Iberpapel Gestión, S.A. and subsidiaries

Audit report,
Consolidated Annual Accounts and
Consolidated Management Report
at December 31, 2019

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

Independent auditor´s report on the consolidated annual accounts

To the shareholders of 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, 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

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

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Measurement of biological assets	
The Group's biological assets are formed by tree plantations. As mentioned in note 2.8 to the consolidated financial statements, these assets are recognised in the consolidated financial statements at fair value less the estimated costs to sell. We focused on this area due to the significant value of these biological assets (18,165 thousand euro as of 31 December 2019), as well as the fact that their measurement requires adopting certain assumptions that imply the use of significant judgements. The Group relies on management's expert valuations to support the quantification of changes in the fair value of such assets depending on their maturity.	Our audit procedures included, among others, the review of the process implemented by Parent company management to assess the measurement of such biological assets. Likewise, we confirmed the professional competence, independence and integrity of the management's experts, assessing the valuation methodology, contrasting the significant assumptions and critical areas of judgement. Additionally, we carried out substantive audit procedures to test the completeness of the information provided to management's experts, including a sampling of deeds to verify the ownership of the properties. The result of the procedures described above shows that the assumptions used in the measurement of the Group's biological assets are in a reasonable range with respect to the market.
Revenue recognition	
The Iberpapel Group's revenues, as indicated in note 2.23 to the accompanying consolidated financial statements, derive from three different activities, namely, the sale of paper, energy and timber. The sale of paper represents 80% of the Group's revenue. Revenue is recognised when the Group has transferred control to the buyer and the buyer has accepted the products. The sale of energy represents 19% 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, through remuneration parameters in order to guarantee the economic and financial stability of the electricity system and guarantee a certain return.	First, we understood and assessed the accounting policies used by management to determine and account for recognised revenues. For paper sales, we assessed the appropriate application of the revenue recognition policy and the design and implementation and operational effectiveness of the relevant controls that underpin revenues. Additionally, we obtained confirmation of the balance for the year for a selection of clients and we verified, also for a sample, correct revenue recognition for the year and the operation cut-off. Also, we analysed a sample of accounting entries and other adjustments made to prepare the consolidated financial statements, standard and non-standard, selected, according to certain characteristics.

Key audit matter	How our audit addressed the key audit matter
The sale of timber represents 1% of the Group's revenue, which relates mainly to timber obtained from properties owned by the group in Argentina and Uruguay that are marketed by local companies. We focused on revenue recognition due to its relevance with respect to the Group's consolidated financial statements, the different sources of such revenue and the possible existence of a risk of material misstatement due to non-compliance in this area as is presumed in accordance with prevailing auditing regulations.	For energy sales, we verified the correct recognition of all energy revenue by reviewing the invoices issued and their subsequent collection, as well as verifying that the revenue recognition policy is correct in relation to the regulatory framework governing such activity (Ministerial Order ETU / 130/2017, of 17 February), engaging an expert. For timber sales, we verified the correct recognition of revenue, checking it with all invoices issued and their subsequent collection and the correct accrual of revenue. The results of our procedures corroborate the recognition criteria applied by the Group and the information disclosed in the consolidated financial statements on this area without detecting any significant differences.
Measurement of investment in the Hernani factory expansion As mentioned in note 6 to the accompanying consolidated financial statements, the Group has capitalised property, plant and equipment for an amount of 22,674 thousand euro, the most significant additions relating to the expansion of the production capacity of the Hernani factory of its subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. This project is estimated to involve an investment of around 180 million euro, as agreed by the Board of Directors of Iberpapel Gestión, S.A. in their meeting of 25 April 2017. Additionally, at year-end, the Group has commitments for the acquisition of property, plant and equipment for an approximate amount of 40,000 thousand euro, corresponding to that project. This operation is a matter of special consideration due to its relevance with respect to the consolidated financial statements and the impact of the investments made on the Group's activity.	Our audit procedures included considering the signed contracts. In this regard, we held meetings with the Group's management where we verified the development of the investment plan for the expansion of the production capacity of the Hernani factory and the plan for the use of the current facilities. We also verified the correct recognition of the fixed asset additions, carrying out a test of detail on a sample of such additions. The results of our procedures corroborate the recognition criteria applied by the Group and the information disclosed in the consolidated financial statements on this area without detecting any significant differences.

Other information: Consolidated management report

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

Our audit opinion on the consolidated annual accounts does not cover the consolidated 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 2019 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 aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 27, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on April 25, 2019 appointed us as auditors of the Group for a period of one year, as from the year ended December 31, 2019.

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

Services provided

Services provided to the Group for services other than the audit of the accounts, it has been indicated in the note 31 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Alvaro Moral Atienza (21428)

February 27, 2020

IBERPAPEL GESTIÓN, S.A.

AND

SUBSIDIARIES

Consolidated Annual Accounts and

Consolidated Management Report

at 31 December 2019

IBERPAPEL GESTIÓN, S.A.

Consolidated Annual Accounts and Consolidated Management Report for 2019

On 26 February 2020, 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 2019.

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, 26 February 2020

CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2019

CONSOLIDATED BALANCE SHEET
(Thousand euro)

		Year ended at 31 December	
	Note	2019	2018
NON-CURRENT ASSETS		**168,835**	**158,883**
Property, plant and equipment	6	143,637	133,739
Biological assets	7	18,165	18,420
Intangible assets	8	2,753	1,641
Deferred tax assets	19	2,669	2,665
Financial receivables	9	1,611	2,418
CURRENT ASSETS		**209,923**	**224,062**
Inventories	11	28,221	20,204
Trade and other receivables	10	34,696	38,744
Cash and cash equivalents	12	147,006	165,114
TOTAL ASSETS		**378,758**	**382,945**

The accompanying notes on pages 12 a 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED BALANCE SHEET
(Thousand euro)

	Note	Year ended at 31 December 2019	2018
TOTAL EQUITY		**266,828**	**255,358**
Share capital	13	6,624	6,624
Share premium account	13	13,633	13,633
Treasury shares	13	(2,393)	(2,727)
Cumulative translation difference	15	(9,294)	(6,465)
Retained earnings and other	14	262,626	248,655
Interim dividend		(4,368)	(4,362)
NON-CURRENT LIABILITIES		**53,488**	**74,504**
Borrowings and government grants	9, 18	49,659	68,235
Deferred tax liabilities	19	178	509
Provisions	20	246	5,760
Other financial liabilities	9.18	3,405	
CURRENT LIABILITIES		**58,442**	**53,083**
Trade and other payables	9, 17	30,251	32,129
Current tax liabilities	17	2,769	5,172
Borrowings and government grants	9, 18	21,006	13,245
Provisions for other liabilities and charges	20	4,416	2,537
TOTAL LIABILITIES		**111,930**	**127,587**
TOTAL LIABILITIES AND EQUITY		**378,758**	**382,945**

The accompanying notes on pages 12 to 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED INCOME STATEMENT
(Thousand euro)

	Note	Year ended at 31 December 2019	2018
CONTINUING ACTIVITIES			
Revenue	21	213,471	221,071
Other income	21	4,867	4,775
Change in inventories of finished goods and work in progress	22	4,993	3,938
Raw materials and consumables utilised	22	(88,368)	(88,231)
Employee benefit expense	23	(20,302)	(19,289)
Depreciation and amortisation	22	(10,704)	(10,926)
Other net (expense)/income	22	(77,663)	(81,352)
Operating profit		**26,294**	**29,986**
Net financial income/(expense)	24	(174)	(744)
Profit/(loss) on disposal of non-current assets	6	8	7
Profit before tax		**26,128**	**29,249**
Income tax	25	(4,449)	(4,042)
Profit from continuing activities after tax		**21,679**	**25,207**
PROFIT FOR THE YEAR		**21,679**	**25,207**
Profit attributable to:			
Parent company's owners		21,679	25,207
Earnings per share from continuing activities attributable to the holders of equity instruments during the year			
Basic €/share	26	2.058	2.387
Diluted €/share	26	2.058	2.387

The accompanying notes on pages 12 to 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Thousand euro)

		Year ended at 31 December	
	Note	**2019**	**2018**
Profit for the year		**21,679**	**25,207**
Other comprehensive income:			
Foreign currency translation differences	15	(2,829)	(1,892)
Other comprehensive income, net of tax		**(2,829)**	**(1,892)**
Total comprehensive income for the year		**18,850**	**23,315**
Attributable to:			
Parent company's owners		18,850	23,315
Non-controlling interests			
Total comprehensive income for the year		**18,850**	**23,315**
Total comprehensive income attributable to the parent company's owners:		18,850	23,315
Continuing activities		18,850	23,315

The accompanying notes on pages 12 to 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the Company's shareholders						
Thousand euro	**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 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the Company's shareholders						
Thousand euro	**Notes**	**Share capital**	**Share premium**	**Treasury shares**	**Cumulative translation difference**	**Retained earnings**	**Interim dividend**	**Total equity**
Balance at 31 December 2018		**6,624**	**13,633**	**(2,727)**	**(6,465)**	**248,655**	**(4,362)**	**255,358**
Impact of hyperinflation								
Adjusted balance 1 January 2019		**6,624**	**13,633**	**(2,727)**	**(6,465)**	**248,655**	**(4,362)**	**255,358**
Profit/(loss) for 2019						**21,679**		**21,679**
Other comprehensive income:					(2,829)			(2,829)
Currency translation differences					(2,829)			(2,289)
Total comprehensive income					**(2,829)**	**21,679**		**18,850**
Transactions with owners:								
Capital reductions								
Capital increases								
Dealings in treasury shares (net)	**13**			**334**				**334**
Dividend payment:						**(7,634)**	**(6)**	**(7,640)**
Out of profits						(7,634)	(6)	(7,640)
Other changes in equity						**(74)**		**(74)**
Balance at 31 December 2019		**6,624**	**13,633**	**(2,393)**	**(9,294)**	**262,626**	**(4,368)**	**266,828**

The accompanying notes on pages 12 to 71 are an integral part of these consolidated annual accounts.

CONSOLIDATED CASH FLOW STATEMENT

Thousand euro	Notes	Year ended 31 December	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		**25,565**	**38,423**
Cash generated from operations	27	35,517	45,130
Interest		(462)	(480)
Taxes paid (net)		(5,936)	(6,227)
Other receipts and payments (provisions)		(3,554)	
CASH FLOWS FROM INVESTING ACTIVITIES		**(30,828)**	**(13,477)**
Acquisition of property, plant and equipment		(27,585)	(13,127)
Acquisition of intangible assets	8	(3,264)	(44)
Investment in biological assets		(619)	(946)
Held-to-maturity investments		640	640
CASH FLOWS FROM FINANCING ACTIVITIES		**(12,839)**	**(11,258)**
Acquisition of treasury shares	13	334	(309)
Issuance of borrowings		41	
Repayment of borrowings	18	(5,574)	(640)
Dividends paid to Company shareholders		(7,640)	(10,309)
EFFECT OF FOREIGN EXCHANGE FLUCTUATIONS		**(6)**	
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(18,108)**	**13,688**
Cash and bank overdrafts at beginning of the year	12	165,114	151,426
CASH AND BANK OVERDRAFTS AT THE END OF THE YEAR	**12**	**147,006**	**165,114**

The accompanying notes on pages 12 to 71 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 2019: IBERPAPEL GESTIÓN, S.A., the parent company, and 16 subsidiaries. Appendix 1 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 2-1º, 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 2019 or 2018.

These consolidated annual accounts were issued by the Board of Directors on 26 February 2020 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 2019 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 2019, 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 1 to these notes set outs the identification details of the 16 fully-consolidated subsidiaries.

2.3. Comparability

The 2019 information contained in these notes is presented together with the information for 2018, for comparative purposes.

2.4. Changes in accounting policies

Adoption of IFRS 16 – Leases

IFRS 16 supersedes IAS 17 and associated interpretations. It proposes a single accounting approach to leases (with limited exceptions), which will be recognised in the balance sheet in a similar manner to finance leases. The standard is intended to guarantee that lessees and lessors provide relevant information to present fairly these transactions.

The Company has decided to apply IFRS 16 with effect as from 1 January 2019 using the modified retrospective approach, in which the comparative period figures are not restated and any effects of first-time adoption of IFRS 16 are recognised as of 1 January 2019 (first-time adoption date).

In addition, the Iberpapel Group's adoption of the new IFRS 16 has required an analysis of all the Group's leases. Following the analysis, the conclusion may be drawn that the Iberpapel Group is not materially affected by this standard as it has no material non-cancellable operating lease commitments that would be subject to this regulatory change, so there is no material impact on the financial statements.

The main lease and related fee expenditure set out in Note 22 relates to the fee paid by the Group's subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. to discharge waste following the plant's production process, amounting to €684 thousand. This heading also includes service charges and other expenses not covered by IFRS 16, so the application of this standard does not affect the Group.

Adoption of IFRIC 23 Uncertainty over income tax treatments

On 24 October 2019, Regulation EU/2018/1595 on the adoption of IFRIC 23, "Uncertainty over income tax treatments" was published in the Official Journal of the European Union (OJEU).

This interpretation clarifies how IAS 12 recognition and measurement requirements are applied where there is uncertainty regarding income tax treatments.

As indicated in Note 20 to the consolidated annual accounts, at 31 December 2019 the Group records a provision of €247 thousand (€292 thousand in 2018) for possible differences of interpretation of the tax scheme applicable to the Argentinian subsidiaries. These amounts are carried under non-current provisions. The provision reflects the uncertainty calculated as the expected value weighted based on the probability of a range of possible outcomes.

2.4.1 Impact of the adoption of new accounting standards in 2018: Hyperinflation in Argentina

In recent years, Argentina's economy has shown high inflation rates, so the Iberpapel Group periodically assesses 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 exceeded 100%, which is the quantitative reference value laid down by IAS 29 Financial reporting in hyperinflationary economies. Consequently, the Argentinian economy was considered to be hyperinflationary as from 2018, so the inflation adjustments for companies whose functional currency is the Argentine peso were applied in those 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 66.67 pesos/euro at 31 December 2019 (€41.10 pesos/euro at 31 December 2018).

The main impacts of the above-mentioned aspects on the consolidated financial statements for 2018 and 2019 were increases in property, plant and equipment and in biological assets.

The equity effects of hyperinflation were disclosed at 31 December 2018 on the line "Retained earnings". At 1 January 2018, the total impact on equity was €8,974 thousand and included the transfer of €12,792 thousand in respect of currency translation differences before Argentina was classed as a hyperinflationary economy. The impact of the update of hyperinflation rates from 2018 to 2019 was a loss of €33 thousand.

In view of this situation, in order to present more relevant, reliable information, in 2018 the Group included 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 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 entailed a reclassification from the heading Currency translation differences to the heading Retained earnings, so the consolidated equity figure was not affected.

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 parent company'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 financial assets at fair value, are included in Other comprehensive income.

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.

2.13. 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

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 is based on the applicable Incoterm for international sales.

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 the sale of cogeneration electricity (biomass and/or gas) as the electricity is generated and sold, including the market tariff and generation premiums under applicable legislation.

In the case of electricity generation, the regulations state that departures between the inputs estimated for the regulator to calculate certain generation premiums, mainly the electricity pool price, and the inputs finally obtained are adjusted in the tariff for the following years (departure adjustment value). These departures are recognised as income or expense in the year they occur, as the regulator has made a commitment assuring collection of the relevant amounts.

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

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 heading “*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

To financial year 2018, property, plant and equipment leases were classified as finance or operating leases. As from 1 January 2019, leases are recognised as a right-of-use asset and the corresponding liability on the date the leased asset becomes available for use by the Group.

To 31 December 2018, finance leases were capitalised at lease inception at the fair value of the property leased or at the present value of minimum lease payments, if lower. Lease obligations, net of finance charges, were included in short- and long-term payables. Each lease payment was divided into the liability and the finance charge. The finance charge was taken to profit and loss for the year over the lease term so as to obtain a constant, periodic rate of interest on the outstanding balance of the liability each year. Property, plant and equipment acquired under finance leases were depreciated over the shorter of the asset's useful life and the lease term when it was not reasonably certain that the Group would obtain ownership of the asset at the lease expiration date.

Leases in which a significant portion of the rights and rewards of ownership were not transferred to the Group as the lessee were carried as operating leases. Payments made under operating leases (net of any incentive received from the lessor) were charged to the income statement for the period on a straight-line basis over the lease term.

As from 1 January 2019, the assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payments depending on an index or rate, initially measured in accordance with the index or rate at inception;
- amounts expected to be paid by the Group as residual value guarantees;
- the purchase option exercise price, if the Group is reasonably certain that the option will be exercised; and
- lease termination penalty payments, if the lease term reflects that the Group will exercise the option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included when measuring the liability.

Lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be easily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used, this being the rate that the individual lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

In order to determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted for changes in the terms of financing since the third-party financing was received;

- adopts an approach that begins with a risk-free interest rate adjusted for the lease credit risk, where there is no recent third-party financing; and
- makes lease-specific adjustments, such as the term, country, currency and guarantee.

Where the adjustments to lease payments based on an index or rate have effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between the principal and the finance cost. The finance cost is taken to the income statement over the lease term in order to obtain a constant, periodic rate of interest on the outstanding balance of the liability for each period.

Right-of-use assets are measured at cost, which includes:

- the initial value of the lease liability;
- any lease payment made on or before lease inception, less any lease incentive received;
- any initial direct cost; and
- restoration costs.

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

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. Hyperinflation in Argentina

As explained in Note 2, the Group has applied the IFRS and interpretations published by the IASB (International Accounting Standards Board) and the IFRS Interpretations Committee, and adopted by the European Commission for use in the European Union (IFRS-EU).

a) Hyperinflationary economies

In 2018, Argentina was classed as a hyperinflationary economy (see Note 2.4.1). When updating the financial statements, the Company has used the series of indices defined by the resolution JG 539/18 published by the Argentine Federation of Professional Councils of Economic Sciences (FACPCE), based on the National Consumer Price Index (CPI) published by Argentina's National Institute of Statistics and Censuses (INDEC) and the Internal Wholesale Price Index (*IPIM*) published by the FACPCE

The exchange rate employed in the 2019 financial statements to translate the items denominated in Argentina pesos, once adjusted for inflation, is the closing rate at 31 December, which was 66.67 pesos/euro (41.10 pesos/euro at 31 December 2018).

The Group presents all the financial effects of hyperinflation on a single line in reserves (Retained earnings), as follows: (a) the effect of the restatement of the financial statements to reflect inflation; and (b) the effect of translating the financial statements to euros.

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

The following standards and interpretations have been taken into consideration with effect as from 1 January 2019.

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over income tax treatments.
- IFRS improvements, Cycle 2015-2017.
- Amendment to IFRS 9 Prepayment features with negative compensation.
- Amendment to IAS 28 Long-term interests in associates and joint ventures.
- Amendment to IAS 19 Plan amendment, curtailment or settlement.

The above-mentioned amendments had no impact on the amounts recognised in previous years and are not expected to significantly affect the current year or future periods (see Note 2.4).

2.28.2 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	Application on or after
Standards-		
IFRS 17 Insurance contracts	Supersedes IFRS 4, setting out the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021 Pending adoption
Amendments to standards-		
Amendment to IFRS 3 Definition of a business.	It clarifies the definition of a business.	1 January 2020 Pending adoption
Amendments to IFRS 9, IFRS 7 and IAS 39 Interest rate benchmark reform.	Certain exemptions relating to interest rate benchmark reform for hedge accounting.	1 January 2020 Pending adoption
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".	Not defined
Amendments to IAS 1 and IAS 8 Definition of material.	Align the definition of "material" with the definition included in the conceptual framework.	1 January 2020

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

i. 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 2019 income statement total €288 thousand (2018: €269 thousand), representing 1.10% (2018: 0.92%) 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.

ii. 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 7.30%.

iii. 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 €48,425 thousand in its statement of financial position at 31 December 2019 (2018: €66,295 thousand), representing 12.70% (2018: 17.31%) of total liabilities and equity. Of this debt, €48,425 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €147,006 thousand at 31 December 2019 (2018: €165,114 thousand). On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

iv. Foreign operations risk

The Group is exposed to foreign exchange risk as a result of the translation of individual financial statements the functional currency of which differs from the Group's presentation currency, particularly the Argentine and Uruguayan pesos with respect to the euro, as well as its investments in foreign operations through subsidiaries. The Argentine peso depreciated 35.31% against the euro from 31 December 2018 to 31 December 2019, while the Uruguayan peso fell 11.50% in the same period.

Sensitivity to fluctuations in these currencies against the euro, all other variables remaining unchanged and based on the 2019 year-end exchange rate, is shown below:

	Profit/(loss)		Equity	
	Appreciation of 10%	Depreciation of 10%	Appreciation of 10%	Depreciation of 10%
31 December 2018				
Argentine peso	68	(68)	1,227	(1,227)
Uruguayan peso	225	(225)	2,565	(2,565)
31 December 2019				
Argentine peso	17	(17)	1,211	(1,211)
Uruguayan peso	159	(159)	2,320	(2,320)

Foreign operations risk affecting investments in subsidiaries in Uruguay is reflected in the consolidated equity 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 Company decided to apply IFRS 9 with effect as from 1 January 2018. However, following the analysis performed, the view was taken that there were no significant changes to the recognition and derecognition of financial assets with respect to IAS 39. Furthermore, the adoption of IFRS 9 required a new credit loss calculation method based on the expected loss model as compared with the previous incurred loss model.

The Iberpapel Group has applied the requirements on the impairment of financial assets measured at amortised cost.

A detailed analysis of the impact of these requirements has been carried out taking into consideration that the financial assets are mainly:

1. Paper business trade receivables: Credit risk is concentrated mainly in the part of the balance not covered by available credit insurance, which provides average coverage of 85% of outstanding receivables.

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. The Group analyses probability of default when the asset is initially recognised and whether there has been a significant increase in credit risk during each financial year. Irrespective of the above-mentioned analysis, credit risk is assumed to increase significantly if a debtor takes more than 60 days as from the due date to make payment, although an average of 85% of the past-due amount is covered by the credit insurance policy.

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 only for the part of the receivable not covered by the credit insurance policy. The Iberpapel Group estimates an expected loss at 31 December 2019 of €28 thousand (€22 thousand at 31 December 2018), which has not been provisioned due to being immaterial.

Credit-impaired financial assets, mainly trade receivables, relate to individual balances know to be uncollectable. As a general rule, the Group considers there to be evidence of impairment where payment defaults or delays last for more than 60 days as from the invoice due date, barring exceptions.

Following the analysis, the conclusion was drawn in both 2019 and 2018 that the impact of this impairment model on the consolidated annual accounts is immaterial.

There follows a breakdown of balances past due and not impaired under the heading "Loans and other receivables" by age at year-end 2019 and 2018:

	31.12.2019	31.12.2018
Less than 30 days	2,466	3,443
31 to 60 days	548	1,278
More than 61 days	215	55

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	2019
A Banks	A-	36,312
B Banks	BBB+	40,922
C Banks	BBB-	24,409
D Banks	BB+	38,390
Other		6,973
		147,006

Although these assets are within the scope of IFRS 9 on the impairment of financial assets, the balance at 31 December 2019 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 possibility of realisation.

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 2019				
Bank borrowings	20,198	35,462	13,443	
Suppliers and creditors	30,251			
Fixed asset suppliers	1,199			
Other financial liabilities	552	660	829	1,364

	Less than 1 year	1 to 2 years years	2 to 5 years years	More than 5 years
At 31 December 2018				
Bank borrowings	7,432	18,578	35,097	13,490
Suppliers and creditors	32,129			
Fixed asset suppliers	6,111			

Bank borrowings include future interest on loans granted to the Group.

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 heading.

Leverage ratios at 31 December 2019 and 2018 were as follows:

	2019	2018
Bank borrowings (Note 18)	68,232	73,429
Less: Cash and bank deposits	(147,006)	(165,114)
Net debt	(78,774)	(91,685)
Consolidated equity	266,828	255,358
Leverage ratio	(29.52)%	(35.90)%

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 heading "Biological assets" is carried at fair value, pursuant to IAS 41 Agriculture (see Note 2.8).

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 2018, 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 2018 and did not include any changes.

Royal Decree-Law 15/2018 of 5 October on urgent measures for energy transition and consumer protection provides a 6-month exemption from tax on the value of electricity generation (“IVPEE”) as from 1 October 2018 and an exemption from tax on hydrocarbons for energy products used to produce electricity in power stations or by means of electricity and heat cogeneration in combined-cycle plants (“Green Cent”) for an open-ended period as from 1 October 2018. 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.

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".

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 2019 depreciation charge by €1,231 thousand and €(803) thousand, respectively (2018: €1,504 thousand and €(697) 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 power 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 2019 is as follows:

	Paper	Gas power cogeneration	Activity Forestry and other	Group
Total segment revenue	177,833	41,248	69,039	288,120
Inter-segment sales		(7,879)	(66,770)	(74,649)
Sales to external customers	**177,833**	**33,369**	**2,269**	**213,471**
Depreciation of property, plant and equipment (Note 6)	(8,034)	(2,387)	(216)	(10,637)
Amortisation of intangible assets (Note 8)	(49)		(18)	(67)
Operating profit	**19,432**	**6,361**	**501**	**26,294**
Net financial costs and exchange differences	(433)		259	(174)
Profit/(loss) on disposal of non-current assets			8	8
Profit before taxes	**18,999**	**6,361**	**768**	**26,128**
Income tax	(2,917)	(1,131)	(401)	(4,449)
Profit for the year	**16,082**	**5,230**	**367**	**21,679**

	Paper	Electricity	Activity Forestry	Group
Total assets	**265,511**	**55,819**	**57,428**	**378,758**
Of which:				
Fixed asset investments (Notes 6 and 8)	22,345		386	22,731
Total liabilities	**(98,108)**	**(7,046)**	**(6,776)**	**(111,930)**

The 2018 information is set out below:

	Paper	Gas power cogeneration	Activity 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 (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	Activity 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)

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	**2019**	**2018**
European Union (excluding Spain)	62,584	63,546
Africa and Overseas	14,605	16,428
South America	2,269	3,167
Spain	134,013	137,930
	213,471	221,071

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

Total assets	**2019**	**2018**
Spain	342,758	344,473
South America	36,000	38,472
	378,758	382,945

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	**2019**	**2018**
Spain	22,697	19,170
South America	34	112
	22,731	19,282

A breakdown of sales by category is as follows:

Distribution of sales by category	2019	2018
Paper sales	172,561	177,580
Electricity sales	38,641	40,452
Timber sales	2,269	3,039
	213,471	221,071

All sales revenue in the electricity and gas cogeneration segment is obtained from a single power supplier and from the Spanish National Market and Competition Commission.

6. Property, plant and equipment

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

Cost	Balance at 31.12.17	Additions	Disposals	Translation differences	Other	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

Cost	Balance at 31.12.18	Additions	Disposals	Translation differences	Other	Balance at 31.12.19
Land and buildings	58,746	60		(2,071)	(16)	56,719
Facilities under construction	17,098	16,131			(265)	32,964
Plant and machinery	226,330	4,404		(120)	232	230,846
Fixtures, fittings, tools and equipment	40,176	1,889		(24)	49	42,090
Other PPE	1,825	190	(29)	(44)		1,942
	344,175	**22,674**	**(29)**	**(2,259)**		**364,561**
Accumulated depreciation						
Buildings	(12,702)	(734)		20		(13,416)
Plant and machinery	(166,043)	(7,596)		62		(173,577)
Fixtures, fittings, tools and equipment	(30,006)	(2,186)		5		(32,187)
Other PPE	(1,685)	(121)	29	33		(1,744)
	(210,436)	**(10,637)**	**29**	**120**		**(220,924)**
Net amount	**133,739**					**143,637**

a) Fully-depreciated assets

At 31 December 2019, fully-depreciated property, plant and equipment still in use amount to €61,624 thousand (2018: €57,262 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 2018, 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 2019, the Group had made commitments to acquire property, plant and equipment for an approximate amount of €40,000 thousand (2018: €48,028 thousand), relating specifically to the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U.

d) Disposals

There were no significant disposals during 2019 and 2018.

e) Repairs

Maintenance expenses are charged to the income statement when they are incurred, amounting to €8,867 thousand at 31 December 2019 (2018: €9,858 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, while at the same time deregistering any amount recognised as a result of a prior inspection and still reflected in this item, other than physical components not replaced, 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 (2018: €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 2019 and 2018, no significant impairment adjustments to individual property, plant and equipment were recognised or reversed.

7. Biological assets (Eucalyptus)

	2019	2018
Opening balance	**18,420**	**13,640**
Gain (loss) due to physical changes	619	2,068
Gain (loss) due to fair value changes	167	84
Decrease due to sales	(509)	(469)
Exchange differences and other	(532)	3,097
Closing balance	**18,165**	**18,420**

At 31 December 2019, biological assets amounted to €18,165 thousand (2018: €18,420 thousand). As explained in point *iv) Degree of maturity* of Note 2.8 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 €16,362 thousand at 31 December 2019 (2018: €17,024 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 2019, mature biological assets amount to €1,803 thousand (2018: €1,396 thousand).

The heading Changes in inventories of finished goods and work in progress includes the gain due to physical changes in biological assets.

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 31.12.17**	**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**

Cost	**Balance at 31.12.18**	**Additions**	**Disposals**	**Balance at 31.12.19**
Computer software	1,108	57		1,165
CO2 allowances	1,470	3,207	(2,085)	2,592
	2,578	**3,264**	**(2,085)**	**3,757**
Accumulated amortisation				
Computer software	(937)	(67)		(1,004)
	(937)	**(67)**		**(1,004)**
Net amount	**1,641**			**2,753**

a) Fully-amortised assets

At 31 December 2019, fully-amortised intangible assets still in use amount to €778 thousand (2018: €778 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 2019 are recognised at their quoted price of €24.98 per allowance at the beginning of the year (2018: €7.78 per allowance).

In 2019, Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) acquired 134,000 allowances (EUAs) for a total of €3,207 thousand. In 2018, it acquired 61,000 allowances (EUAs) for a total of €1,217 thousand. In addition, in 2019 the Spanish Ministry of Industry, Trade and Tourism awarded subsidies amounting to €896 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 (2018: €445 thousand).

9. Financial instruments

9.1. Financial instruments by category

Non-current assets	2019 Financial assets at amortised cost	2018 Financial assets at amortised cost
Loans to third parties	1,597	1,924
Held-to-maturity investments		480
Other financial assets	14	14
	1,611	**2,418**

The heading "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 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 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 heading "Investments held to maturity" included the long-term portion of a promissory note deposit at Kutxabank in the amount of €480 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	2019 Financial assets at amortised cost	2018 Financial assets at amortised cost
Trade and other receivables (Note 10)	34,696	38,744
Cash and cash equivalents (Note 12)	147,006	165,114
	181,702	**203,858**

Non-current liabilities	2019 Other financial liabilities at amortised cost	2018 Other financial liabilities at amortised cost
Borrowings (Note 18)	49,659	68,235
Other financial liabilities	3,405	
	53,064	**68,235**

Current liabilities	2019 Other financial liabilities at amortised cost	2018 Other financial liabilities at amortised cost
Borrowings (Note 18)	21,006	13,245
Trade and other payables (Note 17)	30,251	32,129
	51,257	**45,374**

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		2019	2018
Trade receivables insured through:	**Rating**		
Euler Hermes (Allianz) (A)	AA	1,920	2,267
Solunión (B)	A	2,780	2,664
Crédito y Caución (C)	A	6,397	7,666
Cesce (D)	A-	12,220	16,536
Coface (E)	A+	5,944	5,640
		29,261	34,773

Cash at bank and bank deposits	Rating	2019
A Banks	A-	36,312
B Banks	BBB+	40,922
C Banks	BBB-	24,409
D Banks	BB+	38,390
Other		6,973
		147,006

10. Trade and other receivables

	2019	2018
Trade receivables	30,180	35,580
Less: Provision for impairment losses on receivables	(845)	(807)
Trade receivables – Net	**29,335**	**34,773**
Other receivables	4,881	3,331
Total trade payables	**34,216**	**38,104**
Short-term bank deposits	**480**	**640**
Total current portion	**34,696**	**38,744**

The heading "Other receivables" reflects the balance receivable from the Public Treasury in the amount of €3,695 thousand (2.018: €2,478 thousand). It also 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).

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.

Thousand euro	2019	2018
Current contract assets related to energy contracts	5,260	6,833
Total contract assets	**5,260**	**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:

	2019	2018
Opening balance	**(807)**	**(3,025)**
Provision for impairment of receivables	(38)	2,218
Closing balance	**(845)**	**(807)**

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.

11. Inventories

	2019	2018
Raw materials	6,934	3,609
Other supplies	3,456	3,494
Work in progress	151	118
Finished products	17,668	12,255
Agricultural products		719
Prepayments to suppliers	12	9
	28,221	**20,204**

Inventories located abroad are included in “Other supplies” in the amount of €233 thousand (2018: €242 thousand). In 2018, there were “Agricultural products” amounting to €719 thousand.

12. Cash and cash equivalents

	2019	2018
Cash and banks	147,006	165,114
	147,006	**165,114**

13. Capital

	No. shares	Capital	Share premium	Treasury shares	Total
At 1 January 2018	**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**
Capital reduction					
Capital increase					
Sale (Acquisition) of treasury shares				334	334
Balance at 31 December 2019	**11,039,829**	**6,624**	**13,633**	**(2,393)**	**17,864**

Ordinary shares total 11,039,829 (2018: 11,039,829 shares) with a par value of €0.60 per share (2018: €0.60 per share).

In 2019, the Company acquired 15,507 treasury shares on the stock exchange. A total of €432 thousand was paid for the shares. In 2019, 227,305 treasury shares were sold for €766 thousand, generating a profit of €10 thousand. At 31 December 2019, the Company held a total of 118,601 treasury shares at an original cost of €3,276 thousand. These shares represented 1.074% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

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 are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

At 31 December 2019 and 2018, 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		5.45%	5.45%

a) Share capital increase charged to reserves.

In 2018, the Company's share capital was increased out of reserves in the amount of €66 thousand 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 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.

14. Retained earnings and other reserves

	Reserves in consolidated companies	Reserve for conversion to euros	Retained earnings and other reserves	Total
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
Impact of hyperinflation				
Balance at 1 January 2019	125,020	12	123,623	248,655
Change in reserves of consolidated	7,242		(7,242)	
Dividends			(7,634)	(7,634)
2019 profit/(loss)			21,679	21,679
Other			(74)	(74)
Balance at 31 December 2019	132,262	12	130,352	262,626

The heading “Retained earnings and other reserves” includes the legal reserve amounting to €1,435 thousand (2018: €1,435 thousand) and a restricted reserve for redeemed shares in the amount of €742 thousand (2018: €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 differences
1 January 2018	**(4,573)**
Currency translation differences	(1,892)
31 December 2018	**(6,465)**
1 January 2019	**(6,465)**
Currency translation differences	(2,829)
31 December 2019	**(9,294)**

A breakdown of the cumulative translation difference by company or subgroup at year-end 2019 and 2018 is as follows:

	2019	2018
Company or subgroup		
Los Eucaliptus, S.A.	(8,687)	(5,861)
Samakil, S.A.	(607)	(604)
	(9,294)	**(6,465)**

The Uruguayan peso depreciated 11.50% against the euro from 31 December 2018 to 31 December 2019.

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 2019 and 2018:

	2019	2018
Company or subgroup		
Iberbarna Papel, S.A.U.	334	91
Moliner Domínguez y Cia., S.A.U.	547	546
Distribuidora Papelera, S.A.U.	281	281
Central de Suministros de Artes Gráficas Papel, S.A.U.	429	429
Papelera Guipuzcoana de Zicuñaga, S.A.U.	99,860	93,456
Copaimex, S.A.U.	194	176
Ibereucaliptos, S.A.U.	39,217	37,481
Zicupap, S.A.U.	58	58
Iberpapel Argentina, S.A.	(8,230)	(7,533)
Forestal Los Gurises Entrerrianos, S.A.	(421)	(578)
Forestal Santa María, S.A.	110	437
Forestal Loma Alta, S.A.	(1,692)	(1,825)
Forestal Vonger, S.A.	(384)	(357)
Los Eucaliptus, S.A.	2,038	2,440
Samakil, S.A.	(108)	(110)
Iberpapel On line, S.L.U.	29	28
	132,262	125,020

At 31 December 2019, restricted reserves and retained earnings amounted to €2,189 thousand (2018: €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:

	2019	2018
	Consolidated profit/(loss)	**Consolidated profit/(loss)**
Company/ subgroup		
Iberpapel Gestión, S.A.	(1,347)	(1,597)
Papelera Guipuzcoana de Zicuñaga, S.A.U.	20,308	23,126
Ibereucaliptos, S.A.U.	1,082	1,254
Iberbarna Papel, S.A.U.	101	259
Moliner Domínguez y Cía., S.A.U.	66	20
Distribuidora Papelera, S.A.U.	189	40
Central de Suministros de Artes Gráficas Papel, S.A.U.	189	15
Iberpapel Argentina, S.A.	(223)	(616)
Forestal Los Gurises Entrerrianos, S.A.	80	155
Forestal Santa María, S.A.	(193)	(328)
Forestal Loma Alta, S.A.	32	131
Forestal Vonger, S.A.	(34)	(28)
Los Eucaliptus, S.A.	1,274	2,760
Samakil, S.A.	2	2
Copaimex, S.A.U.	35	(64)
Zicupap, S.A.U.	22	21
Iberpapel On Line, S.L.U.	96	57
	21,679	**25,207**

The proposed distribution of the parent company's 2019 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 2018, are as follows:

	2019	2018
Available for distribution		
Profit/(loss)	10,420	13,684
	10,420	**13,684**
Application		
Interim dividend	4,368	4,362
Supplementary dividend	1,638	3,273
Voluntary reserves	4,414	6,049
	10,420	**13,684**

On 28 November 2019, the parent company's Board of Directors resolved to pay a gross interim dividend of €0.40 per share out of 2019 profits for a total of €4,368 thousand, which was paid on 20 December. The following forecast cash flow statement was prepared for a one-year period starting 28 November 2019, showing that there is sufficient liquidity in the Company to pay out the dividend. This amount was paid on 20 December 2019.

Opening balance at 28.11.2019	**46,793**
Current receipts	
Dividends	9,767
Services provided and other	726
Total	**10,493**
Current payments	
Staff costs	(902)
Directors' remuneration	(475)
Other operating expenses	(1,027)
Total	**(2,404)**
Closing balance at 28.11.2020	**54,882**

On 11 May 2019, the parent company paid out a supplementary, definitive gross dividend of €0.25 per share, making a total of €3,273 thousand.

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.

17. Trade and other payables

	2019	2018
Suppliers	26,839	28,208
Other payables	3,412	3,921
	30,251	**32,129**
Current tax liabilities	**2,769**	**5,172**
Total	**33,020**	**37,301**

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 2019 and 2018:

	2019	2018
	Days	
Average supplier payment period	20.34	22.24
Ratio of settled transactions	20.87	20.30
Ratio of transactions pending payment	13.15	39.29
	Amount	
Total payments for the year	**374,601**	**345,007**
Total payments pending	**27,717**	**39,120**

18. Borrowings and government grants

	2019	2018
Non-current		
Borrowings	48,425	66,295
Government grants	1,234	1,940
Other financial liabilities	3,405	
	53,064	**68,235**
Current		
Borrowings	19,807	7,134
Fixed asset suppliers	1,199	6,111
	21,006	**13,245**
Total borrowings and government grants	**74,070**	**81,480**

Non-current "Borrowings" includes €48,220 thousand (2018: €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 maturing in 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. In 2018, this heading also included a loan of €480 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), the final maturity date being 9 September 2020.

Current "Borrowings" relate to short-term payables arising from discounted bills in the amount of €1,816 thousand (2018: €2,051 thousand), the short-term portion of the loan of €480 thousand granted to the Group company Ibereucaliptos, S.A.U. (see Appendix I), finally maturing on 9 September 2020 (2018: €640 thousand) and €17,511 thousand repayable in 2019 on the two loans referred to above (2018: €4,349 thousand).

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

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 2018	164
Total borrowings	**164**
At 31 December 2019	205
Total borrowings	**205**

The overall limit on bank credit lines and loans at 31 December 2019 amounts to €171,416 thousand (2018: €176,120 thousand).

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

	Carrying amount		Fair value	
	2019	2018	2019	2018
Bank borrowings	48,425	66,295	48,425	66,295

The fair values of current borrowings match their carrying amounts, since the effect of discounting is immaterial. Fair values for 2019 are calculated using cash flows discounted at a rate based on the three-month Euribor rate at 31 December 2019.

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 2019				
Bank borrowings	19,806	35,027	13,399	
Fixed asset suppliers	1,199			
Other financial liabilities	552	660	829	1,364

	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			

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

	2019 %	2018 %
Bank credit lines and loans	0.675%	0.675%

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	73
26/12/2000	Cellulose plant extension	4,243	636
18/06/2002	Environmental improvements	205	19
05/03/2008	Environmental improvements	90	40
11/10/2011	Stripping column	177	35
11/10/2011	Wastewater treatment plant	172	115
09/01/2015	Wastewater treatment plant	200	152
		13,886	1,070

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:

	2019	2018
At 1 January	2,156	(75)
(Charged)/credited to income statement	335	2,231
At 31 December	2,491	2,156

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 2018	(1,622)		(1,622)
(Charged)/credited to income statement	1,303	(190)	1,113
At 31 December 2018	(319)	(190)	(509)
(Charged)/credited to income statement	319	12	331
At 31 December 2019		(178)	(178)

Deferred tax assets	Tax credits for new fixed assets + R&D&i	Inventories	Other	Total
At 1 January 2018	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
Application of deferred tax assets				
(Charged)/credited to income statement		55	(51)	4
At 31 December 2019	2,293	125	251	2,669

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 2018	**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**
Charged to income statement			
Additional provisions	3,396	567	3,963
Applied during the year	(2,084)		(2,084)
At 31 December 2019	**3,446**	**970**	**4,416**

Additions relate to the provisions for CO2 emission allowances consumed in 2019. Forecast consumption for 2019 stands at 208,657 CO2 emission allowances (2018: 213,071), 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 2019 of CO2 emission allowances consumed in 2018 and the balance pending settlement of the provision to cover the impact of Order IET/1045/2015 of 16 June.

The heading "Other" includes a provision of €779 thousand for tax accrued on electricity generated (2018: €403 thousand).

Under the heading "Provisions" in "Non-current liabilities", 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 has been reversed. The heading also includes €247 thousand at 31 December 2019 (2018: €292 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 2019 and 2018 in connection with customer contracts:

	2019	2018
Contract liabilities - Paper	349	437
Contract liabilities - Electricity		4,634
Total current contract liabilities	**349**	**5,071**

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

In 2018, electricity contract liabilities related to the provision of €4,634 thousand posted by the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I), which derived from the review of power generation market price estimates for that year of the regulatory semi-period covering 2017, 2018 and 2019, adjusted to actual market prices pursuant to Article 22 of Royal Decree 413/2014. This amount was 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 1 January 2017. At the end of the regulatory semi-period covering 2017, 2018 and 2019, the contract liabilities were reclassified to other financial liabilities.

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.

	2019	2018
Revenue recognised and included in the opening balance of contract liabilities		
Paper contracts	437	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:

The Group adopted IFRS 15 *Revenue from contracts with customers* applying the simplified retrospective approach. All the revenue recognised in the income statement is "ordinary revenue" and therefore IFRS 15 is applicable.

An individualised, disaggregated analysis was performed of the main customer contracts taking into account the specific features of each contract as regards the performance obligations acquired by the Iberpapel Group in each case. This analysis led to the conclusion that there are no material impacts on the amounts recognised in the balance sheet at 31 December 2019 or 2018.

Assets related to customer contracts:

Thousand euro	Current assets	Contract assets	Trade and other receivables
Balance at 31 December 2018	224,062	6,833	31,911
Balance at 31 December 2019	209,923	5,260	29,436

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		2019
	Domestic	Exports	Spain	Argentina	Uruguay	Total
Revenue from external customers	**98,380**	**73,189**	**39,633**	**272**	**1,997**	**213,471**
Timing of revenue recognition						
At a point in time	98,380	73,189		272	1,997	173,838
Over time			39,633			39,633

	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	180,619
Over time			40,452			40,452

21.2 Outstanding performance 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

	2019	2018
Lease income	517	520
Sundry service income	237	239
Grants released to income for the year	3,253	1,676
Other income	860	2,340
Total other income	**4,867**	**4,775**

22. Expenses by nature

	2019	2018
Depreciation/amortisation (Notes 6 and 8)	10,704	10,926
Employee benefit expense (Note 23)	20,302	19,289
Changes in inventories of finished goods and work in progress	(4,993)	(3,938)
Raw materials and consumables used	88,368	88,231
Transport	7,302	7,606
Repairs and maintenance	8,867	9,858
Supplies (gas and electricity)	43,731	46,641
Independent professional services	5,137	4,888
Rent and royalties	802	774
Insurance premiums	1,580	1,375
Other taxes (including electricity tax)	2,589	4,359
CO_2 allowances consumed	5,048	2,663
Other services	2,607	3,188
Total	192,044	195,860

The item “Rent and royalties” includes €682 thousand in royalties (2018: €653 thousand).

23. Employee benefit expenses

	2019	2018
Wages and salaries	15,921	15,130
Indemnities	54	65
Social security contributions	4,154	3,915
Other benefits	173	179
	20,302	19,289

24. Net financial income

	2019	2018
Bank loans and credit facilities	(599)	(552)
Losses on exchange	(256)	(355)
Hyperinflation, Argentinian subsidiaries	(33)	(533)
Other financial expenses	(4)	(3)
Interest expense	(892)	(1,443)
Yield from fixed income securities	174	75
Gains on exchange	544	624
Interest income	718	699
	(174)	(744)

Gains/(losses) due to hyperinflation in 2019 are as follows:

	2019	2018
Company or subgroup		
Iberpapel Argentina, S.A.	(75)	(390)
Forestal Los Gurises Entrerrianos, S.A.	114	149
Forestal Santa María, S.A.	(78)	(381)
Forestal Loma Alta, S.A.	15	120
Forestal Vonger, S.A.	(9)	(31)
	(33)	(533)

25. Income tax

	2019	2018
Current tax	4,784	6,273
Deferred tax (Note 19)	(335)	(2,231)
	(4,449)	(4,042)

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:

	2019	2018
Profit/(loss) before tax	**26,128**	**29,249**
Tax calculated at the Group's average tax rate	**(6,430)**	**(7,575)**
Income not subject to taxes		
Tax credits	1,646	2,407
Accelerated reversal of impairment under RD Law 3/2017		
Deferred tax assets (other)	335	75
Tax credits recognised		1,051
Income tax expense	**(4,449)**	**(4,042)**

The Group's average tax rate in 2019 was 24.06% (2018: 25.90%).

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.

As from 2019, the parent company and the following Group companies file consolidated tax returns under Guipúzcoa Provincial Regulation 2/2014 of 7 January on Corporate Income Tax, as part of Tax Group no. 19/18/G parented by Iberpapel Gestión, S.A.: Moliner, Domínguez y Cía., S.A. (Sociedad Unipersonal), Distribuidora Papelera, S.A. (Sociedad Unipersonal), Central de Suministros de Artes Gráficas Papel, S.A. (Sociedad Unipersonal), Iberbarna Papel, S.A. (Sociedad Unipersonal), Papelera Guipuzcoana de Zicuñaga, S.A. (Sociedad Unipersonal), Copaimex, S.A. (Sociedad Unipersonal), Zicupap, S.A. (Sociedad Unipersonal) and Iberpapel On Line, S.L. (Sociedad Unipersonal).

The Group records the amount of €2,769 thousand pending payment after discounting payments on account totalling €1,953 thousand.

Additionally, the Group company Papelera Guipuzcoana de Zicuñaga, S.A.U. (see Appendix I) records €6,529 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 2019 corporate income tax by the Group companies having their headquarters in Guipúzcoa province is Provincial Regulation 2/2014 of 17 January, as partially amended by Provincial Regulation 1/2018 of 10 May, on Corporate Income Tax in Guipúzcoa province.

The directors of the Group companies headquartered in Guipúzcoa have calculated income tax for 2019 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 2018, 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.

There is no obligation to recognise deferred tax liabilities in respect of withholdings and other income taxes payable on profits not distributed by subsidiaries abroad.

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).

	2019	**2018**
Profit attributable to the Company's shareholders (thousand)	21,679	25,207
Weighted average number of outstanding ordinary shares	10,534,103	10,678,548
Basic earnings per share (€ per share)	**2.0579**	**2.387**

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

	2019	2018
Profit for the year	**21,679**	**25,207**
Adjustments to	**16,123**	**23,850**
Taxes (Note 25)	4,449	4,042
Fixed asset depreciation	10,704	10,926
Impairment adjustments	38	
Interest income (Note 24)	(174)	(75)
Interest expense (Note 24)	636	555
Exchange differences (Note 24)	(288)	269
Hyperinflation in Argentina	33	533
Change in provisions	3,978	9,276
Grants released to income for the year	(3,253)	(1,676)
Changes in working capital	**(2,285)**	**(3,927)**
Inventories	(8,017)	(4,412)
Trade and other receivables	3,775	2,239
Trade and other payables	(587)	3,927
Other current assets and liabilities	2,544	(5,681)
Cash generated from operations	**35,517**	**45,130**

28. Contingencies

At 31 December 2019, the company Ibereucaliptos, S.A.U. (see Appendix I) has furnished a bank guarantee of €221 thousand (2018: €452 thousand) to the association Comunidad de Regantes del Andévalo Fronterizo, maturing on 2 March 2020, 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

	2019	2018
Board directors' salaries and other short-term remuneration	937	924
Salaries and other short-term remuneration of key executives (Senior managers who are not Board directors)	1,300	1,296
	2,237	2,220

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	366
Mr. Néstor Basterra Larroude	74	
Mr. Jesús Alberdi Areizaga	73	
Mr. Iñaki Usandizaga Aranzadi	68	
Mr. Martín González del Valle Chávarri	74	
Ms. María Luisa Guibert Ucín	81	
Mr. Gabriel Sansinenea Urbistondo	68	
Mr. Iñaki Martínez Peñalba	81	

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 2018, 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 2019 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 two third-party liability insurance policies for its directors and executives, having paid the sum of €20 thousand (2018: €20 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 2019 and 2018 are set out below:

	2019	2018
Balance sheet		
Plant	79,358	79,358
Accumulated amortisation	(48,645)	(45,579)
Profit/(loss)		
Income from sales of gas cogeneration electricity	33,397	35,075
Income from sales of biomass electricity	5,245	5,377
Depreciation of property, plant and equipment	(3,066)	(3,579)
Maintenance	(1,888)	(2,315)
Supplies (natural gas and electricity)	(43,556)	(46,470)

In 2019, 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 €1,350 thousand (2018: €1,133 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:

	2019	2018
Board director	1	1
Executives	8	8
Technical specialists and administrative staff	78	76
Workers and specialists	208	204
	295	289

The average number of persons with recognised disabilities employed by the Group in 2019 was 9 (men), 4 of whom are skilled workers and 5 are unskilled workers (2018: 9 (men), 4 of whom were skilled workers and 5 were unskilled workers).

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

			2019
	Men	Women	Total
Board director	1		1
Executives	8		8
Technical specialists and administrative staff	54	24	78
Workers and specialists	200	7	207
	263	31	294

			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

c) Fees of auditors and their group or related companies

Fees for audit services rendered by PricewaterhouseCoopers Auditores, S.L. during 2019 totalled €123 thousand (2018: €121 thousand), while €28 thousand relates to the review of relevant GRI aspects in the Group's annual report. (2018: €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 €41 thousand (2018: €46 thousand).

Fees for the audit services provided by other companies in 2019 amounted to €19 thousand (2018: €15 thousand).

32. Events after the reporting date

At the date these annual accounts and management report are authorised for issue, the Group's subsidiary Ibereucaliptos, S.A.U. has received notification (on 23 January) of the initiation of a tax inspection on the following periods and taxes:

Corporate income tax for 2017 and 2018.

Monthly VAT from January 2017 to December 2018.

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 2019.

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.

MANAGEMENT REPORT ACCOMPANYING THE CONSOLIDATED ANNUAL ACCOUNTS OF IBERPAPEL GESTIÓN, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2019

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 1 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 2019, the Board of Directors held 10 meetings, all attended by the Chairman. The Audit Committee met seven times, the Appointments and Remuneration Committee five times and the Corporate Social Responsibility Committee three times.

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 2019. 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.

In 2020, as reported in the price-sensitive information on 7 February relating to the "Hernani Project" to invest in the subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. and, specifically, in the renovation and modernisation of the existing cellulose plant, the new facilities will be commissioned and interconnected with the plant in the second quarter of the current year. Annual maintenance work will also be carried out in the entire plant.

This will involve a production stoppage of around 45 to 52 days at the Hernani plant, which will doubtless affect the Group's 2020 performance.

- 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

Fierce pressures in the cellulose market during 2019 led to a significant fall in prices, due mainly to large pulp stocks worldwide and essentially in China from the end of 2018 to early 2020.

This impacted demand for printing and writing paper in 2019, also hit by the world economic slowdown and the adjustment of inventories.

Despite this, Iberpapel managed to keep selling prices stable, although physical units sold fell somewhat.

Production by the Group's paper subsidiary was halted during the year by a strike on six alternate days at the end of June and beginning of July, which logically affected the year's results.

As regards paper production costs, purchase prices of eucalyptus timber, the main raw material, have risen in recent years, although the market began to show signs of returning to normal at the end of 2019.

Iberpapel defended EBITDA reasonably well, at €37 million as compared with €41 million in 2018, representing a 9% decrease.

Net profit came in at €21.70 million (2018: €25.21 million), 14% down.

2020 outlook

It is still a little early to make forecasts. Although there are signs of a recovery in paper demand, we are as yet unable to assess the impact of the coronavirus on the world's economy and on the paper market in particular.

Heavy pressure on cellulose pulp prices has continued in the first two months of 2020. But supply is expected to shrink and as there are currently no new capacity plans in progress the market should improve.

In 2020, as indicated in the price-sensitive information reported by Iberpapel on 7 February, the new facilities are soon to be commissioned as part of the renovation and modernisation of the existing cellulose plant.

Besides implementing further best available techniques (BAT) for controlling environmental aspects in our industry, the plant's capacity will increase by between 15% and 20%.

This will involve a production stoppage of around 45 to 52 days, which will logically affect the Group's 2020 results.

3. Consolidated management results.

Revenue (€213,471 thousand) was 3.44% down on the same period of the previous year (2018: €221,071 thousand).

EBITDA (€36,998 thousand) (2018: €40,912 thousand) decreased by 9.57%. The gross operating margin was 17.33% (2018: 18.50%).

Net profit for 2019 totalled €21,679 thousand (2018: €25,207 thousand), 14.00% down.

a) COMPARATIVE INCOME STATEMENT (THOUSAND EURO)

	31/12/2019	31/12/2018	% change
Revenue	213,471	221,071	(3.44%)
Other income	4,867	4,775	1.93%
Income	**218,338**	**225,846**	**(3.32%)**
Changes in inventories of finished goods and work in progress	4,993	3,938	26.79%
Raw materials and consumables	(88,368)	(88,231)	0.16%
Staff costs	(20,302)	(19,289)	5.25%
Other expenses	(77,663)	(81,352)	(4.53%)
EBITDA	**36,998**	**40,912**	**(9.57%)**
Depreciation/amortisation	(10,704)	(10,926)	(2.03%)
Impairment and profit/(loss) on fixed asset disposals	8	7	14.29%
EBIT	**26,302**	**29,993**	**(12.31%)**
Net financial income/(expense)	(174)	(744)	**(76.61%)**
Profit before tax	**26,128**	**29,249**	**(10.67%)**
Taxes	(4,449)	(4,042)	**10.07%**
NET PROFIT	**21,679**	**25,207**	**(14.00%)**

b) OPERATING INCOME

Cumulative revenue at 31 December 2019 totalled €213,471 thousand (2018: €221,071 thousand), having fallen by 3.44%. The most significant items are set out below:

Thousand euro	31/12/2019	31/12/2018	Change %
Paper sales	172,560	177,580	(2.83%)
Electricity sales	38,642	40,452	(4.47%)
Timber sales	2,269	3,039	(25.34%)

i. Paper sales

The fall in paper sales is explained by the reduction in physical units sold in relation to 2018. But the average paper selling price rose slightly.

ii. Electricity sales

"Electricity sales" billings decreased on the same period of the previous year due both to lower production caused by the strike days and to the fall in remuneration.

iii. Timber sales

In 2019, the Group's South American forestry companies sold eucalyptus timber in local South American markets for the sum of €2,269 thousand (2018: €3,039 thousand).

4. Share price trend

In view of the uncertainties generated by the trade negotiations between China and the USA, as well as Brexit, the European economic cycle is becoming less dynamic. In this complicated environment, the main Spanish stock market indices still show positive cumulative yields at the end of the year. Iberpapel, after rising 13.01% in 2018, has not performed well in the stock market, as is the case of other industry companies, posting a cumulative fall of 22.73% over the period.

Main stock data

	2019	2018	2017	2016	2015
Shares admitted to trading (€M)	6.62	6.62	6.56	6.56	6.75
No. of shares (x1000)	11,040	11,040	10,930	10,930	11,247
Capitalisation (€M)	281.52	364.31	319.17	250.20	194.01
Volume traded (x 1000 shares)	1,354	1,060	2,961	1,998	2,796
Cash value traded (€M)	36.22	35.60	83.12	38.37	40.25
Closing price (€)	25.50	33.00	29.20	22.89	17.25
Maximum price (€)	33.60 (02 Jan)	39.30 (30 Jul)	31.88 (15 May)	22.89 (30 Dec)	17.50 (17 Dec)
Minimum price (€)	23.80 (18 Nov)	27.63 (2 Jan)	22.12 (3 Jan)	15.57 (15 Feb)	12.20 (7 Jan)

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

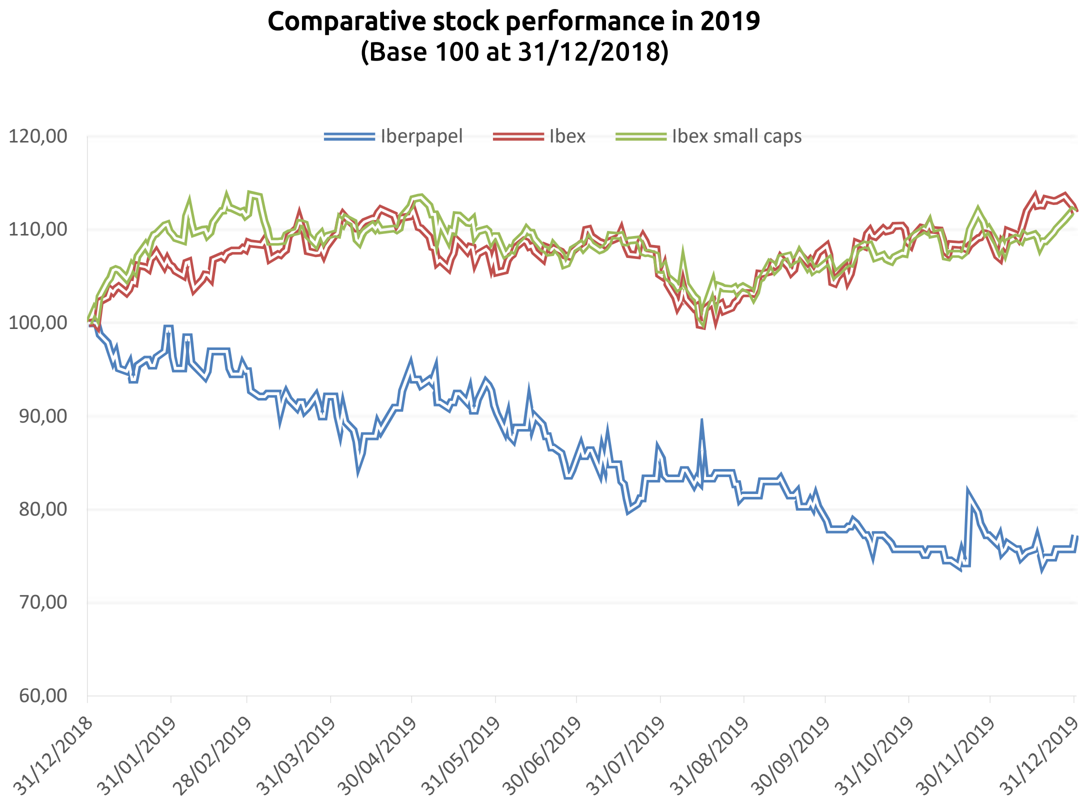

Chart III

5. Treasury shares

In 2019, the Company acquired 15,507 treasury shares on the stock exchange. A total of €432 thousand was paid for the shares. In 2019, 227,305 treasury shares were sold for €766 thousand, generating a profit of €10 thousand. At 31 December 2019, the Company held a total of 118,601 treasury shares at an original cost of €3,276 thousand. These shares represented 1.074% of the Company's share capital. They are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

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 are held as a treasury share portfolio, observing the limits stipulated in Article 509 of the Spanish Companies Act.

Share capital increase charged to reserves.

In 2018, the Company's share capital was increased out of reserves in the amount of €66 thousand 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 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.

6. 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).
   Zicuflex (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 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.

7. 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**

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**

i) 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 2019 income statement total €288 thousand (2018: €269 thousand), representing 1.10% (2018: 0.92%) 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.

ii) 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 7.30%.

iii) 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 €48,425 thousand in its statement of financial position at 31 December 2019 (2018: €66,295 thousand), representing 12.70% (2018: 17.31%) of total liabilities. Of this debt, €48,425 thousand related to fixed-interest loans (Note 18). Cash and cash equivalents amounted to €147,006 thousand at 31 December 2019 (2018: €165,114 thousand). On this basis, interest rate risk is not deemed to be sufficiently relevant to the consolidated financial statements to warrant a sensitivity analysis.

iv) Foreign operations risk

The Group is exposed to foreign exchange risk as a result of the translation of individual financial statements the functional currency of which differs from the Group's presentation currency, particularly the Argentine and Uruguayan pesos with respect to the euro, as well as its investments in foreign operations through subsidiaries. The Argentine peso depreciated 35.31% against the euro from 31 December 2018 to 31 December 2019, while the Uruguayan peso fell 11.50% in the same period.

Sensitivity to fluctuations in these currencies against the euro, all other variables remaining unchanged and based on the 2019 year-end exchange rate, is shown below:

	Profit/(loss)		Equity	
	Appreciation of 10%	Depreciation of 10%	Appreciation of 10%	Depreciation of 10%
31 December 2018				
Argentine peso	68	(68)	1,227	(1,227)
Uruguayan peso	225	(225)	2,565	(2,565)
31 December 2019				
Argentine peso	17	(17)	1,211	(1,211)
Uruguayan peso	159	(159)	2,320	(2,320)

Foreign operations risk affecting investments in subsidiaries in Uruguay is reflected in the consolidated equity 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 Company decided to apply IFRS 9 with effect as from 1 January 2018. However, following the analysis performed, the view was taken that there were no significant changes to the recognition and derecognition of financial assets with respect to IAS 39. Furthermore, the adoption of IFRS 9 required a new credit loss calculation method based on the expected loss model as compared with the previous incurred loss model.

The Iberpapel Group has applied the requirements on the impairment of financial assets measured at amortised cost.

A detailed analysis of the impact of these requirements has been carried out taking into consideration that the financial assets are mainly:

1. Paper business trade receivables: Credit risk is concentrated mainly in the part of the balance not covered by available credit insurance, which provides average coverage of 85% of outstanding receivables.

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. The Group analyses probability of default when the asset is initially recognised and whether there has been a significant increase in credit risk during each financial year. Irrespective of the above-mentioned analysis, credit risk is assumed to increase significantly if a debtor takes more than 60 days as from the due date to make payment, although an average of 85% of the past-due amount is covered by the credit insurance policy.

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 only for the part of the receivable not covered by the credit insurance policy. The Company has estimated an expected loss of €28 thousand at 31 December 2019 (€22 thousand at 31 December 2018). The Company has decided not to provision these amounts since they are immaterial.

Credit-impaired financial assets, mainly trade receivables, relate to individual balances know to be uncollectable. As a general rule, the Group considers there to be evidence of impairment where payment defaults or delays last for more than 60 days as from the invoice due date, barring exceptions.

Following the analysis, the conclusion was drawn in both 2019 and 2018 that the impact of this impairment model on the consolidated annual accounts is immaterial.

There follows a breakdown of balances past due and not impaired under the heading “Loans and other receivables” by age at year-end 2019 and 2018:

	31.12.2019	**31.12.2018**
Less than 30 days	2,466	3,443
31 to 60 days	548	1,278
More than 61 days	215	55

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**	**2019**
A Banks	A-	36,312
B Banks	BBB+	40,922
C Banks	BBB-	24,409
D Banks	BB+	38,390
Other		6,973
		147,006

Although these assets are within the scope of IFRS 9 on the impairment of financial assets, the balance at 31 December 2019 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 possibility of realisation.

❖ **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 2019				
Bank borrowings	20,198	35,462	13,443	
Suppliers and creditors	30,251			
Fixed asset suppliers	1,199			
Other financial liabilities	552	660	829	1,364

	Less than 1 year	1 to 2 years years	2 to 5 years years	More than 5 years
At 31 December 2018				
Bank borrowings	7,432	18,578	35,097	13,490
Suppliers and creditors	32,129			
Fixed asset suppliers	6,111			

Bank borrowings include future interest on loans granted to the Group.

❖ **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 heading.

Leverage ratios at 31 December 2019 and 2018 were as follows:

	2019	2018
Bank borrowings (Note 18)	68,232	73,429
Less: Cash and bank deposits	(147,006)	(165,114)
Net debt	(78,774)	(91,685)
Consolidated equity	266,828	255,358
Leverage ratio	(29.52)%	(35.90)%

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.

Business risks

During 2019, the following risks affecting the Iberpapel Group's activities were also assessed:

a) Global economic situation risk.
b) Market, competition and selling price, and raw material risks.
c) Demand risk due to the use of new technologies.
d) Forestry risks.
e) Environmental risks.
f) Regulatory risks.
g) Risks relating to new investments and other.
h) Risks of material damages and loss of earnings.
i) Criminal risks.
j) Financial information reliability risks.
k) Cyberattack risks.
l) Tax risks.
m) Health and safety 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) Demand risk due to the use of new technologies.

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.

d) 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.

e) 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.

In order to comply with Law 26/2007 on Environmental Liability and Royal Decree 2090/2008 containing the implementing legislation, the Iberpapel Group has analysed environmental risks and monetised them by 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 had led to the creation of a financial guarantee to cover possible environmental liabilities.

The Iberpapel Group is also proceeding with its reforestation policy, in which the voluntary carbon markets are an important tool. This approach enhances the feasibility of projects launched to eliminate CO_2 emissions, as well as providing a suitable supply of raw materials to make paper.

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
CO2 emission allowances allocated	74,051	72,766	71,464	70,149	68,820	67,478	66,120	64,756

Emission allowances granted in 2019 are recognised at their quoted price of €24.98 per allowance at the beginning of the year (2018: €7.78 per allowance).

In 2019, Papelera Guipuzcoana de Zicuñaga, S.A.U., Appendix I, acquired 134,000 allowances (EUAs) for a total of €3,207 thousand. In 2018, it acquired 61,000 allowances (EUAs) for a total of €1,217 thousand. In addition, in 2019 the Spanish Ministry of Industry, Trade and Tourism awarded subsidies amounting to €896 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 (2018: €445 thousand).

At present, the Iberpapel Group is carefully monitoring the negotiations in progress in the European Commission to allocate emission allowances in Phase 4 of the CO2 emissions trading system which begins in 2021 and will run to 2030. Emission allowances will be allocated in two periods: 2021-2025 and 2026-2030.

f) 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.

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".

g) 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 more than €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 2019, the committed investment amounts to approximately €40,000 thousand, Papelera Guipuzcoana de Zicuñaga's non-current assets having increased by €33 million due mainly to this project.

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 2019, in order to comply with the regulatory requirements of section 31 (ii) of the Spanish Criminal Code, the Iberpapel Group's control bodies, that is the Control and Monitoring Unit specifically designated by the Board of Directors of Papelera Guipuzcoana de Zicuñaga, S.A.U. and the ICFR System Control Body specifically designated by the other Group subsidiaries, carried out the necessary oversight and monitoring tasks specified in the Group's criminal compliance model.

These activities included:

- Review of the identification of the criminal risks to which the Group could potentially be exposed in view of its corporate objects and operations. The amendments brought in by the reform of the Criminal Code in March 2019 (Law 1/2019 of 20 February amending Organic Law 10/1995 of 23 November on the Criminal Code) were taken into consideration.

- Reassessment of the Group's criminal risk map so as to include the relevant adaptations and adjustments to reflect both criminal legislation and Iberpapel's operational and functional reality. In particular, a new criminal risk assessment and prioritisation approach was defined using quantitative criteria to evaluate inherent risk and residual risk.

- Update of the Iberpapel Group's General Code of Conduct, which is mandatory for all the Group companies. The new code has a domestic and international scope and includes new conduct rules and guidelines for application and interpretation.

The code has been posted on Iberpapel Gestión, S.A.'s website so as to ensure the utmost transparency for all stakeholders.

- Preparation of an Anti-Corruption Policy defining the set of guidelines, behaviour and best practices for employees in connection with the prevention of potential corrupt practices.

j) Financial information reliability risks.

In order to assure financial information for decision-making and third parties, the Iberpapel Group has implemented an internal oversight procedure and a related "Internal Control over Financial Reporting (ICFR) System Control and Monitoring Body", which reports to the Audit Committee.

k) Cyberattack risks.

This type of risk is defined as threats to the Group's assets, operations and information related to IT security and the risk of fraud. The Iberpapel Group has made administrative improvements to technology so as to mitigate security risks and reduce service interruption. Iberpapel has had cyber risk insurance coverage since 2018.

l) 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.

m) Health and safety risks.

The industrial subsidiary Papelera Guipuzcoana de Zicuñaga, S.A.U. has an Occupational Risk Prevention management system that complies with the OHSAS I standard certified by Det Norske Veritas (DNV).

As a basic aspect of this system, the workers are kept permanently up to date with workplace risks and mandatory preventive measures by means of a management software called Prosafety that can be accessed by all the employees. It is supplemented by a programme of continuous inspections of both the facilities and safe behaviour, as well as by quarterly meetings of the Health and Safety Committee, a joint body that addresses all matters related to occupational health and safety.

The Company also has an In-House Prevention Service covering the specialities Industrial Safety and Hygiene, and uses two External Prevention Services. The Group's other subsidiaries have contracted an External Prevention Service for the specialities Ergonomics, Psychosociology and Occupational Medicine.

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 2019, the Iberpapel Group's risk management and control systems were reviewed in accordance with the Multi-Year Internal Audit Plan. Specifically, processes were review for cash management, staff costs and subcontracting of plant repair and maintenance services. The operational effectiveness of controls for some subprocesses of the Latin American business were also reviewed, in line with the supervision trend in prior years. 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 2019, 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.

8. 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 2019 and 2018:

	2019	2018
	Days	
Average supplier payment period	20.34	22.24
Ratio of settled transactions	20.87	20.30
Ratio of transactions pending payment	13.15	39.29
	Amount	
Total payments for the year	**374,601**	**345,007**
Total payments pending	**27,717**	**39,120**

9. Outlook for the Group.

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 2020 and subsequent years the Iberpapel Group will focus its efforts on successfully completing the "Hernani Project" which, as explained in this report, will entail an investment of above €180 million. Specifically, as regards the renovation and modernisation of the existing cellulose plant, in the second half of the current year the new facilities will be commissioned and interconnected with the plant. Annual maintenance work will also be carried out in the entire plant.

This will involve a production stoppage of around 45 to 52 days at the Hernani plant, which will doubtless affect the Group's 2020 performance.

10. Relevant events

28/02/2019.- The Board of Directors' proposal to the General Meeting regarding a supplementary and definitive gross dividend of €0.30 per share for 2018 is attached.

12/03/2019.- The announcement of the Annual General Meeting and the Proposed Resolutions are attached.

30/05/2019.- Reorganisation of the Board committees.

19/06/2019.- Calling of a strike in Guipúzcoa's paper industry.

29/11/2019.- The Board of Directors resolves to pay a gross interim dividend of €0.40 per share out of 2019 profits.

11. Events after the reporting date

At the date these annual accounts and management report are authorised for issue, the Group's subsidiary Ibereucaliptos, S.A.U. has received notification (on 23 January) of the initiation of a tax inspection on the following periods and taxes:

Corporate income tax for 2017 and 2018.

Monthly VAT from January 2017 to December 2018.

12. 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 27 February 2020.

Madrid, 26 February 2020