	100	Ibereucaliptos, S.A.U.	a	3	B
Samakil, S.A.	Circunvalación Dr. Enrique Tarigo, 1335 oficina 1101 Montevideo (Uruguay)	14	100	Ibereucaliptos, S.A.U.	a	5	B
Iberpapel On Line, S.L.U.	Avda. Sancho el Sabio, 2-1º. San Sebastián (Spain)	6	100	Iberpapel Gestión, S.A.	a	2	A

Notes:

Reason for Consolidation:

The following cases are envisaged in Article 42 of the Code of Commerce:

a) The parent company holds a majority of voting rights.

b) The parent company is empowered to appoint or dismiss the majority of the administrative body's members.

c) The parent company may cast, by virtue of agreements concluded with other shareholders, the majority of voting rights.

d) The parent company has appointed solely with its votes the majority of the administrative body's members, who hold their positions at the time the consolidated accounts are drawn up and for the two immediately preceding years.

For such purposes, rights held through other subsidiaries or persons acting in their own name but for the account of the parent company or other subsidiaries or those held by agreement with any other person, will be added to the rights held by the parent company.

It will similarly be assumed that there is a single decision-making unit when, through any other means, one or several companies are under a single management team. In particular, when the majority of the members of the subsidiary's administrative body are members of the administrative body or senior managers of the parent company or any other company controlled by the latter.

Unless otherwise stated, the closing date of the annual accounts is 31 December 2018.

Activity:

1) Manufacture, transformation and sale of paper and sale of electricity.
2) Paper wholesaler.
3) Reforestation and forestry activities.
4) Promotion of paper exports.
5) Timber merchant.

Auditor:

A) Audited by PricewaterhouseCoopers Auditores, S.L.

B) Audited by P & A Auditores.

CONTENT OF THE MANAGEMENT REPORT ACCOMPANYING THE CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

1. THE IBERPAPEL GROUP

Iberpapel is an integrated international paper group and owns:

- ✓ **25,788** hectares of land;
- ✓ Cellulose pulp installed capacity of **200,000** metric tonnes; and
- ✓ **250,000** metric tonnes of printing and writing paper.
- ✓ The Group also produces **10 Mwh** of electricity using its **20 Mwh** biomass turbine generator.
- ✓ **50 Mwh** of electricity by means of gas cogeneration.

The Iberpapel Group is engaged in the following activities:

- ✓ Forestry activity through companies having their tax domicile in Spain, Uruguay and Argentina.
- ✓ Industrial, Papelera Guipuzcoana de Zicuñaga, S.A.U.
- ✓ Commercial activity, through companies that sell paper in Spain, where approximately 50% of products are sold, and companies exporting paper mainly to Europe.

The Iberpapel Group is formed by 17 companies: the parent company Iberpapel Gestión, S.A. and 16 wholly-owned direct or indirect subsidiaries, there being no non-controlling interests. Appendix I to these consolidated annual accounts contains additional information on the fully-consolidated companies.

All the parent company's shares are listed on the Madrid and Bilbao stock exchanges.

1.1. Iberpapel Gestión, S.A.'s governing body.

Iberpapel has two main governing bodies, the *General Shareholders' Meeting* and the *Board of Directors*. Their functions have been determined in accordance with Spanish law and the rules and recommendations of the Spanish National Securities Market Commission.

In 2018, the Board of Directors held twelve meetings, all attended by the Chairman. The Audit Committee met six times, the Appointments and Remuneration Committee four times and the Corporate Social Responsibility Committee twice.

The subsidiaries Papelera Guipuzcoana de Zicuñaga, S.A.U., the Group's industrial plant, and Ibereucaliptos, S.A.U., which owns the forestry companies, also have a Board of Directors, formed by seven and eight members, respectively, at 31 December 2018. The other companies are governed by joint administrators.

The approval of the Group's general policies and strategies is reserved for the Board, in particular:

- ✓ *Investment and funding policy.*
- ✓ *Definition of the Group's structure.*
- ✓ *Corporate governance policy.*
- ✓ *Corporate social responsibility policy*
- ✓ *Strategic or business plan, management objectives and annual budgets.*
- ✓ *Senior management remuneration policy and performance evaluation.*
- ✓ *Risk control and management policy; periodic follow-up of internal information and control systems.*
- ✓ *Dividend and treasury share portfolio policy, particularly related limits.*

In the meeting of 31 May 2018, the Company's Board of Directors approved an amendment to Article 7 of the Board Regulations so as to bring the article into line with Article 21 of the Bylaws, relating to the maximum number of directors.

1.2. Strategic vision and prospects.

Iberpapel is an integrated paper group committed to quality, service and the environment. Since Papelera Guipuzcoana de Zicuñaga was founded in 1935, we have become one of the leaders in Spain's printing and writing paper market.

The success of our business model is based on a high level of integration of each of the production phases: cellulose, paper and cogeneration. This provides a clear competitive advantage in terms of costs and a high degree of industrial and commercial flexibility. Our model's main strengths are:

- ✓ Highly-integrated production process
- ✓ Manufacturing to order
- ✓ Productivity and efficiency leadership
- ✓ Low-carbon energy sources
- ✓ Emphasis on sustainability, transparency and respect for the environment
- ✓ Investment effort
- ✓ Research, development and innovation
- ✓ Clean balance sheet

These distinctive factors have allowed us to reach a good positioning in the industry and overcome exceptionally difficult market circumstances. We aim to consolidate our model's efficiency, productivity and cost control without losing sight of growth, thanks to new investments in production capacity and product diversification.

Iberpapel's international vocation complements its growth strategy and has helped to reduce exposure to the economic situation. Exports and major investments in both industrial and forestry activities have brought considerable flexibility in the face of fluctuating supply prices, and optimisation of the customer portfolio and paper sales.

The strategy for each operating division is described below:

- Forestry Division:

Iberpapel's current forestry assets assure a significant supply of the main raw material used by the Group's industrial division, eucalyptus. Provided there are no timber tensions on the Cantabrian coast, logged timber is sold in the local markets.

- Industrial Division:

Following the launch of the "Hernani Project" in 2017, the industrial division's strategy in the coming years will focus on the project's success.

The "Hernani Project" entailed an investment of around €180 million in 2017 and consists basically of the installation of a new machine with a Yankee dryer cylinder to make MG paper for flexible packaging of various kinds, having an estimated production capacity of 85,000 tonnes per year. The existing cellulose plant is also being reformed and modernised to include technological and environmental improvements (BATs), which will allow an increase of between 15% and 20% in the plant's gross production capacity.

- Commercial Division:

Expansion of the market for specialty papers and traditional products in will continue Spain and abroad, offering products with a greater projection and added value. This strategy will allow Iberpapel to stand out from its main competitors.

2. BUSINESS PERFORMANCE.

The Iberpapel Group's positive trend of recent years is continuing.

In a stable paper environment, net profit for 2018 totalled €25,207 thousand, 10% up on the 2017 figure of €22,906 thousand.

Similarly, 2018 EBITDA was €40,912 thousand, 10.85% higher than in 2017.

2.1 HIGHLIGHTS

Revenue (€221,071 thousand) rose by 1.85% on the same period of the previous year (2017: €217,053 thousand).

EBITDA (€40,912 thousand) (2017: €36,907 thousand) rose 10.85%. The gross operating margin was 18.50% (2017: 17.00%).

Net profit for 2018 totalled €25,207 thousand (2017: €22,906 thousand), having risen 10.05%.

2.2 CONSOLIDATED INCOME STATEMENT

	31/12/2018	31/12/2017	% change
Revenue	221,071	217,053	1.85
Other income	4,775	3,696	29.19
Income	**225,846**	**220,749**	**2.31**
Changes in inventories of finished goods and work in progress	3,938	(2,519)	
Raw materials and consumables	(88,231)	(84,907)	3.91
Staff costs	(19,289)	(20,102)	-4.04
Other expenses	(81,352)	(76,314)	6.60
EBITDA	**40,912**	**36,907**	**10.85**
Depreciation/amortisation	(10,926)	(10,874)	-0.48
Profit/(loss) on fixed asset disposals	7	476	
EBIT	**29,993**	**26,509**	**13.14**
Net financial income/(expense)	(744)	(578)	28.72
Profit before tax	**29,249**	**25,931**	12.80
Taxes	(4,042)	(3,025)	33.62
NET PROFIT	**25,207**	**22,906**	**10.05**

a) OPERATING INCOME

Cumulative revenue at 31 December 2018 totalled €221,071 thousand (2017: €217,053 thousand), having risen by 1.85%. The most significant items are set out below:

Thousand euro	31/12/2018	31/12/2017	Change %
Paper sales	177,580	174,490	1.77
Electricity sales	40,452	40,295	0.39
Timber sales	3,039	2,268	33.99

i. Paper sales

The 1.77% rise in paper sales is explained by the increase in the selling price during the year, since fewer units were sold than in 2017 due to the maintenance stoppage in March.

ii. Electricity sales

Turnover from "electricity sales" was in line with the previous year.

iii. Timber sales

The Group's forestry business in South America grew in 2018, timber sales having increased by 34% on the previous year.

b) OPERATING EXPENSES

i. Staff costs

The average number of persons with recognised disabilities employed by the Group in 2018 was 9 (men), four of whom are skilled workers and five are unskilled workers (2017: 12 (men), five of whom were skilled workers and seven were unskilled workers).

	2018	**2017**
Board director	1	1
Executives	8	8
Technical specialists and administrative staff	76	76
Workers and specialists	204	205
	289	**290**

Chart I reflects the average headcount in the last five years.

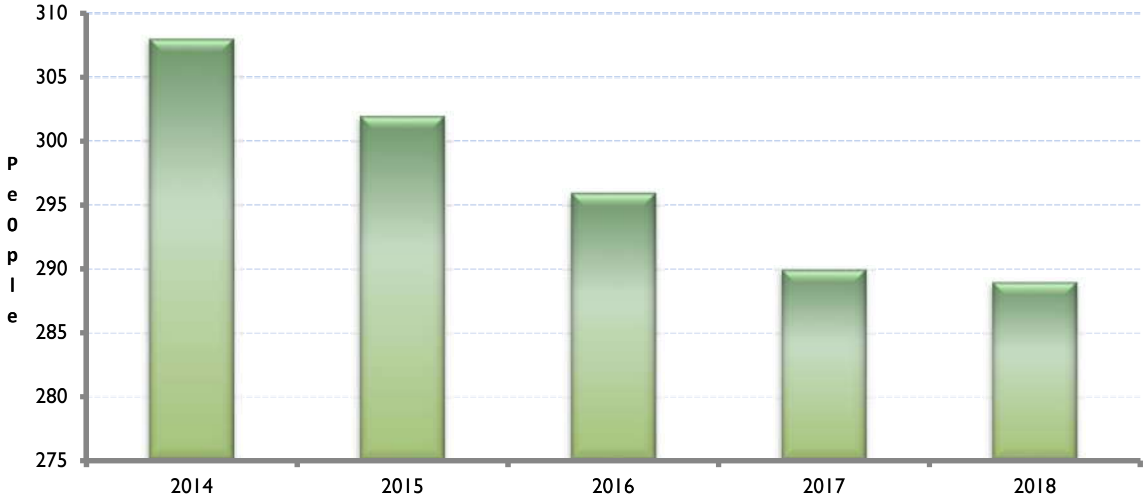

Chart I

c) The Group's EBITDA amounted to €40,912 thousand (2017: €36,907 thousand), representing growth of 10.85%.

3. CONSOLIDATED BALANCE SHEET AT 31/12/2018 AND 31/12/2017

ASSETS Thousand euro		Date 31/12/2018	Date 31/12/2017
I.	Property, plant and equipment	133,739	124,696
II.	Biological assets	18,420	13,640
III.	Other intangible assets	1,641	1,510
IV.	Deferred tax assets	2,665	1,547
V.	Non-current financial assets	2,418	3,411
A) NON-CURRENT ASSETS		**158,883**	**144,804**
II.	Inventories	20,204	15,859
II.	Trade and other receivables	38,744	41,213
IV.	Cash and cash equivalents	165,114	151,426
B) CURRENT ASSETS		**224,062**	**208,498**
TOTAL ASSETS (A+B)		**382,945**	**353,302**

LIABILITIES Thousand euro		Date 31/12/2018	Date 31/12/2017
I.	Capital	6,624	6,558
II.	Retained earnings and other reserves	223,448	213,457
III	Profit/(loss) for the year	25,207	22,906
IV.	*Less: Treasury shares*	(2,727)	(2,418)
V.	Exchange differences	(6,465)	(17,365)
VI.	Share premium account	13,633	13,633
IX.	*Less: Interim dividends*	(4,362)	
A) EQUITY		**255,358**	**236,771**
I.	Bank borrowings	66,295	71,255
II.	Deferred tax liabilities	509	1,622
III.	Provisions	5,760	2,672
IV	Other non-current liabilities	1,940	2,646
B) NON-CURRENT LIABILITIES		**74,504**	**78,195**
I.	Bank borrowings	7,134	2,816
II.	Trade and other payables	43,412	33,083
III.	Provisions for other current liabilities	2,537	2,437
C) CURRENT LIABILITIES		**53,083**	**38,336**
TOTAL LIABILITIES AND EQUITY (A+B+C)		**382,945**	**353,302**

a) Biological assets

Biological assets are valued annually by the independent expert “Galtier Franco Ibérica, S.A.”.

On each balance sheet date, the Group initially recognises biological assets at fair value less estimated point-of-sale costs.

Gains or losses on the initial recognition of a biological asset at fair value less estimated point-of-sale costs and gains or losses resulting from all successive fair value changes less estimated point-of-sale costs are included in net profit or loss for the year.

Government grants associated with a biological asset are recognised when and only when they are payable.

b) Exchange differences

The Group has investments in Uruguay and Argentina through companies operating in currencies other than the euro, which is Iberpapel Gestión, S.A.’s functional and presentation currency. Consequently, the Group is exposed to foreign exchange risks in connection with the Argentine and Uruguayan pesos against the euro.

At 31 December 2018, the Group records cumulative exchange losses totalling €6,465 thousand (2017: €17,365 thousand), caused by the 6.98% depreciation of the Uruguayan peso against the euro in 2018.

In addition, as Argentina has been classed as a hyperinflation country since July 2018 with retrospective effect to 1 January 2018, the Iberpapel Group has revised its policy for presenting the Argentinian subsidiaries in the financial statements. In order to present more relevant, reliable information, the Group includes in reserves of consolidated companies all the effects of hyperinflation on equity, that is the restatement of the financial statements of the Argentinian companies and the equity effect generated by translating their respective financial statements to euro at the year-end exchange rate. Iberpapel has decided to reflect the effects in a reserve account instead of presenting them in Other comprehensive income on the line foreign exchange differences. This presentation policy change entails a reclassification from the item Exchange differences to the item Retained earnings, so the consolidated equity figure does not change.

The equity effects of hyperinflation are disclosed on the line "Retained earnings". At 1 January 2018, the total impact on equity is €8,974 thousand and includes the transfer of €12,792 thousand in respect of exchange differences prior to the classification of Argentina as a hyperinflationary economy, due to the full retrospective application of IAS 29.

The hyperinflation restatement in 2018 generated a loss for the year of €533 thousand.

c) Bank borrowings

At 31 December 2018, the Group records a net cash surplus of €92,810 thousand (31/12/2017: €79,126 thousand).

Thousand euro	**31/12/2018**	**31/12/2017**
Short- and long-term bank borrowings	73,429	74,071
(Less: Cash and cash equivalents)	(166,239)	(153,197)
Net debt	**(92,810)**	**(79,126)**
Equity	255,358	236,771
Leverage ratio	**(36.34%)**	**(33.42%)**

The following chart reflects the evolution of the Group's sound financial structure:

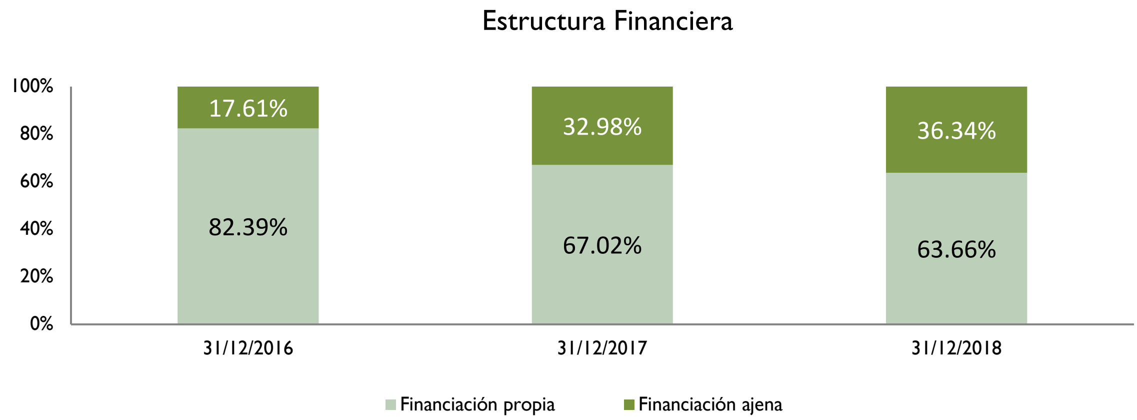

Chart II

4. INVESTMENTS

Property, plant and equipment and intangible assets increased by €19,282 thousand in 2018 (2017: €2,783 thousand).

5. SHARE PRICE EVOLUTION

The year ended with sharp falls in equity markets and significant volatility spikes. Political uncertainty, the threat of a hard Brexit and doubts surrounding a trade agreement between China and the United States marked the year and remain the focus of attention in 2019. Iberpapel again stood out in a complicated environment, closing at €33 per share after having risen 13.01% over the year, as compared with 14.97% and 7.5% falls in the IBEX-35 and the Ibex Small Caps, respectively.

Main stock data:

	2018	2017	2016	2015	2014
Shares admitted to trading (€M)	6.62	6.56	6.56	6.75	6.75
No. of shares (x1000)	11,039	10,930	10,930	11,247	11,247
Capitalisation (€M)	364.31	319.17	250.20	194.01	142.95
Volume traded (x 1000 shares)	1,060	2,961	1,998	2,796	3,453
Cash value traded (€M)	35.60	83.12	38.37	40.25	42.77
Closing price (€)	33.00	29.20	22.89	17.25	12.71
Maximum price (€)	39.30 (30 Jul)	31.88 (15 May)	22.89 (30 Dec)	17.50 (17 Dec)	16.55 (16 Jan)
Minimum price (€)	27.63 (2 Jan)	22.12 (3 Jan)	15.57 (15 Feb)	12.20 (7 Jan)	11.56 (18 Nov)

Source: BME and Madrid Stock Exchange (Summary of equity trading)

At the year end, the Company's market capitalisation stood at €364.31 million.

Comparative stock performance in 2018

(Base 100 at 31/12/2017)

Chart III

6. TREASURY SHARES

In 2018, the Company acquired 59,365 treasury shares on the stock exchange. A total of €1,996 thousand was paid for the shares. In 2018, 49,122 treasury shares were sold for €1,283 thousand, generating a profit of €405 thousand. At 31 December 2018, the Company held a total of 130,399 treasury shares at an original cost of €2,418 thousand. These shares represent 1.181% of the Company's share capital. They were held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

In 2017, the Company acquired 99,756 treasury shares on the stock exchange. A total of €2,894 thousand was paid for the shares. In 2017, 54,731 treasury shares were sold for €1,536 thousand. At 31 December 2017, the Company held a total of 120,156 treasury shares at an original cost of €2,418 thousand. These shares represented 1.099% of the Company's share capital. They were held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

On 24 April 2018, the Annual General Meeting granted authorisation to the Board of Directors, for a five-year period, including specific substitution powers, so that the Company itself or its subsidiaries could acquire treasury shares, as stipulated by law, cancelling the authorisation granted by the General Meeting on 20 April 2016.

The Annual General Meeting held on 24 April 2018 approved agenda item seven on the capital increase charged to voluntary services (99.80% favourable votes and 0.20% abstentions). Article 5 of the Bylaws (share capital) was amended and powers were delegated to the directors in relation to the capital increase, in the following resolution:

a) Share capital increase charged to reserves.

Increase the Company's share capital out of reserves in the amount of €65,583.00 by issuing 109,305 new shares in the same class and series, carrying the same rights as the shares currently outstanding, with a par value of €0.60 each, represented by book entries to be kept by Iberclear and its member entities in the terms of legislation in force from time to time.

The new shares shall carry the same rights as the rest of the Company's shares as from the date of issuance.

For the purposes of Article 311 of the Spanish Companies Act, the subscription or allotment of the capital increase may be incomplete.

The shares are issued at their par value of €0.60 and without a share premium.

The capital increase shall be charged entirely to the reserve accounts or sub-accounts (from among the ones envisaged in Article 303.1 of the Spanish Companies Act) to be determined by the Board of Directors or the person delegated.

b) Capital increase balance sheet.

The balance sheet that is the basis for the operation is the balance sheet closed at 31 December 2017, duly audited by the Company's auditor and approved by this Annual General Meeting in agenda item one.

c) Allotment of the new shares.

The new shares issued will be allotted free of charge to the Company's shareholders in the proportion of one (1) new share for every 100 free allotment rights. Each Company share shall carry one (1) free allotment right.

The Company or some of its shareholders shall waive the number of free allotment rights necessary in order for the above-mentioned proportion to balance.

The free allotment rights are to be granted to the Company shareholders that are legitimately reflected in the accounting records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) at 11:59 p.m. on the day the capital increase announcement is published in the Commercial Registry's Official Gazette. However, the Board of Directors or the person delegated by the Board may modify the timing of the rights allotment, pursuant to legislation in force at the time, and determine the rest of the relevant dates for the correct execution of the operations relating to the rights allotment, the price of the rights and the price of the Company's new shares.

The free allotment rights for the new shares shall be transferable. The free allotment rights may be traded in the market during the period to be determined by the Board of Directors, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette. During that period, free allotment rights may be acquired in the market in a sufficient number and in the necessary proportion to receive new shares.

d) Share deposit.

The new shares that could not be allotted will remain on deposit and available for persons that attest to the legitimate ownership of the relevant free allotment rights. Once three years have elapsed, the shares that have still not been allotted may be sold pursuant to Article 117 of the Spanish Companies Act, for the account and risk of the interested parties. The cash amount of the said sale shall be held available for the interested parties in the manner stipulated in applicable legislation.

e) Admission to listing.

Request the admission to listing of the new shares on the Madrid and Bilbao Stock Markets and their inclusion in the Stock Exchange Interconnection System (Continuous Market).

f) Delegation.

It is agreed to delegate to the Board of Directors, pursuant to Article 297.1.a) of the Spanish Companies Act, with express powers of substitution, the authority to set the date on which the share capital increase resolution adopted is to be executed, within a maximum period of one (1) year as from the adoption date, and to redraft Article Five of the Bylaws to reflect the new share capital figure and number of shares.

Moreover, it is agreed to delegate to the Board of Directors, also pursuant to Article 297.1.a) of the Spanish Companies Act and also with express powers of substitution, the authority to stipulate the terms of the capital increase for all aspects not envisaged in the preceding paragraphs. In particular, for illustrative, non-restrictive purposes:

(i) Determine the specific reserve account or sub-account in which the capital increase will be charged.

(ii) Waive, if applicable, the number of free allotment rights necessary to balance the proportion of new shares freely allotted.

(iii) Establish the duration of the free allotment rights trading period, subject to a minimum of 15 calendar days as from publication of the capital increase announcement in the Commercial Registry's Official Gazette.

(iv) Declare the capital increase to have been executed and completed.

(v) Amend Article 5 of the Bylaws to reflect the new share capital figure and number of shares.

(vi) Execute the capital increase deed.

(vii) Designate the agent and other advisors in the operation.

(viii) Carry out all steps or formalities that may be necessary or advisable and draw up and sign all documentation that may be necessary or advisable to fully authorise and execute the issue, as well as the admission to listing of the new shares, vis-à-vis any Spanish or foreign, public or private entity or body, including the Commercial Registry, the Spanish National Securities Market Commission, the Stock Market Governing Companies, Sociedad de Bolsas and Iberclear.

(ix) Draw up and publish all announcements that may be necessary or advisable for such purposes.

(x) If applicable, not execute and render void the capital increase resolution.

(xi) In general, in the broadest possible terms, take all steps that may be necessary or merely advisable to fully execute the resolutions adopted, being able to correct, clarify, adapt or supplement the resolutions.

The Board of Directors, in its meeting of 25 September 2018, approved the execution of the fully-paid share capital increase charged to reserves, as agreed by the Annual General Meeting on 24 April 2018 in agenda item seven.

The full text of Article 5 of the By-laws then read as follows:

ARTICLE 5.- Share capital consists of SIX MILLION SEVEN HUNDRED AND TWENTY-THREE THOUSAND EIGHT HUNDRED AND NINETY-SEVEN EUROS, FORTY CENTS (€6,623,897.40).

Capital is divided into ELEVEN MILLION THIRTY-NINE THOUSAND EIGHT HUNDRED AND TWENTY-NINE (11,039,829) fully-subscribed and paid-up ordinary shares with a par value of €0.60 each, forming a single class and series.

The Company received 1,274 shares in this capital increase process.

7. RESEARCH AND DEVELOPMENT

The Iberpapel Group continues to focus its efforts on R&D&i programmes in the search for new products, production process enhancement and permanent monitoring of new technologies.

i. Search for new products, three new product ranges having been placed on the market:

   Zicubag (paper for bags, with high mechanical resistance).
   Ziculflex (paper for packaging).
   Vellum SC (label face).

ii. As part of production process enhancement, in April 2013 the Company completed and commissioned the modernisation and extension of the cut-size line.

iii. Additionally, in 2013 a novel system became operational for eliminating odorous compounds; besides reducing the environmental impact on the surrounding area, this system has considerably increased the plant's energy efficiency.

iv. In 2013, Papelera Guipuzcoana de Zicuñaga, S.A.U. undertook an R&D project on energy recovery using lignin derived from the cooking of timber to obtain cellulose. The aim is to transform traditional processes into biorefinery processes that can be used to obtain intermediate organic chemical products during the synthesis of other compounds. This is a project performed in association with universities.

v. In 2018, the Iberpapel Group validated a carbon sequestration project in forest plantations using a silvopastoral system on degraded land in Uruguay. Carbon capture by our trees has been verified by an independent body and registered in the voluntary carbon markets.

vi. The international packaging market is changing, driven by new consumption habits in society. The inrush of new technologies means that a large part of consumption is shifting from traditional selling channels to digital alternatives. Among other matters, this entails the need for new packaging in response to the need for direct parcel shipment from production centres to end consumers.

   Society is also increasingly concerned about the environment in general and specifically the consumption of fewer natural resources, energy efficiency and the environmental impact of waste generated during the process and at the end of the product's useful life. This last point has recently triggered a small revolution, as people are beginning to object to the use of synthetic polymers in single-use items (which logically include packaging). Legislators are therefore taking action to restrict the use of synthetic polymers in products of this kind.

In these circumstances, paper as a biodegradable, environmentally friendly material is destined to replace synthetic polymers as reference materials in the flexible packaging market, particularly KRAFT MG (Machine Glazed) paper, which is designed especially for this purpose.

Papelera Guipuzcoana de Zicuñaga, S.A.U. is aware of the new industry trends and has always worked intensely to improve its products and processes, as well as to assure the greatest possible customer satisfaction by both responding to aesthetic and mechanical requirements for all paper uses and meeting the highest environmental standards.

In this context, the ambitious Hernani Project has been launched, comprising two different sub-projects. The project, which began in 2017, is expected to last for three years, depending on the circumstances and difficulties encountered. Once completed, the knowledge generated and major investments made will allow the Company to successfully compete in the promising flexible packaging paper market.

The Hernani Project affects the cellulose plant, where the production process is being improved. Among other aspects, the project will address significant technological improvements (some of which are Best Available Technologies), consisting of the development, configuration, interaction and interferences of different production stations, so as to substantially enhance end product quality, productivity, efficiency, safety and the net environmental impact of the plant as a whole.

The Hernani Project will also include the development of a new production process for the efficient manufacture of high-quality KRAFT MG paper. This work in progress is the result of intense cooperation between the Company's team of engineers and specialists and some of the industry's most respected technologists. Once developed, the new, innovative production process will be an important technological milestone for our Company.

8. RISK MANAGEMENT

The Group controls and manages risk at each level of oversight, control and management.

1. **Board of Directors**. The Board is responsible for the internal control system, including the monitoring and control of the Group's relevant risks.

2. **Audit Committee**. The committee oversees risks, authorised by the Board of Directors.

3. **Corporate Social Responsibility Committee**. Its functions include the review, promotion and oversight of corporate social responsibility and sustainability initiatives (policies, strategies, plans, reports…).

4. Other bodies created by Iberpapel to implement, control and monitor the risk management systems:

- **Internal Control over Financial Reporting System Control Body**: its tasks include support for the Audit Committee in the supervision of the correct design, implementation and functioning of the risk management and control systems, which include the Internal Control over Financial Reporting (ICFR) System.

- **Corporate Defence Control and Monitoring Body**: it manages criminal risks to which the business and the Company's employees could be exposed.

These bodies periodically review the "Risk Control System" in order to identify, manage and effectively communicate the main risks. Specifically, the Board of Directors controls and manages risks based on an assessment of the operating risks overseen by the Audit Committee. The activities of these bodies include overseeing the independence and effectiveness of the internal control systems (proposing the selection, appointment, reappointment and removal of the head of the internal audit service), receiving periodic information on their activities and checking that senior management considers their findings and recommendations.

In line with the Unified Code of Good Governance, the Group carries out internal audit tasks (led by Iberpapel personnel, who are supported by external consultants), under Audit Committee supervision, overseeing the proper functioning of the internal information and control systems.

The bodies identified are also responsible for the implementation and oversight of a suitable and effective Internal Control System.

- **Financial risk management**

Financial risk management

The Iberpapel Group's activities are exposed to various financial risks: market risk (including foreign exchange risk, price risk, cash flow interest rate risk and foreign operations risk), credit risk and liquidity risk. The risk management program is focused on minimising the effects of financial market uncertainty and any potential adverse impact on its financial returns.

Market risk

- Foreign exchange risk

  The Group basically operates in euros and is not therefore significantly exposed to foreign exchange risks in foreign currency transactions. Accordingly, this risk is not deemed to be significant and no hedging policies are applied.

  Net exchange gains recognised in the 2018 income statement total €269 thousand (2017: €433 thousand), representing 0.92% (2017: 1.67%) of the pre-tax profit for the period. In this regard, Iberpapel considers that a sensitivity analysis of this risk would not add significant information for the users of the consolidated annual accounts.

- Price risk

  The Iberpapel Group is not exposed to price risk with respect to equity and financial instruments.

Timber is the Group's main raw material, price and supply being subject to fluctuations.

Supply risk is mainly mitigated through the availability of timber in our plantations in South America and Spain, as well as by diversifying supply sources mainly through the selection of suppliers on the Cantabrian coast. In addition, a 5% rise in the eucalyptus price would cause Ebitda to fall by approximately 6.80%.

- Cash flow interest rate risk

Revenues and cash flows from operating activities are relatively independent of fluctuations in market interest rates.

In connection with this risk, Iberpapel recognised long-term borrowings of €66,295 thousand in its statement of financial position at 31 December 2018 (2017: €71,255 thousand), representing 17.36% (2017: 20.17%) of total consolidated liabilities and equity. Of this debt, €65,651 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €165,114 thousand at 31 December 2018 (2017: €151,426 thousand). On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

- Foreign operations risk

The Group is exposed to foreign exchange risk in relation to the Argentine and Uruguayan pesos against the euro, as a result of its investments in foreign operations through subsidiaries. The Argentine peso depreciated 48.27% against the euro from 31 December 2017 to 31 December 2018, and the Uruguayan peso depreciated 6.98% against the euro in the same time period.

Foreign operations risk affecting investments in subsidiaries in Uruguay derives mainly from the effect of translating non-current assets, so that the most significant impact is on consolidated equity, in the item "Cumulative translation difference". The Group provides breakdowns of this equity item in these notes to the consolidated annual accounts. Other breakdowns are also provided, such as the location of assets abroad, foreign currency transactions and exchange differences recognised in the consolidated income statement.

Credit risk

The Group's main interest-bearing assets are cash, short-term bank deposits and trade and other receivables, which represent the Group's maximum credit risk exposure in relation to financial assets.

The main credit risk is attributable to trade receivables, which are reflected in the balance sheet net of bad debt provisions estimated by management, drawing on prior-year experience and an assessment of the current economic environment. The Group has no significant concentrations of credit risk and exposure is distributed among a large number of counterparties. Virtually all paper sales and therefore the majority of trade receivables are insured with the following companies:

Insurance company	Rating
Euler Hermes (Allianz)	AA
Solunión	A
Crédito y Caución	A+
Cesce	A-
Coface	A+

The Iberpapel Group applies the simplified approach under IFRS 9 to measure expected credit losses, applying a value adjustment for lifetime expected losses in the case of trade receivables and contract assets. The companies also distinguish between:

1. Paper business trade receivables: Credit risk is mainly concentrated in the part of the balance not covered by credit insurance.

2. Energy business trade receivables: Expected loss is considered to be close to zero, since the balances are ultimately borne by Spain's Central Government.

3. Other balances: Immaterial and related to timber sales. There is no past experience of relevant losses, so impairment losses are recognised where there are signs of doubtful recovery and, in any event, when the amounts are past due for more than 6-12 months.

Expected credit losses are measured by grouping together trade receivables and contract assets based on the shared credit risk characteristics and the number of days past due. Contract assets are related to unbilled work and have substantially the same risk characteristics as trade receivables for the same types of contract. The conclusion has therefore been drawn that expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Expected loss rates are based on average probability of default for the industrial sector in Europe, distinguishing between high-risk countries (Argentina) and low-risk countries (all other countries). A decreasing rate is applied based on the past due period, as well as a discount to reflect the recovery rate on the basis of the individual guarantee covering each customer (credit insurance contracted). These calculations were made both at 1 January 2018 and at 31 December 2018 taking into account the relevant historical credit losses. Once the calculations had been made, the Company estimated an expected loss of €18 thousand and €22 thousand at 1 January 2018 and 31 December 2018, respectively. The Company has decided not to provision these amounts since they are immaterial.

There follows a breakdown of balances past due and not impaired in the item "Loans and other receivables" by age at year-end 2018 and 2017:

	31.12.2018	31.12.2017
Less than 30 days	33,929	37,094
31 to 60 days	1,278	1,858
More than 61 days	55	45

Previous accounting policy for the impairment of trade receivables

In the previous year, the impairment of trade receivables was assessed under the incurred loss model. Individual trade receivables known to be uncollectable were written off by directly writing down the carrying amount. Other receivables were assessed together to identify objective evidence of impairment not yet identified. For these receivables, estimated impairment losses were recognised in a separate impairment provision. The Group took the view that there was evidence of impairment if any of the following indicators were identified:

- significant financial difficulties for the debtor;
- probability that the debtor will become bankrupt or require a financial reorganisation; and
- default or delay in payment (more than 30 days past due).

As regards cash and short-term bank deposits, the most significant amount relates to interest-bearing deposits at financial institutions with good financial standing.

Cash at bank and bank deposits	**Rating**	**2018**
A Banks	BBB+	71,744
B Banks	BB+	52,580
C Banks	A-	23,154
D Banks	BBB-	17,806
Other		955
		166,239

The Group has no direct exposures with the Company's directors at 31 December 2018.

Although these assets are within the scope of IFRS 9 on the impairment of financial assets, the balance at 1 January 2018 and at 31 December 2018 represents low exposure and therefore the expected loss calculation has no significant effect. The loss calculation would be two days at the most due to the opportunities to realise the asset. An approximate impact analysis has been carried out based on different bank credit risks in each country, having concluded that the impact is immaterial.

Liquidity risk

Prudent liquidity risk management entails holding sufficient cash and available financing through adequate committed credit facilities, and the capacity to settle market positions.

Management follows up on liquidity forecasts periodically based on expected cash flows and keeps sufficient cash to meet its liquidity needs.

The following table analyses the Group's financial liabilities, grouped together by maturity, on the basis of estimated cash flows:

	Less than 1 year	1 to 2 years years	2 to 5 years years	More than 5 years
At 31 December 2018				
Bank borrowings	7,134	17,911	34,894	13,490
Suppliers and creditors	32,129			
Fixed asset suppliers	6,111			

	Less than 1 year	1 to 2 years years	2 to 5 years years	More than 5 years
At 31 December 2017				
Bank borrowings	2,816	4,989	52,938	13,328
Suppliers and creditors	28,552			

- **Capital risk management**

The leverage ratio is calculated as net debt divided by equity, net debt being total borrowings (bank loans and credit facilities) less "cash and cash equivalents" and "short-term bank deposits", while consolidated equity is the amount shown in the relevant consolidated balance sheet item.

Leverage ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
Bank borrowings (Note 18)	73,429	74,071
Less: Cash and bank deposits	(166,239)	(153,197)
Net debt	(92,810)	(79,126)
Consolidated equity	255,358	236,771
Leverage ratio	**(36.34)%**	**(33.42)%**

Business risks

During 2018, the following risks affecting the Iberpapel Group's activities were also assessed:

a) Global economic situation risk; and b) market, competition, selling price and raw material risks.
c) Forestry risks.
d) Environmental risks.
e) Regulatory risks.
f) Risks relating to new investments and other.
g) Quality assurance plans and systems.
h) Risks of material damages and loss of earnings.
i) Criminal risks.

j) Tax risks.
k) Cyberattack risks.

a) and b) Global economic situation risk, and market, competition, selling price and raw material risks.

Iberpapel mitigates these risks by maintaining a highly competitive cost structure that enables the impact of market crises to be absorbed comparatively better than its competitors.

c) Forestry risks.

The Group reduces these risks by controlling the distribution of forestry assets in three distant forestry areas (Argentina, Uruguay and Huelva) and a reasonable distribution of properties in each area. Moreover, forest cleaning and firebreak work, etc. is carried out on a regular basis, thereby considerably reducing the impact of any fire damage. This is all complemented by silvopastoral systems to control pastures and the forest understory.

d) Environmental risks.

The Iberpapel Group has an environmental management system based on the international ISO 14.001 standard and certified by independent auditors, guaranteeing compliance with applicable, European, state and regional legislation. It is actively involved in the development of new environmental commitments. Progress is being made in the progressive implementation of Best Available Technologies (BAT) under Directive 96/61/EC of 24 September 1996 concerning Integrated Pollution Prevention and Control (IPPC), as subsequently amended by Directive 2010/75/EC, and the Group has the mandatory Integrated Environmental Authorisation. A series of actions carried out by the Group in this connection are particularly noteworthy:

- Impact reduction using odour elimination systems.
- Reduction in specific water consumption.
- Continuous atmospheric emissions monitoring and communication to the administration.
- Best available technologies to improve emissions and disposals, and reduce waste.
- Installation of a second effluent treatment facility.

In the coming months, pursuant to Law 26/2007 on Environmental Liability and Royal Decree 2090/2008 containing the implementing legislation, the Iberpapel Group will analyse environmental risks and will monetise them applying the Environmental Damage Index (IDM) and the Environmental Responsibility Offer Model (MORA) approved by the Spanish Ministry of Agriculture, Food and the Environment, which will lead to the creation of a financial guarantee to cover possible environmental liabilities.

The Iberpapel Group is also proceeding with its reforestation policy; important tools include the Clean Development Mechanism (CDM) and voluntary carbon markets. These mechanisms, regulated in the Kyoto Protocol and European law, enhance the feasibility of projects launched while assuring a supply of raw materials suitable for paper production.

With respect to voluntary carbon markets, a reforestation programme has been developed based on the variety of seed or development eucalyptus cloned at the properties purchased by the group's Uruguayan subsidiary, properties previously used as grazing land. In recent years, approximately 7,069 hectares of land in Uruguay have been reforested.

• **CO2 emission allowances**. A new compliance period for greenhouse gas emission allowance trading commenced in 2013 and will run to 2020. The new period brought in a number of changes, including new target industries, more complex emission monitoring regulations and new allocation rules. In the latter case, European industry benchmarks are used, replacing the national allocation plans.

Three basic concepts apply to the allocation of allowances for the period 2013-2020:

- No allowances are allocated for electricity generation.
- 100% of the allowances allocated to sectors exposed to carbon leakage. 100% relates to the findings of the benchmark study of European facilities, as in the case of Papelera Guipuzcoana de Zicuñaga, S.A.U.
- Industries exposed to carbon leakage may change over the period, on the basis of successive reviews.

The volume of allowances allocated for the period 2013 to 2020 is analysed below:

	2013	2014	2015	2016	2017	2018	2019	2020
CO_2 emission allowances allocated	74,051	72,766	71,464	70,149	68,820	67,478	66,120	64,756

The Iberpapel Group is currently closely monitoring the negotiations in progress in the European Commission to amend the Emission Allowance Directive that will govern the allowance management mechanism as from 2021, when Stage 4 of carbon emissions trading begins.

e) Regulatory risks (power generation companies)

The Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. has two operational power cogeneration plants, one using biomass (black liquor), which is included in the cellulose production segment, and the other a gas combined-cycle facility, so the Group stays abreast of the vast body of legislation that has been published since 2013 in this area, the most relevant of which is described below.

Law 15/2012 of 27 December on tax measures for energy sustainability and Royal Decree-Law 2/2013 of 1 February on urgent measures for the electricity system and the financial sector were published. Both laws increased energy costs by levying a 7% linear tax on revenue from electricity generation and an additional tax on the volume of natural gas consumed ("green cent").

On 14 July 2013, Royal Decree-Law 9/2013 came into force, laying the foundations of a new legal and economic scheme for electricity production facilities using renewable energy sources, cogeneration and waste, and a remuneration regime based on standard parameters for standard facilities to be defined. The Royal Decree eliminated regulated tariffs for renewable energy and cogeneration, created the Electricity Self-Consumption Register and announced a new economic scheme designed mainly to guarantee that renewable energy plants obtain a return equivalent to the interest rate on 10-year government bonds plus 300 basis points, by reference to costs and investments in a standard facility, throughout the regulatory useful life. The RD also eliminated the efficiency supplement and the reactive energy supplement applicable to that date, which had a considerable additional impact on the Company's energy balance sheet. Additionally, RD did not bring in any new premiums. Definitive remuneration details were postponed pending publication of a ministerial order, the last tariffs remaining as a reference for provisional settlement in power generation from the publication of the Royal Decree to the publication of the ministerial order.

In 2014, Royal Decree 413/2014 of 6 June on electricity production using renewable energy sources, cogeneration and waste, and Order IET/1045/2014 of 16 June on remuneration parameters for standard facilities, applicable to certain facilities generating electricity from renewable energy sources, cogeneration and waste, were published. Regulations published in the current year have defined remuneration parameters for a period of time: Investment remuneration (Ri), operating remuneration (Ro) and operating hours of standard facilities, similar to the Company's cogeneration plants.

In 2015, RD 900/2015 of 9 October was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies, developing the content of Law 24/2013 of 26 December on self-consumption in the electricity industry. Royal Decree 900/2015 regulates the administrative, technical and economic conditions of the types of self-consumption electricity supplies defined in Article 9.1 of Law 24/2013.

Additionally, on 18 December 2015, Order IET/2735/2015 of 17 December was published, stipulating electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters for facilities generating electricity from renewable sources, cogeneration and waste. This Order provides remuneration parameters for cogeneration plants covering the first half of 2016.

Law 24/2013 of 26 December, introduced under Royal Decree 413/2014 of 6 June on power generation using renewable energy sources, cogeneration and waste, contains the basic regulations governing the remuneration framework to allow power generation facilities covered by this scheme to cover the costs necessary to compete in the market on equal terms with other technologies and to obtain a reasonable profit. A remuneration scheme is defined based on standard parameters for each standard facility. Article 14.4 of the Law and Article 20 of the Royal Decree lay down the system for updating the remuneration parameters for standard facilities. For facilities having operating costs that depend essentially on fuel prices, Order IET/1345/2015 of 2 July develops the above-mentioned articles and brings in a methodology for updating remuneration for the operation, applicable half-yearly.

These regulations envisage the review of generation market price estimates for the first three years of the regulatory period, 2014, 2015 and 2016, to adjust them to the actual market prices, pursuant to Article 22 of Royal Decree 413/2014 on market price estimation and adjustment due to market price departures, subsection 3 of which states that when the average annual price in the daily and intraday markets is outside the regulatory limits, an annual positive or negative balance will be generated, referred to as the market price departure adjustment value. The market price departure adjustment value will therefore be calculated annually.

On 7 December 2016, the Ministry of Energy, Tourism and Digital Agenda published in its website the Proposed Order updating remuneration parameters for standard facilities, applicable to certain plants that generate power using renewable energy sources, cogeneration and waste during the regulatory semi-period commencing on 1 January 2017, together with its report analysing the regulatory impact, for the purposes of Article 26.6 of Law 50/1997 of 27 December in which, among other aspects, the amounts of the market price departure adjustment value for each year and standard facility were published. The definitive Royal Decree was published on 22 February 2017 and did not include any changes.

Royal Decree-Law 15/2018 of 5 October on urgent measures for energy transition and consumer protection suspended the 7% tax on electricity generation only for six months. The tax on the value of electricity generation (IVPEE) was created by Law 15/2012 of 27 December on tax measures for energy sustainability, which described it, at least in nominal, formal terms, as a direct tax on "the internalisation of environmental costs derived from electricity generation". RD 15/2018 also brought in the exemption from tax on hydrocarbons to deactivate the so-called "green cent". This tax was conceived to discourage the use of energy sources tied to hydrocarbons, but the effect has been to push up electricity prices in the wholesale market when prices are set by technologies such as gas.

f) Risks relating to new investments and other.

There is a programme for the development, analysis and monitoring of investments that enables business growth processes to be suitably addressed. In this regard, on 9 May 2017 the Company's Board of Directors announced the start of the "Hernani Project", which will entail an investment of approximately €180 million. The investment will consist of acquiring a new paper machine with an estimated production capacity of 85,000 tonnes per year and of modernising the existing cellulose plant. At 31 December 2018, the committed investment amounts to €48,028 thousand, Papelera Guipuzcoana de Zicuñaga's non-current assets having increased by €19 million due mainly to this project.

g) Plans and systems to assure the quality of products.

The Iberpapel Group's defined quality policy assigns top priority to customer satisfaction and continuous improvement, ensuring that products and services meet quality standards. In this regard, the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) has ISO 9001:2008 certification and AENOR certification for its Forestry Product Chain-of-Custody model (PEFC standard) in the industrial division, Bureau Veritas FSC Chain of Custody certification and FSC Sustainable Forestry Management certification for our plantations in Huelva and Uruguay, and manages the forests in Argentina under the same principles, guaranteeing a lawful, sustainable source of timber and timber traceability.

The basic objectives of the quality policy are as follows:

- To review, improve and optimise existing processes and controls in order to ensure product quality and traceability.
- To provide an adequate response to claims, implementing a process to examine, record and respond to such claims.

Finally, this subsidiary also has ISO 50000 certification for the energy management system.

h) Risks of material damages and loss of earnings.

It is the Iberpapel Group's policy to arrange the necessary insurance and hedges so as to mitigate to the extent possible risks related to loss of profit, material damage, trade receivables, machine breakdown, etc. The main policies in force include:

- Fully-comprehensive coverage for loss or material damage including loss of profit.
- Trade receivables (the Group insures domestic and export paper sales).

- Third-party liability (including party at fault and damage).
- Directors' liability.
- Environmental protection policy and coverage for environmental damage to third parties.
- Cyber risk policy.

i) Criminal risks.

During the year, pursuant to Article 31.(ii) of the Spanish Criminal Code, the appropriate tasks were undertaken to oversee and monitor the Iberpapel Group's criminal risk prevention model, including the re-evaluation of certain criminal risks. As a result of the review, the necessary adjustments were made in accordance with the law and the Group's current situation. Training and communication sessions were also held on the model and the risks affecting employees in view of their posts.

The "Corporate Social Responsibility Committee" was set up in 2017 to manage non-financial information risks. The committee's remit includes:

- Periodic review of social responsibility policies and proposal of changes or updates to the Board of Directors.
- Promotion of the corporate governance strategy.
- Oversight of compliance with legal requirements and corporate governance system standards.
- Assessment of corporate social responsibility plans and follow-up of fulfilment.
- Issuance of corporate social responsibility reports for the Board of Directors' approval.
- Advice for the Board of Directors on regulatory compliance as regards the disclosure of non-financial information and diversity information.

j) Tax risks.

During 2016, the Company's Board of Directors, in response to a proposal by the Finance Department and to comply with Article 529.iii) of the Spanish Companies Act, designed the Iberpapel Group's tax strategy, defining the governing principles for the tax function of Iberpapel Gestión, S.A. and all the Group companies.

Since then, the Finance Department has maintained the Tax Risk Management System (*SGRF*), the purpose being to lay down principles and guidelines to ensure that tax risks that could affect the tax strategy and objectives are identified, assessed and managed systematically, in order to comply with the new requirements of the Spanish Companies Act and of stakeholders.

The scope of the system encompasses all tax risks affecting activities and processes applicable to all taxes paid in Spain and by the subsidiaries abroad.

Control activities

The Iberpapel Group (through the bodies responsible for the internal control system) designs and implements the control activities that must be carried out at each level in the organisation to mitigate risks identified. The control activities are communicated by senior management to ensure that they are understood by the relevant employees and applied correctly.

Depending on the risks in question, control activities may address different procedures (so as to guarantee the proper performance of operations and achievement of the organisation's objectives; and the financial information internal control system, comprising activities focused on the risks to which financial information is exposed, etc.).

All controls are designed to prevent, detect, mitigate, offset and correct the potential impact of risks on a timely basis. Depending on the type of activity, preventive (risk reduction) and/or detective (identification after the event) control activities are designed, as well as manual and/or automatic controls.

Iberpapel also has documentary support describing the main processes referred to in the previous section and indicating the persons responsible for each control activity.

As regards the review of relevant judgements and estimates, Iberpapel reports in its annual accounts on the most significant areas in which parameters are subject to judgements or estimates, as well as the key assumptions employed. The main estimates made relate to the valuation of Biological Assets, useful life of property, plant and equipment and intangible assets, provisions and recoverability of deferred tax assets, among others.

Documentation on the main business cycles was reviewed carefully in 2016 to identify the degree of fulfilment of recommendations made in prior years and the update of plans for proposed improvements, ending with a review of the Multi-Year Internal Audit Plan for the following five years. In 2018, the Iberpapel Group's risk management and control systems were reviewed in accordance with the Multi-Year Internal Audit Plan. Specifically, processes were reviewed for sales and receivables, timber purchases, raw material purchases and parts purchases. In line with the prior-year trend, some subprocesses of the Latin American business were also reviewed. This ensures that all the control activities in place in the organisation's main business cycles are formalised, documented and updated, and that the specific procedures required are implemented and up to date.

This documentation follows the recommendations contained in the CNMV's Guidelines for the preparation of the description of the Internal Control over Financial Reporting (ICFR) system, which has been implemented and is being applied.

Information and communication

The review and authorisation procedures for the Iberpapel Group's financial information that is submitted to the markets commence with a review by each company's Finance Department and are subsequently centralised in the consolidation unit, the pertinent controls having been put in place. This process is controlled and supervised by the ICFR Body as part of its functions. The individual and consolidated annual accounts, and the quarterly financial reports, are reviewed by the Audit Committee before being issued by the Board of Directors, as stipulated in the Board Regulations. The Audit Committee reads the information and discusses it with Iberpapel Gestión, S.A.'s Chairman and with the external auditors (in the case of the annual accounts), before it is submitted to the Board of Directors, as stipulated in the Board Regulations.

Once the Audit Committee has reviewed and approved the information, or made observations to be included in it, the annual accounts are signed by the Board members (issuance).

As regards quarterly information, the Audit Committee reviews critical data (financial data, evolution of results, breakdowns of the main items, etc.) before submitting the information to the Board of Directors.

The Group's Finance Department is responsible for identifying, defining and communicating the accounting policies that affect the Group and for responding to accounting queries from the subsidiaries or business units, always under the supervision of the ICFR Body, which is responsible for the implementation and fulfilment of controls during this process. Additionally, these departments report to Iberpapel Gestión, S.A.'s Chairman and Audit Committee on new accounting regulations, the results of implementing regulations and their impact on the financial statements.

The Iberpapel Group has defined and documented accounting policies for the main items, accounts and transaction types that arise and may affect the financial information. These policies are available to the persons involved in their application and are updated periodically by means of the organisation's update procedure performed by the Finance Department.

Internal supervision procedure

Iberpapel has an "Internal Control over Financial Reporting (ICFR) System Control and Monitoring Body" (which receives support from the units, departments and/or bodies created to respond to specific risks, as is the case of the "Corporate Defence Control and Monitoring Body", etc.), which reports to the Audit Committee. The Board Regulations state that the Audit Committee is responsible for overseeing the internal audit services, reviewing the designation of those responsible, checking the internal control and risk management systems, and approving tasks to be undertaken, as well as implementing plans and improvements proposed.

The ICFR Body's functions include providing support for the Audit Committee's oversight of the proper design, implementation and functioning of the risk management and control systems, particularly the ICFR System.

In the broader context of the internal control function, the necessary resources are in place (mainly through outsourcing) for external professionals specialised in internal control to carry out the field work required in each period, coordinated by the Group's head of internal audit, once the Multi-Year Internal Audit Plan (covering a five-year period) has been defined and approved by the Audit Committee. These tasks are overseen, coordinated and led at all times by the Audit Committee, by the ICFR Body where directly applicable and by the Group's head of internal audit. Findings, recommendations and plans to implement proposed improvements are reported to the Audit Committee. The Multi-Year Internal Audit Plan provides for tests on the areas regarded as most relevant, encompassing all such areas over the term of the plan (approximately five years).

For processes considered to be particularly significant, which include the account closing procedure, review of judgements and estimates, and general information system controls, testing may be more frequent, as deemed necessary.

Specifically, the main tasks required by the Audit Committee are as follows:

- Detailed review of certain key processes and update of the relevant manuals so as to reflect any differences.

- Update and documentation of risk control matrices for the key processes identified, stating, for each risk detected in the processes (also considering financial information risks), the control objectives and activities in place to mitigate the risks and thus fulfil control objectives.

- Detection of recommendations and improvement opportunities in relation to the analysis of existing control activities, for implementation in the following period, subject to Audit Committee approval.

- Review of the correct implementation of measures detected in the prior-year Audit Plan so as to check that the relevant controls have been considered and implemented or adapted to optimise internal control in those specific areas.

The findings of these tasks completed in the internal control environment were reported at the Audit Committee meeting held on 19 December 2018, when the measures to be implemented and work to be performed in the following year were defined and approved.

The Iberpapel Group has an oversight system implemented and operational, allowing feedback over the years through the fulfilment of the multi-year internal control plans.

Additionally, there is a formal Internal Control over Financial Reporting Oversight Process designed on the basis of the CNMV's new requirements. This process is led by the Audit Committee, which assigns certain tasks to the head of internal audit and to the ICFR Body. This oversight process basically refers to the following supervision responsibilities:

a) Suitability of control policies and procedures in place.
b) Preparation process and integrity of financial information, checking the design of the ICFR System and compliance with regulatory requirements.
c) Correct definition of the consolidation scope.
d) Correct application of accounting principles.
e) Supervision of the organisation's ongoing assessment of control activities to obtain reasonable assurance of ICFR System implementation and functioning.

9. AVERAGE PAYMENT PERIOD

Pursuant to the Ruling of 29 January 2016 from the Spanish Institute of Accounting and Auditing (ICAC), set out below is the information on the deferral of payments to suppliers required by Additional Provision Three "Duty of Information" of Law 15/2010 of 5 July, for 2018 and 2017:

	2018	2017
	Days	
Average supplier payment period	22.24	26.43
Ratio of settled transactions	20.30	24.20
Ratio of transactions pending payment	39.29	49.24
	Amount	
Total payments for the year	**345,007**	**288,820**
Total payments pending	**39,120**	**28,169**

10. GROUP'S FORESEEABLE EVOLUTION

The Group's prospects are analysed below for each of the three business areas:

In the forestry area, maintenance work will continue on our forestry assets in the South American plantations and the timber that the specialists consider is ready for logging will be sold in the local markets or imported for our plant.

As regards revenue from paper sales, our strategy is still to place 50% of production in the domestic market, 40% in exports to Europe and the remaining 10% in overseas exports. The Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. has the capacity to produce 250,000 metric tonnes of writing and printing paper. The majority is sold in the European market, which consumes over six million tonnes of this type of paper.

Finally, in 2019 and subsequent years the Iberpapel Group will doubtless focus its efforts on successfully completing the "Hernani Project" which, as explained in this report, will entail an investment of approximately €180 million. As stated in this report, at 31 December 2018, Papelera Guipuzcoana de Zicuñaga, S.A.U. has committed over €48,028 million to the cellulose plant refurbishment, as part of the Hernani Project.

11. RELEVANT EVENTS

04/01/2018.- The company submits a breakdown of liquidity agreement operations from 1 October to 31 December 2017.

24/01/2018.- The Board of Directors resolves to pay a gross interim dividend of €0.30 per share out of 2017 profits.

06/03/2018.- The Annual General Meeting is convened and the proposed resolutions are sent to the shareholders.

07/03/2018.- The Board of Directors' proposal to the General Meeting regarding a supplementary and definitive gross dividend of €0.25 per share for 2017 is attached.

05/04/2018.- The company submits a breakdown of liquidity agreement operations from 1 January to 31 March 2018.

25/04/2018.- Attached are the resolutions adopted by the Annual General Meeting.

30/04/2018.- Resolutions adopted by the Annual General Meeting, stating the number of votes cast.

21/06/2018.- Attached is the amendment to the Bylaws registered at the Guipúzcoa Commercial Registry.

02/07/2018.- The company submits a breakdown of liquidity agreement operations from 1 April to 30 June 2018.

26/07/2018.- Attached is the partial amendment to the Board Regulations registered at the Guipúzcoa Commercial Registry.

26/09/2018.- Implementation of the capital increase agreement approved by the Annual General Meeting on 24 April 2018.

26/09/2018.- Change in the composition of the Appointments and Remuneration Committee.

01/10/2018.- The company submits a breakdown of liquidity agreement operations from 1 July to 30 September 2018.

05/11/2018.- End of the period for trading free allotment rights and signing of capital increase public deed.

13/11/2018.- Entry of capital increase in the Commercial Register.

16/11/2018.- Admission to trading of the fully-paid shares.

30/11/2018.- The Board of Directors resolves to pay a gross interim dividend of €0.40 per share out of 2018 profits.

12. EVENTS AFTER THE REPORTING DATE

At the date these annual accounts and management letter are authorised for issue, there have been no relevant events since the balance sheet date.

13. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report forms part of this Directors' Report and will be published in the Spanish National Security Market Commission's website www.cnmv.es on 28 February 2019.

Madrid, 27 February 2019