

**ENCE Energía y Celulosa, S.A.
and subsidiaries**

Independent auditor's report,
Consolidated Annual Accounts and
Group Management Report
As of December 31st, 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 Ence Energía y Celulosa, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of ENCE Energía y Celulosa, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flow 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.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

Key audit matter	How our audit addressed the key audit matter
<p>Measurement of biological assets</p> <p>As mentioned in note 16 to the accompanying notes to the consolidated annual accounts, as at 31 December 2019 the Group recognises under "Biological assets" on the consolidated statement of financial position biological assets, forest species, primarily eucalyptus, that it mainly uses as the raw material in its pulp production process and for sale to third parties, total a net amount of 79,076 thousand euro, including impairment of 7,273 thousand euro and accumulated depletion of the forest reserve amounting to 50,186 thousand euro.</p> <p>As mentioned in note 4.4 to the accompanying consolidated annual accounts, the Group measures its biological assets at acquisition or production cost, less forest depletion and impairment losses.</p> <p>Additionally, the Group has developed a forestry asset valuation model based on the discounting of expected future cash flows, the consistent use of which over time enables to identify value ranges and tendencies which are taken into account in order to assess the existence of possible impairment of biological assets.</p> <p>Taking into account the significance of Group management's judgments and estimates in the measurement of these assets, we consider that this area is a key audit matter.</p>	<p>With respect to the biological asset valuation model, we verified that the methodology and variables used are compliant with the valuation objectives pursued, and assessed whether the future cash flow projections are aligned with biological asset felling, on the basis of age and expected growth, and that the assets included in the valuation correspond to those recorded for accounting purposes.</p> <p>In addition, we verified the main premises related to the projected flows, mainly the price of standing timber and the discount rate used.</p> <p>For our work, we relied on the collaboration of valuation experts.</p> <p>We verified that the valuation model used is consistent with those used in previous years.</p> <p>With respect to the procedures performed, we were able to verify that the amounts resulting from the valuation model based on the discounting of expected cash flows do not differ significantly from the carrying amounts of the biological assets.</p>
<p>Disputes relating to the Pontevedra public-domain concession</p> <p>As mentioned in note 25.3 Contingent assets and liabilities to the accompanying notes to the consolidated annual accounts, the Group's factory in Pontevedra is located on public domain land the concession for which was extended through the Resolution of the Environmental Ministry through the Directorate General of Coastal and Marine Sustainability of 20 January 2016 and for a total period of 60 years, of which 10 years were linked to the completion of certain investments.</p>	<p>We gained an appropriate understanding of the facts and procedural status of the different disputes relating to the public domain concession in Pontevedra.</p> <p>Similarly, we obtained the analysis performed by management and their advisors in writing and during meetings with them concerning the status of the different procedures and arguments upholding their conclusions.</p>

Key audit matter

This Resolution was challenged through three procedures which were filed by the town council of Pontevedra and two environmental associations and are currently being settled by the National Court. With respect to the three procedures, the Directorate General for Coastlines and the Sea acquiescence the claimants' claims on 6 March 2019. At the date of preparation of these consolidated annual accounts, the procedure initiated by the town council of Pontevedra is in the final stages of processing and is close to being ready for sentencing; the other two procedures were pending settlement for voting and a decision, and so the issue of a judgement is pending at dates prior to the year end, a situation which is ongoing at the date of preparation of these consolidated annual accounts.

As indicated in note 25.3 to the accompanying consolidated annual accounts, the Group considers that there are legal grounds upholding the legitimacy of the concession extension and therefore expects there will be a favourable decision upholding such legitimacy.

Nonetheless, as set out in that note to the accompanying consolidated annual accounts, the Group has carried out the economic evaluation in the worst-case scenario which may result from a possible combination of circumstances, including the discontinuance of activities at the plant.

Taking into account the significance of the judgements and estimates performed by Group management in assessing the probability of the risk and the scale of the associated impact if the outcome of the disputes were contrary to the Group's interests, we have considered this evaluation a key audit matter.

How our audit addressed the key audit matter

In order to assess the facts and documentations mentioned, we obtained the support of our legal experts.

Based on these procedures, and within the context of our audit, we consider that management judgements and the information disclosed concerning these disputes are consistent with the evidence obtained in the course of our work.

Other information: Group Management Report

Other information refers exclusively to the Group Management Report for 2019, the preparation of which is the responsibility of the parent company's directors, and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the Group Management Report. Our responsibility for the information contained in the Group Management Report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to the consolidated non-financial statement, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Law 22/2015, which solely requires that we verify whether said information has been included in the Group Management Report or where applicable, that the management report includes the corresponding reference to the separate non-financial statement as stipulated by prevailing regulations and if not, disclose this fact.
- b) A general level applicable to the rest of the information included in the Group Management Report that consists of assessing and reporting on the consistency of that information with the consolidated annual accounts, on the basis of the understanding of the Group obtained in the performance of the audit of those accounts, without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of this part of the Group Management Report are in conformity with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) is provided in the Group Management Report and the rest of the information contained in the Group Management Report is consistent with that of the consolidated annual accounts for 2019 and its content and presentation comply with applicable legislation.

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.



ENCE Energía y Celulosa, S.A. and subsidiaries

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 24, 2020.

Appointment period

The General Shareholders' Meeting held on March 28, 2019 appointed us as auditors of the Group for a period of 1 year, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended December 31, 2011.

Services provided

Services provided to the Group for services other than the audit of the accounts, are indicated in note 12.2 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Rafael García Anguita (10295)

February 26, 2020



ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated annual financial statements for
2019 and Group management report, along
with the independent auditor's report

↓

Consolidated financial statements for 2019

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

Thousands of euros	Note	31 Dec. 2019	31 Dec 2018 (*)
NON-CURRENT ASSETS:			
Intangible assets:			
Goodwill	14	6,066	5,675
Other intangible assets	14	55,835	54,438
Property, plant and equipment	15	1,238,304	987,136
Biological assets	16	79,076	82,557
Non-current financial assets:			
Investments accounted for using the equity method	26	49	-
Hedging derivatives	26 & 29	1,419	268
Other financial assets	17 & 26	7,359	13,458
Deferred tax assets	30	54,042	56,477
		<u>1,442,150</u>	<u>1,200,009</u>
CURRENT ASSETS:			
Non-current assets held for sale	16.3	-	4,000
Inventories	19	56,552	43,545
Trade and other receivables	20 & 26	39,053	106,922
Tax receivables	30	3,190	15,485
Income tax receivable	30	8,641	1,363
Current financial assets:			
Loans to group companies and associates	26	36	-
Other financial assets	17 & 26	4,450	2,224
Cash and cash equivalents	17 & 26	222,214	348,623
Other current assets		<u>1,830</u>	<u>2,056</u>
		<u>335,966</u>	<u>524,218</u>
TOTAL ASSETS		1,778,116	1,724,227
EQUITY:			
Issued capital	22.1	221,645	221,645
Share premium and parent company reserves		334,463	332,042
Parent company retained earnings (prior-period losses)		(43,668)	(71,196)
Reserves in fully-consolidated companies	22.4	115,670	83,208
Interim dividend		(12,493)	(51,309)
Translation differences		10	13
Own shares - parent company shares	22.7	(11,783)	(4,352)
Valuation adjustments	22.8	31,969	25,778
Other equity instruments	22.9	11,661	14,065
Profit/(loss) for the period attributable to owners of the parent	22.5	<u>9,209</u>	<u>129,130</u>
Equity attributable to owners of the parent		<u>656,683</u>	<u>679,024</u>
Non-controlling interests	22.11	<u>18,250</u>	<u>18,272</u>
TOTAL EQUITY		674,933	697,296
NON-CURRENT LIABILITIES:			
Borrowings:			
Bonds and other marketable securities	26 & 27	239,941	236,162
Bank borrowings	26 & 27	357,903	218,164
Other financial liabilities	26 & 27	107,203	43,758
Derivative financial instruments	26 & 29	6,414	4,673
Grants	24	6,750	7,840
Deferred tax liabilities	30	37,575	40,017
Non-current provisions	25	12,810	12,287
Non-current accruals and deferred income		3,376	1,470
Other non-current liabilities	26 & 28	<u>26,105</u>	<u>18,965</u>
		<u>798,077</u>	<u>583,336</u>
CURRENT LIABILITIES:			
Borrowings:			
Bank borrowings	26 & 27	26,281	152,651
Other financial liabilities	26 & 27	8,042	4,934
Derivative financial instruments	26 & 29	9,947	18,976
Trade and other payables	21, 26 &	226,869	235,024
Income tax payable	30	438	1,828
Taxes payable	30	<u>7,821</u>	<u>7,825</u>
Current provisions	25	<u>25,708</u>	<u>22,357</u>
		<u>305,106</u>	<u>443,595</u>
TOTAL EQUITY AND LIABILITIES		1,778,116	1,724,227

The accompanying notes 1 to 34 and Appendices are an integral part of the consolidated statement of financial position at 31 December 2019.

(*) The consolidated statement of financial position at 31 December 2018 is presented exclusively for comparative

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

Thousands of euros	Note	2019	2018 (*)
Continuing operations:			
Revenue	9	735,352	831,982
Gains/(losses) on hedging transactions	29	(30,049)	3,734
Changes in inventories of finished goods and work in progress	19	3,024	7,386
Own work capitalised	15 & 16	12,936	6,423
Other operating income		1,929	2,743
Grants taken to income	24	4,294	2,287
Operating income		727,486	854,555
Cost of goods sold	10	(307,530)	(300,297)
Employee benefits expense	11	(92,254)	(77,672)
Depreciation and amortisation charges	14 & 15	(82,985)	(69,829)
Depletion of forest reserve	16	(9,337)	(5,821)
Impairment of and gains/(losses) on disposal of fixed assets	14, 15 & 16	1,836	10,040
Impairment of financial assets	20	(2,313)	183
Other operating expenses	12	(202,386)	(201,593)
Operating expenses		(694,969)	(644,989)
OPERATING PROFIT		32,517	209,566
Finance income		961	985
Finance costs	13	(23,675)	(38,380)
Change in fair value of financial instruments	13 & 29	-	(1,682)
Net exchange gains/(losses)		1,490	2,991
Impairment of and gains/(losses) on disposal of financial assets	2.1	(188)	(249)
NET FINANCE COST		(21,412)	(36,335)
Share of profit/(loss) of investees accounted for using the equity method		(2)	-
PROFIT BEFORE TAX		11,103	173,231
Income tax	30	395	(41,560)
PROFIT FOR YEAR FROM CONTINUING OPERATIONS		11,498	131,671
Profit for the year from continuing operations attributable to non-controlling interests	22.11	2,289	2,541
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (**)		9,209	129,130
Earnings/(loss) per share attributable to owners of the parent		€/share	
Basic	22.6	0.04	0.53
Diluted	22.6	0.02	0.48

The accompanying notes 1 to 34 and Appendices are an integral part of the 2019 consolidated statement of profit or loss.

(*) The consolidated statement of profit or loss for the year ended 31 December 2018 is presented exclusively for comparative purposes.

(**) 100% from continuing operations.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

Thousands of euros	Note	2019	2018 (*)
GROUP PROFIT FOR THE YEAR (**)		11,498	131,671
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (**)		(23,459)	(31,376)
- Translation differences (**)		(3)	(34)
- Tax effect		5,866	7,844
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	22	(17,596)	(23,566)
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (**)		31,712	(3,126)
- Tax effect		(7,928)	782
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	22	23,784	(2,344)
TOTAL COMPREHENSIVE INCOME		17,686	105,761
Attributable to:			
Parent		15,397	103,220
Non-controlling interests		2,289	2,541

The accompanying notes 1 to 34 and Appendices are an integral part of the 2019 consolidated statement of comprehensive income.

(*) The consolidated statement of comprehensive income for the year ended 31 December 2018 is presented exclusively for comparative purposes.

(**) Items that may be subsequently be reclassified to profit or loss.

(***) Corresponds to "Profit for the year from continuing operations" in the consolidated statement of profit or loss.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Balance at 01/01/2019	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (**)	Trading in own shares	Other movements	Balance at 31/12/2019
2019 (thousands of euros)							
Issued capital	221,645	-	-	-	-	-	221,645
Own shares	(4,352)	-	-	-	(7,431)	-	(11,783)
Reserves:							
Share premium	170,776	-	-	-	-	-	170,776
Legal reserve	45,049	-	-	-	-	-	45,049
Cancelled capital reserve	10,566	-	-	-	-	-	10,566
Capitalisation reserve	4,543	-	4,691	-	-	-	9,234
Voluntary reserves	101,108	-	13,140	(13,112)	(647)	(1,651)	98,838
Parent company retained earnings (prior-period losses)	(71,196)	-	27,528	-	-	-	(43,668)
Reserves in fully-consolidated companies	83,208	-	32,462	-	-	-	115,670
Interim dividend	(51,309)	-	51,309	(12,493)	-	-	(12,493)
Consolidated profit for the period	129,130	9,209	(129,130)	-	-	-	9,209
Translation differences	13	(8)	-	-	-	-	10
Valuation adjustments	25,778	6,191	-	-	-	-	31,969
Other equity instruments	14,065	-	-	-	-	(2,404)	11,661
Total equity attributable to owners of the parent	679,024	15,397	-	(25,605)	(8,078)	(4,055)	656,683
Non-controlling interests	18,272	2,289	-	(1,986)	-	(325)	18,250
Total equity	697,296	17,686	-	(27,591)	(8,078)	(4,380)	674,933

	Balance at 01/01/2018	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (**)	Trading in own shares	Other movements	Balance at 31/12/2018
2018 (thousands of euros) (*)							
Issued capital	221,645	-	-	-	-	-	221,645
Own shares	(4,016)	-	-	-	(336)	-	(4,352)
Reserves:							
Share premium	170,776	-	-	-	-	-	170,776
Legal reserve	45,049	-	-	-	-	-	45,049
Cancelled capital reserve	10,566	-	-	-	-	-	10,566
Capitalisation reserve	1,848	-	2,695	-	-	-	4,543
Voluntary reserves	101,016	-	16,256	(16,004)	(160)	-	101,108
Parent company retained earnings (prior-period losses)	(92,436)	-	21,240	-	-	-	(71,196)
Reserves in fully-consolidated companies	61,210	26	21,972	-	-	-	83,208
Interim dividend	(29,623)	-	29,623	(51,309)	-	-	(51,309)
Consolidated profit for the period	91,786	129,130	(91,786)	-	-	-	129,130
Translation differences	47	(34)	-	-	-	-	13
Valuation adjustments	51,680	(25,902)	-	-	-	-	25,778
Other equity instruments	2,783	-	-	-	-	11,282	14,065
Total equity attributable to owners of the parent	632,331	103,220	-	(67,313)	(496)	11,282	679,024
Non-controlling interests	9,903	2,541	-	(2,787)	-	8,615	18,272
Total equity	642,234	105,761	-	(70,100)	(496)	19,897	697,296

The accompanying notes 1 to 34 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2019.

(*) The consolidated statement of changes in equity for the year ended 31 December 2018 is presented exclusively for comparative purposes.

(**) Corresponding to the dividends distributed during the year.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

Thousands of euros	Note	2019	2018 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax from continuing operations		11,103	173,231
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	14 & 15	82,985	69,829
Depletion of forest reserve	16	9,337	5,821
Changes in provisions and other deferred expense (net)		19,873	22,869
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets		(1,868)	(9,728)
Finance income and costs (net)		21,296	36,786
Grants taken to income		(1,370)	(1,362)
		<u>130,253</u>	<u>124,215</u>
Changes in working capital:			
Inventories	19	(16,312)	(6,502)
Trade and other receivables	20	82,848	(4,064)
Financial and other current assets	17	(2,226)	4,151
Trade payables, other payables and other liabilities	21	1,187	(3,730)
		<u>65,497</u>	<u>(10,145)</u>
Other cash flows from operating activities:			
- Interest paid, net (including right-of-use assets)	13, 18 & 27	(15,820)	(29,909)
- Dividends received		-	-
- Income tax paid	30	(9,648)	(28,807)
- Long-term remuneration plans and other		(4,883)	(1,321)
		<u>(30,351)</u>	<u>(60,037)</u>
Net cash from operating activities		176,502	227,264
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment	15	(285,603)	(163,759)
Intangible assets	14	(6,754)	(24,234)
Business combinations	2	(6,300)	(124,852)
Financial assets		(333)	2,417
		<u>(298,990)</u>	<u>(310,428)</u>
Proceeds from disposals:			
Property, plant and equipment	15	838	1,355
Financial assets	2	4,302	-
		<u>5,140</u>	<u>1,355</u>
Net cash used in investing activities		(293,850)	(309,073)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Proceeds from issuance of convertible bonds, net of arrangement fees		-	14,551
Buyback of own equity instruments	22	(76,443)	(63,864)
Disposal of own equity instruments	22	64,419	63,368
		<u>(12,024)</u>	<u>14,055</u>
Proceeds from/(repayments of) financial liabilities:			
Proceeds from issuance of bonds, net of arrangement fees	27	(122)	184,290
Repayment of bonds and other marketable securities	27	-	(250,000)
Increase/(decrease) in bank borrowings, net of issuance costs	27	10,974	255,462
Increase/(decrease) in other borrowings	27	22,640	25,878
Payments for right-of-use assets	18	(3,218)	-
Grants received, net	24	280	115
		<u>30,554</u>	<u>215,745</u>
Dividend payments			
Dividends paid to ENCE shareholders	23	(25,605)	(67,110)
Dividends paid to minority shareholders	22	(1,986)	(2,786)
		<u>(27,591)</u>	<u>(69,896)</u>
Net cash (used in)/ from financing activities		(9,061)	159,904
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(126,409)	78,095
Cash and cash equivalents - opening balance		348,623	270,528
Cash and cash equivalents - closing balance		<u>222,214</u>	<u>348,623</u>

The accompanying notes 1 to 34 and Appendices are an integral part of the 2019 consolidated statement of cash flows.

(*) The consolidated statement of cash flows for the year ended 31 December 2018 is presented exclusively for comparative purposes.

Notes to the 2019 consolidated financial statements

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails

Contents

1. Group information.....	7
2. Scope of consolidation and main acquisitions and disposals	8
3. Basis of preparation and consolidation.....	13
4. Summary of significant accounting policies	18
5. Energy sector regulations	35
6. Financial risk management.....	37
7. Key accounting estimates and judgements	42
8. Operating segments	43
9. Revenue	47
10. Cost of goods sold.....	48
11. Employee benefits expense.....	49
12. Other operating expenses	52
13. Finance costs	53
14. Goodwill and other intangible assets	54
15. Property, plant and equipment.....	56
16. Biological assets.....	59
17. Financial assets.....	62
18. Leases.....	63
19. Inventories.....	64
20. Trade and other receivables.....	65
21. Trade and other payables.....	66
22. Equity.....	67
23. Shareholder remuneration.....	73
24. Grants.....	74
25. Provisions, impairment charges, guarantees and contingent liabilities.....	74
26. Financial instruments by category	79
27. Borrowings.....	80
28. Other non-current liabilities.....	87
29. Derivative financial instruments	87
30. Tax matters.....	89
31. Director and key management personnel pay and other benefits.....	95
32. Related-party transactions.....	98
33. Environment	98
34. Events after the reporting date	110

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2019 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

- a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;
- b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law.
- c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their sub-products. Forestry studies and projects;
- d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

ENCE and its group of companies (hereinafter, the "Group", "ENCE" or the "ENCE Group") has articulated its activities around two businesses:

The Pulp business:

Encompasses the production of bleached eucalyptus kraft pulp (BEKP) by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences.

To carry out this activity, the Group has two biomills in Spain (located in Asturias and Pontevedra) with combined nominal capacity of approximately 1,200,000 tonnes per annum.

Both mills use the kraft process to produce pulp. This productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin or biomass. The Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra biomills) is 112 megawatts (MW).

The Group also manages 62,501 hectares of productive forest in Spain, 43,271 hectares of which it owns.

The Renewable Energy business:

ENCE has developed and acquired several power generation facilities that are fuelled by biomass obtained from agricultural and forestry sub-products. It also owns a solar thermal power plant. These plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 220 MW, broken down as follows:

Location	Capacity MW	End of regulatory useful life
Huelva	50	2037
Huelva	41	2025
Merida	20	2039
Jaen	16	2027
Ciudad Real	16	2027
Cordoba	14	2031
Cordoba	13	2030
Ciudad Real	50	2034



The Group is also finalising the construction of two new biomass power plants in Spain, specifically in Huelva (capacity: 46 MW) and Puertollano, Ciudad Real (50 MW). Both facilities are to be commissioned during the first quarter of 2020, with a regulatory life of 25 years.

Listing of shares-

All of the Company's shares are represented by book entries and are listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

2. Scope of consolidation and main acquisitions and disposals

2.1 Main acquisitions and disposals

2019 – Disposal of Iberflorestal

On 30 May 2019, Norte Forestal, S.A., an entity belonging to the Pulp business, sold a third party 100% of its shares in Iberflorestal, S.A.U., a subsidiary whose business at the time of the sale consisted of the plantation of eucalyptus timber for use in pulp production, to which end it was exploiting 1,743 hectares in Portugal under leases and/or consortia.

The transaction price was €4,602 thousand (€4,302 thousand of which already collected and €300 thousand of which deferred), in line with the carrying amount of this investment.

The main assets of Iberflorestal, S.A. were classified under "Non-current assets held for sale" in the consolidated statement of financial position at 31 December 2018 (note 16).

2018 – Acquisition of Ence Energía Termollano, S.L.

On 30 November 2018, Ence Energía Solar, S.L.U., 100% owned by the Renewable Energy business's holding company, Ence Energía, S.L.U., acquired 90% of the share capital and control of Ence Energía Termollano, S.A. from the Iberdrola Group. Ence Energía Termollano, S.A. owns a 50-MW solar thermal power plant located in Puertollano (Ciudad Real).

The acquisition price was €145.8 million (€72.3 million for the shares of the entity acquired and €67.2 million for the credit claim held by the Iberdrola Group against the acquiree).

That acquisition price included a contingent amount - an earnout - of up to €6.3 million, which was paid in December 2019, once the regulator confirmed the reasonable return allocated to the 50-MW Termollano plant for 2020-2025.

The ENCE Group has recognised the assets acquired and liabilities assumed at their estimated acquisition date fair values. Those estimates were arrived at by discounting the cash flows forecast for this facility to present value at a rate of between 6.5% and 7.5%. Input was obtained from independent experts in making those estimates. The breakdown of the net assets acquired and their fair value at the acquisition date, including the goodwill generated by the transaction, are provided below:

Thousands of euros	Note	Fair value	Carrying amount in target's financial statements(*)
Goodwill	14	3,436	-
Intangible assets	14	20,428	-
Property, plant and equipment	15	148,560	148,560
Non-current financial assets		11,787	-
Deferred tax assets	30	3,989	3,989
Cash and cash equivalents		56,449	56,449
Other current assets		7,089	7,089
Total assets		251,738	216,087
Deferred tax liabilities	30	17,004	11,897
Non-current borrowings from group		109,001	109,001
Non-current provisions	25	9,141	9,141
Other current liabilities		29,411	29,011
Total liabilities		164,557	159,050
NET ASSETS ACQUIRED		87,181	57,037

(*) Data corresponding to 100% of the acquiree's net assets

Had the acquisition taken place on 1 January 2018, Group revenue would have been €23,758 thousand higher in 2018 and profit after tax would have been €333 thousand lower.

The accounting for this business combination has not changed significantly in the 12 months following the acquisition during which it was still deemed provisional.

Under the terms of the share purchase agreement, the seller would have to indemnify the buyer in the event of certain circumstances that could have an adverse effect on the acquiree. At year-end 2018, "Non-current financial assets" included the claim against the seller (indemnification asset) with respect to certain obligations recognised by Energía Termollano, S.A. In February 2019, the investee settled most of its obligation and ENCE received the corresponding indemnification asset.

The costs associated with this transaction totalled €0.5 million.

2.2 Other changes in the scope of consolidation

2019

On 2 April 2019, Norte Forestal, S.A.U. incorporated Liptoflor, S.A., with registered office in Portugal, by means of the contribution of the spun-off business consisting of the purchase and sale of timber and provision of the forest services formerly carried out by its subsidiary Iberflorestal, S.A. The value of that investment, €882 thousand, coincides with the carrying amount of that business in the ENCE Group's consolidated financial statements as of the transaction date. The transaction did not give rise to significant costs.

Oleoenergía de Puertollano, S.L. and Captación de Servicios Forestales, S.L., in which the Group holds interests of 30% and 25%, respectively, were also incorporated in 2019. Those investees, which were not active in 2019, are accounted for using the equity method of consolidation.

2018

In 2018, the Group added Ence Energía Solar, S.L.U., the subsidiary of Ence Energía, S.L. which acquired the shares of Ence Energía Termollano, S.A. and the credit claim the Iberdrola Group had against this investee, to its consolidation scope.

In 2018, it also consolidated Ence Energía Puertollano, S.L.U., an entity incorporated by Ence Energía, S.L., for the first time. This new investee is building and will operate a biomass power plant with installed capacity of 50 MW in Puertollano-Ciudad Real (note 15).

2.3 Scope of consolidation

The following subsidiaries and subsidiaries are accounted for using the full or equity methods of consolidation in the accompanying 2019 consolidated financial statements:

2019 Financial Report
Ence Energía y Celulosa, S.A. and subsidiaries



2019

		Thousands of euros				
Investee	Registered office	Business activity	Ownership interest, %	Consolidation method (b)	Investee equity	
					Capital and other owner contributions	Share premium & reserves
Pulp business:						
Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	Full	37,863	96,845
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	Full	19,800	20,749
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	Full	280	247
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	Full	44,964	4,636
Ence Investigación y Desarrollo, S.A.U. (a)	Marisma de Lourizán s/n (Pontevedra)	Research into and development of new materials, products and processes	100	Full	6,208	(3,376)
Lipioflor, S.A. (a)	Lisbon (Portugal)	Purchase-sale of timber	100	Full	50	1,048
Capacitación de Servicios Forestales, S.L.	Curtis (La Coruña)	Forestry work	25	EM	50	150
Renewable Energy business:						
Ence Energía, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	100	Full	245,494	48,970
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	3,756	901
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	25,757	22,996
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	20,054	7,483
Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	37,003	(2)
Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	64.07	Full	4,167	7,934
Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	68.42	Full	280	11,587
Ence Energía Puertollano, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	43,003	(18)
Ence Energía Solar, S.L. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	45,503	(636)
Fuerzas Energéticas Sur Europa XXIX, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	Full	44	(23)
Ence Energía Termollano, S.A. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	90	Full	55,000	2,125
Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Córdoba)	Generation and sale of electric energy	70	Full	11,992	(11,928)
Oleoenergía de Puertollano, S.L.	Arruzafe, 21 (Córdoba)	Generation and sale of electric energy	30	EM	3	-

(a) Annual financial statements audited

(b) Consolidation method: Full = full consolidation method; EM = equity method

www.ence.es

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails

2018

	Investee	Registered office	Business activity	Ownership Interest, %	Consolidation method (b)	Thousands of euros		
						Capital and other owner contributions	Share premium & reserves	Profit/(loss) for the year
Pulp business:								
	Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	Full	37,863	96,845	66,548
	Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	Full	19,800	20,749	5,782
	Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	Full	280	(84)	331
	Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	Full	2,464	6,310	(1,674)
	Ence Investigación y Desarrollo, S.A.U. (a)	Marisma de Lourizán s/n (Pontevedra)	Research into and development of new materials, products and processes	100	Full	6,208	(3,750)	374
	Iberforestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of timber	100	Full	6,055	(5,615)	1,745
Renewable Energy business:								
	Ence Energía, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	100	Full	196,104	29,772	19,197
	Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	3,756	901	2,290
	Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	25,757	16,594	6,402
	Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	20,054	4,883	2,599
	Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	3	-	(2)
	Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	64.07	Full	4,167	7,061	1,746
	Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	68.42	Full	280	9,420	4,334
	Ence Energía Puertollano, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	3	-	(18)
	Ence Energía Solar, S.L. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	Full	45,503	-	(636)
	Fuerzas Energéticas Sur Europa XXIX, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	Full	44	(12)	(11)
	Ence Energía Termollano, S.A. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	90	Full	55,000	4,037	167
	Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejil s/n, Lucena (Córdoba)	Generation and sale of electric energy	70	Full	11,992	(11,928)	1,771

(a) Annual financial statements audited

(b) Consolidation method: Full = full consolidation method; EM = equity method

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: Ence Energía Solar, 2, S.L.U. (Spain), Ence Energía la Loma 2, S.L.U. (Spain), Ence Energía Este, S.L.U. (Spain), Ence Energía Extremadura 2, S.L.U. (Spain), Sostenibilidad y Economía Circular, S.L.U. (Spain), Ence Energía Celta, S.L.U. (Spain), Ence Energía Castilla y León, S.L.U. (Spain), Ence Energía Castilla y León Dos, S.L.U. (Spain), Ence Energía Pami, S.L.U. (Spain), Ence Biomasa Córdoba, S.L.U. (Spain), Ence Lepe Solar S.L.U. (Spain), Ence Huelva Solar, S.L.U., Sierras Calmas, S.A. (Uruguay), Maderas Aserradas del Litoral, S.A. (Uruguay), Las Pléyades Uruguay, S.A. – Sucursal en Argentina, Las Pléyades Uruguay, S.A. (Uruguay) and Ence Servicios Corporativos, S.L.U. (Spain).

The Group also has non-controlling interests in certain companies that have not been consolidated on account of their scant materiality: Imacel, A.E.I.E., a dormant company that is 50%-owned by the Parent, and Electroquímica de Hernani, S.A., in which it owns a 5% shareholding, among others.

3. Basis of preparation and consolidation

3.1 Basis of preparation

Ence Energía y Celulosa, S.A.'s 2019 consolidated annual financial statements were prepared from its accounting records and annual financial statements and those of its Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, to give a true and fair view of the Group's financial position at 31 December 2019 and of its financial performance and cash flows for the year then ended.

Note 4 summarises the most significant accounting policies and measurement criteria used to prepare the accompanying consolidated financial statements.

The Group's consolidated financial statements for 2019, which have been authorised for issue by the Parent's directors, will be submitted for shareholder approval at the Annual General Meeting, at which they are expected to be ratified without modification. The Group's consolidated financial statements for 2018 were approved at the Annual General Meeting held by the Parent on 28 March 2019.

The euro is the Group's functional and presentation currency. The consolidated financial statements and accompanying notes are therefore expressed in euros.

3.2 Principles of consolidation

Subsidiaries

Investees over which the Parent exercises control have been accounted for using the full consolidation method. Control is evidenced, in general albeit not exclusively, when the Parent owns, either directly or indirectly, at least 50% of the voting rights of the investee. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Controlled investees are considered subsidiaries (note 2) and are accounted for using the full consolidation method.

All of the Group subsidiaries report as of 31 December.

All material inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

The share of non-controlling interests in the fully-consolidated subsidiaries' equity and earnings is presented in "Non-controlling interests" within equity on the accompanying consolidated statement of financial position and in "Profit (loss) attributable to non-controlling interests" in the accompanying consolidated statement, respectively of profit or loss.

Investments consolidated using the equity method

These are investees over which the Group has significant influence. They do not require the Group's consent for operating and financial policy decisions but the Group does have the power to intervene in such decision-making. Such influence is generally accompanied by a shareholding of between 20% and 50% of the investees' voting rights.

Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

In transactions with such investees, the gains or losses arising on the transactions are eliminated in the percentage of the Parent's ownership interest. The result of accounting for investments using the equity method is presented in "Investments accounted for using the equity method" and "Share of profit/(loss) of investees accounted for using the equity method" in the statement of financial position and statement of profit or loss, respectively.

Adjustments to conform with the Group's accounting policies

The consolidation of the entities comprising the scope of consolidation was carried out on the basis of their respective separate financial statements, which are prepared under the Spanish General Accounting Plan for companies resident in Spain and local accounting standards for the other investees. The directors have made all the material adjustments needed to adapt those separate financial statements for IFRS and to align their financial information with the Group's accounting policies as part of the consolidation process.

Financial statement translation

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at each reporting date; equity items are translated at historical rates; and income and expenses are translated at average rates for the period in which they accrued. The resulting exchange differences are recognised in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed of. None of the Group companies is located in a hyperinflationary economy.

3.3 Comparison of information and transaction seasonality

The information provided in these financial statements in respect of 2018 is presented to enable a reader comparison with the equivalent 2019 disclosures.

The reader should consider the following aspects when comparing the information for the two reporting periods:

- There have been changes in the consolidation scope, as outlined in note 2.
- The new accounting standards applicable from 1 January 2019 (note 3.6).

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes.

3.4 Key IFRS-related decisions

In presenting the consolidated financial statements and accompanying notes, the Group took the following decisions: 1) the presentation of the consolidated statement of financial position distinguishes between current and non-current amounts and the consolidated statement of profit or loss is presented using the nature-of-expense method; and 2) the consolidated statement of cash flows is presented using the indirect method.

3.5 Changes in accounting estimates and policies and correction of fundamental errors

The impact of any change in accounting estimates is accounted for prospectively in the same statement of profit or loss heading in which the previously estimated item of expense or income is recognised.

Meanwhile, changes in accounting policies and the correction of fundamental errors are accounted for as follows insofar as material: the accumulated impact at the beginning of the year is adjusted in reserves and the impact in the year of the restatement is recognised in profit or loss for the year. In these instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

No significant changes in accounting estimates or policies, except as indicated in note 3.6 below, or corrections of errors affect either the 2019 or the 2018 consolidated financial statements.

3.6 New and amended standards taking effect during the reporting period

The accounting standards used to prepare these consolidated annual financial statements are the same as those used in the year ended 31 December 2018, except for the application, as from 1 January 2019, of the following standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union for application in Europe from 1 January 2019:

Standard	Contents
New and amended standards and interpretations:	
IFRS 16 - Leases	Replaces IAS 17 and associated interpretations. The new standard puts forward a single accounting model for all leases (with limited exemptions), which are recognised on the statement of financial position in a manner similar to the method used to account for finance leases
IFRIC 23 - Uncertainty over income tax treatments	Clarifies the application of the recognition and measurement requirements in IAS 12 - Income taxes when there is uncertainty over income tax treatments
Annual Improvements to IFRSs, 2015-2017 Cycle	Narrow-scope amendments to a series of standards
Amendments to IFRS 9 - Prepayment features with negative compensation	These amendments allow reporters to measure certain financial assets that are prepayable at an amount that could be less than the unpaid amounts of principal and interest at amortised cost
Amendments to IAS 28 - Long-term interests in associates and joint ventures	These amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture if the equity method is not used
Amendments to IAS 19 - Plan amendment, curtailment or settlement	These amendments clarify how to calculate the current service cost and net interest for the remainder of the annual reporting period when a defined benefit plan amendment, curtailment or settlement occurs during that period

The impact of the application of IFRS 16 - Leases for the first time in 2019 is detailed next. The rest of the amendments have not had a significant impact on the accompanying consolidated financial statements.

IFRS 16 - Leases

The accounting policies applicable under this new standard are outlined in note 4.6.

ENCE availed of the modified retrospective approach in transitioning to IFRS 16 – Leases, which means that the prior-period figures have not been restated and the impact of the first-time application of IFRS 16 as at 1 January 2019 (date of initial application) has been recognised in reserves. The lease liability was determined at the present value of the remaining lease payments at that date, discounted using a discount rate calculated in accordance with the requirements stipulated in the new standard.

The impact of application of this new standard on 1 January 2019, its date of initial application, distinguishing between the various types of assets leased by ENCE, and the impact on earnings in 2019 are disclosed in note 18.

Right-of-use asset depreciation charges and the recognition of interest on the lease liability replace a significant part of the amount that used to be recognised in the statement of profit or loss as operating lease expense. The classification of lease payments in the statement of cash flows has also been affected by application of this new standard.

Below is the reconciliation of the operating lease commitments disclosed in note 12 of ENCE's 2018 consolidated financial statements and the lease liability recognised at 1 January 2019:

	Thousands of euros
Operating leases - 2018	27,680
Pontevedra concession - 2018	70,376
Total 2018	98,056
Unwind of discount	(44,707)
Lease liability at 1/1/2019 (note 18)	53,349

3.7 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation of the accompanying statements, are the following:

Standard	Contents	Applicable in annual periods beginning on or after
New standards:		
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2021. Pending adoption
Amended standards:		
Amendments to IFRS 3 - Definition of a business	Clarification of the definition of a business	1 January 2020. Pending adoption
Amendments to IFRS 9, IFRS 7 and IAS 39 - Interest rate benchmark reform	Provides certain relief in connection with interest rate benchmark reform related with accounting hedges	1 January 2020. Pending adoption
Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate or joint venture	Clarifies that investors must recognise the full gain or loss when the assets constitute a 'business'	Not defined.
Amendments to IAS 1 and IAS 8. Definition of 'material'.	Aligns the definition of 'material' with that provided in the Conceptual Framework	1 January 2020

Although the Group is in the process of analysing what impact these new and amended standards could have on its consolidated financial statements, if adopted, it does not expect their application to have a significant impact.

4. Summary of significant accounting policies

The main accounting policies used to prepare these consolidated financial statements in keeping with the International Financial Reporting Standards and interpretations adopted by the European Union (IFRS-EU), are summarised below:

4.1 Business combinations

Business combinations in which the Group acquires control of one or more businesses are accounted for using the acquisition method, in keeping with the provisions of IFRS 3 - Business combinations.

As a general rule, the acquisition method implies recognising, on the acquisition date, the identifiable assets acquired, liabilities assumed, equity instruments issued and any contingent consideration that

depends on future events or delivery of certain conditions, at their acquisition-date fair values, insofar as they can be measured reliably. Acquisition-related costs are expensed as incurred.

The difference between the consideration transferred and the net assets acquired, coupled with the fair value of any previously held equity interest in the business acquired, is recognised under "Goodwill". If that difference is negative it is recognised as a gain from a bargain purchase in the year of the acquisition.

The identifiable assets acquired and liabilities assumed are measured on a provisional basis when control is taken and those amounts are revised for definitive accounting purposes within 12 months at most from the acquisition date.

Goodwill is only recognised when it is purchased as part of a business combination and it is not amortised. Rather, it is tested for impairment annually. The Group recognises a goodwill impairment loss if the recoverable amount falls below the initially recognised amount. The recoverable amount is determined on the basis of the present value of the projected future cash flows of the cash-generating units to which each goodwill balance is assigned, discounted at a rate that factors in the risks specific to each asset. Goodwill impairment losses cannot be reversed in subsequent years. Goodwill is tested in-house; the related calculation methodology is detailed in note 4.5.

The goodwill allocated to the renewable energy power plants is expected to be recovered over the remaining regulatory useful lives of those plants. The goodwill balance is written down for impairment to reflect the reduction in the plants' remaining regulatory useful lives with the passage of time.

The Group recognises any non-controlling interest in the acquiree at such shareholders' proportionate share of the identifiable net assets acquired.

4.2 Other intangible assets

Intangible assets, mainly software and capitalised development costs, are initially recognised at acquisition or production cost. Subsequent to initial recognition, they are measured at acquisition cost less accumulated amortisation and any impairment losses.

The Group's intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over those estimated useful lives.

R&D expenditure:

Research expenditure is recognised as an expense in the year it is incurred.

Development costs are capitalised when their cost is separately identifiable at the project level and it is probable that the project will be technically feasible and commercially viable. Development costs that do not meet these criteria are recognised as an expense in the year in which they are incurred.

To the extent capitalised, these costs are amortised on a straight-line basis over five years or over the period of time for which they are expected to generate revenue, up to a limit of 10 years.

Computer software:

The Group recognises the cost of acquiring software programmes and multi-year licences under this heading. Costs that are directly associated with the internal development of software are recognised as

intangible assets insofar as there is a clearly defined project whose cost is separately identifiable and it is deemed probable that the developments will generate future economic benefits for the Group. All other internal and external costs associated with software maintenance and development are charged to profit and loss in the year incurred.

Software is amortised on a straight-line basis over five years from when each programme is brought into use.

Electricity generation rights:

These assets are recognised at their acquisition cost and are amortised over the regulatory useful lives of the renewable energy generation facilities in which they are used.

4.3 Property, plant and equipment

These assets are measured at purchase or construction cost, net of accumulated depreciation and any impairment losses. Cost includes the following items:

- The interest accrued during the construction period, to the extent longer than one year, on borrowings attributable to the asset being built (capitalised borrowing costs). The interest rate used for this purpose is either that corresponding to the specific borrowings financing the asset or, if there is no such funding, the Group's average borrowing cost (note 27).
- The cost of employee benefits and other operating costs directly attributable to construction of the asset.
- In the event the Group is obliged to dismantle its facilities or restore the sites on which they are located, the present value of the amount of such costs are added to the carrying amount of those assets with a balancing entry under "Provisions" in the consolidated statement of financial position. Any subsequent changes in estimated dismantling costs are accounted for by increasing or decreasing the corresponding assets' carrying amounts in the year in which the estimates change.

In light of the term of the concession for use of the site on which the Pontevedra biomill is located and the potential realisable value of the assets at the time of dismantling, management has estimated that dismantling costs will not be material, which is why no provision has been recognised in this respect on the accompanying statement of financial position.

- On the other hand, the cost of the asset is reduced by the amount of any revenue earned during the asset testing phase.
- Prior to its transition to IFRS-EU (on 1 January 2004), the ENCE Group revalued the forest land recognised within "Property, plant and equipment" on the consolidated statement of financial position to its market value at the time (note 15); that revalued amount was deemed part of the cost of those assets, as provided for in IFRS 1.

The Group transfers work in progress to property, plant and equipment when the test period is finished.

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Elsewhere, preservation and maintenance expenses incurred during the year are recognised in profit and loss.

The replacement of capitalisable items of property, plant and equipment implies the derecognition of the carrying amounts of the assets replaced. If the items replaced are not depreciated separately and it is not practicable to determine their carrying amount, the cost of the replacement assets is used as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Investment in buildings erected on land used under a concession arrangement is recognised under "Buildings". That cost, coupled with that corresponding to the rest of the permanent facilities located on the land held under concession, is depreciated over the buildings' remaining useful lives, limited by the remaining concession term. The same treatment is applied to investments in power generation facilities, in this case the limit being the useful life assigned for regulatory remuneration purposes.

Depreciation and impairment charges

In 2019 and 2018, the Group depreciated its property, plant and equipment using the straight-line method, distributing the cost of the assets over their estimated useful lives, broken down as follows:

	Depreciation rate	Estimated years of useful life
Buildings	2%-3%	33-50
Plant		
Biomass generation plants	4%	25
Solar thermal plant	4%	25
Other plants	7%	12-15
Machinery & equipment	6.6%-12.5%	8-15
Tools and furniture	8.3%-12.5%	8-12
Computer equipment	20%	5
Vehicles	10%	10
Other items of PP&E	10%	10

Land is recognised separately from the buildings or facilities that may reside on it and is deemed to have an indefinite useful life; accordingly it is not depreciated.

Any impairment losses are recognised with a charge against "Impairment of and gains/(losses) on disposal of fixed assets" in the reporting period in which it is determined that the recoverable amount has fallen below the carrying amount (note 4.5).

4.4 Biological assets

The Group grows several species of trees, mainly the Globulus and Nitens species of eucalyptus. The timber is used as the raw material for producing pulp or sold to third parties. The trees in a forest plantation - or forest cover - are considered a biological asset. Forest land is measured in keeping with IAS 16 - Property, plant and equipment and is recognised within the corresponding heading of the statement of financial position (note 4.3).

The Group measures its biological assets at purchase or production cost, net of forest depletion charges and any impairment losses.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site clearing and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. In addition, because these assets take more than one year to ready for use, borrowing costs accrued until the time the trees are felled are capitalised in respect of the portion of the investment funded with external borrowings (currently not very material). The interest rate used is the Group's average borrowing cost (note 27).

The time elapsing from when a eucalyptus grove is planted in the Iberian Peninsula until it is economically advisable to extract the stumps and subsequently replant varies by species. For the Globulus species, which accounts for the majority of the Group's forest cover, that period is approximately 35-40 years (if cut properly the stumps grow back at least two more times). The costs incurred to develop biological assets are grouped into two categories: (i) cycle costs, which include the incurred costs, mainly associated with the plantation process, that will contribute to development of the biological assets over the entire 35-40 year cycle; and (ii) yield/harvest costs, which are those that contribute to development of the biological assets in the harvest in question until they are cut. For the Nitens species, this period is 11-15 years as there is no efficient regrowth, such that all development costs are considered cycle costs in this instance.

When the plantations are harvested, the value of the forest cover is reduced with a charge to "Biological assets – Depletion of forest reserve" along with recognition of a corresponding expense under "Depletion of forest reserve" in the statement of profit or loss at incurred production costs. The amount of that charge corresponds to 100% of incurred harvest costs and the proportional share of cycle costs calculated on the basis of the number of harvests per cycle. In addition, when forest cover comes to the end of its productive cycle, the total amount of recognised forest cover net of accumulated depletion is derecognised.

There is no 'quoted price' for eucalyptus plantations in Spain and the characteristics of the related transactions have not to date enabled the identification of market price references valid for extrapolation to ENCE's forest assets. Elsewhere, the use of the alternative methods contemplated in IFRS 13 for determining fair value does not enable a reliable quantification of the fair value of these biological assets due to the vast amount of assumptions and estimates required and their impact on the results of the estimation, among other factors. As a result, the Group does not measure its biological assets at fair value.

ENCE has developed a model for valuing its forest assets based on discounted cash flow methodology (note 4.5) which it does not consider sufficiently reliable to use as a proxy for the fair value of its biological assets. However, consistent use of this model over time does provide valuation ranges and enable the identification of trends that are considered when testing its biological assets for potential impairment.

The carrying amounts of the biological assets recognised in ENCE's 2019 consolidated financial statements are not significantly different from the fair values that would result from valuing the assets using that discounted cash flow methodology, specifically that outlined in note 4.5, assuming timber prices in line with current sales prices in the case of the timber earmarked for sale to third parties and the prices at which the pulp biomills procure timber in the case of forest cover earmarked for pulp-making.

4.5 Impairment of non-financial assets

At least at the end of each reporting period, the ENCE Group assesses the value of its non-current assets, including its right-of-use assets, to determine whether there are any indications of impairment, namely any indications that the amount recoverable through use has fallen below their carrying amount.

Whenever it detects indications of impairment, and at least annually in the case of goodwill, the Group estimates the recoverable amount of the assets, which is the higher of their fair value less costs to sell and value in use. The methodology used to estimate their 'value in use' is to discount the future cash flows expected to result from operating the assets to present value.

Value in use amounts are calculated for each cash-generating unit (CGU). Goodwill purchased in a business combination and the right-of-use assets recognised under IFRS 16 are allocated to each of the CGUs expected to benefit from the synergies arising from the business combination in question. The ENCE Group's CGUs are each of the pulp biomills (which include the forest assets earmarked as a source of supply for those mills) and electricity generation plants it operates, as well as the biological assets it earmarks for sale to third parties.

Each year, the Group prepares a business plan for each CGU which generally covers at least a three-year projection period. The business plan materialises in financial projections that are prepared using the best available estimates with respect to macroeconomic variables, forecast sector developments, regulations and regulatory developments, expected changes in sales prices and the cost of the main raw materials, capital expenditure, working capital trends and discount rates. Sensitivity analyses are conducted to determine the impact of changes in all the key inputs that could have a significant impact on asset valuations.

Terminal value is calculated as a function of normalised cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 1% and 2%. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business's continuity.

In the case of renewable energy generation assets associated with the Renewable Energy business, for which cash flows during the construction and operating phases can be estimated with a certain degree of reliability, the recoverable amount is calculated using estimated cash flows projected until the end of each plant's regulatory useful life; no terminal value is modelled. For biological assets, projected cash flows encompass a productive cycle of up to 40 years and, again, no terminal value is factored in.

To calculate value in use, the cash flows so estimated are discounted to present value using a specific rate for each business that factors in the time value of money and the specific risks associated with each cash-generating unit. The discount rates applied in the Pulp business range between 6% and 8%; in the Renewable Energy business, the return established by the energy sector regulator - around 7% - is used.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in "Impairment of and gains/(losses) on disposal of fixed assets" in profit or loss. Impairment losses other than those recognised against goodwill are reversible.

4.6 Leases

ENCE leases certain assets, notably industrial and forest land, industrial equipment and vehicles.

Leases are recognised on the date on which the leased asset is available for use as a right-of-use asset along with the corresponding lease liability, at the present value of the outstanding lease payment obligations.

To determine the present value of the outstanding lease payment obligations, the Group considers the initial duration of the lease agreement and any extension options which ENCE has the power and reasonably expects to exercise. Those payment obligations are discounted to present value using the estimated incremental borrowing rate, which is the rate of interest a lessee would have to pay, at the start of the lease, to borrow a similar amount over a similar term, and with a similar security. That rate has been estimated, based on available market information, within a range of 2.5%-2.7% for contracts with a term of between one and five years; of 2.9%-3.2% for contracts with a term of between 10 and 20 years; and of 3.3%-4.2% for leases with longer terms.

Right-of-use assets are recognised at the present value of outstanding lease payment obligations, less any incentives received in connection with the lease.

After initial recognition, lease liabilities are carried at amortised cost using the effective interest rate method. The interest expense on the lease liability is charged to profit and loss over the lease term.

Right-of-use assets, meanwhile, are measured at cost less accumulated depreciation and any impairment losses, in keeping with IAS 16 - Property, plant and equipment (notes 4.1 and 4.2). Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term.

Payments under short-term leases (with terms of less than 12 months) and low-value leases are expensed directly as accrued. Contingent rents subject to the occurrence of a specific event and variable lease payments that depend on the revenue earned from or the use of the underlying asset are recognised as incurred under "External services" in the statement of profit or loss, rather than as part of the lease liability.

ENCE classifies its right-of-use assets in accordance with the nature of the leased assets in either "Intangible assets" or "Property, plant and equipment" on the statement of financial position and classifies the lease liability under "Borrowings - Other financial liabilities" within non-current and current liabilities on the statement of financial position.

4.7 Financial assets and liabilities

ENCE measures its financial instruments in keeping with IFRS 9 - Financial instruments. Specifically:

Financial assets

ENCE classifies its financial assets into the following categories subsequent to initial recognition: 1) at fair value through profit or loss; and 2) at amortised cost. Classification depends on the business model used by ENCE to manage the financial assets and the characteristics of their contractual cash flows.

Initial measurement -

Upon initial recognition, the Group measures its financial assets at fair value, which includes the transaction costs directly attributable to their acquisition. Exceptionally, transactions costs associated with financial assets at fair value through profit or loss are expensed in the income statement.

Subsequent measurement -

ENCE classifies its financial assets into the following categories:

- i. Amortised cost using the effective interest rate method: assets that are held in order to collect their contractual cash flows and whose contractual cash flows represent solely payments of principal and interest are classified into this category.

A gain or loss on an investment in a fixed-income instrument measured at amortised cost that is not part of a hedging relationship is recognised in profit or loss in the year in which the asset is derecognised or written down for impairment. Interest income from these financial assets is recognised in finance income in profit and loss as accrued, using the effective interest rate method.

This category mainly includes the Group's "Trade and other receivables", "Loans extended", "Deposits, guarantees and other" and "Cash and cash equivalents". "Cash equivalents" include short-term, highly-liquid investments readily convertible into cash within a maximum of three months, the value of which is not subject to significant risks.

- ii. Fair value through profit or loss: the assets that don't meet the criteria for classification at amortised cost, essentially equity instruments in other companies and, occasionally, derivative financial instruments that do not qualify for hedge accounting under the terms of IFRS 9, are recognised at fair value through profit or loss. A gain or loss on a fixed-income investment measured at fair value through profit and loss is recognised in profit or loss and presented within operating profit. Changes in the fair value of such instruments are recognised when they arise in "Finance costs" and "Finance income", as warranted, in profit or loss.

Equity investments in unlisted securities that are not very material and whose fair value cannot always be determined reliably are measured at their acquisition cost, less any impairment losses.

No financial assets were reclassified between the above financial asset categories in either 2019 or 2018.

Impairment losses -

The Group tests its financial assets at amortised cost for impairment on an expected credit loss basis. Note 6 details how ENCE determines whether a 'significant increase in credit risk' has occurred since initial recognition.

For trade receivables, the Group uses the simplified approach allowed under IFRS 9, which requires the recognition in one step of a loss allowance based on lifetime expected credit losses at the time of initial recognition.

To this end it has its own credit risk assessment and expected loss estimation models which are based on probability of default, exposure and loss given default parameters and the information available for each customer, including the credit scores provided by ENCE's credit underwriter. The general threshold built into this model is that payment is past due when it is in arrears by more than 180 days. Those criteria are

applied in the absence of other objective evidence of non-performance such as bankruptcy proceedings, etc.

The recognition and derecognition of impairment allowances against trade receivables are presented within "Impairment of financial assets" in the statement of profit or loss.

Derecognition of financial assets -

Financial assets are derecognised when the contractual rights to the related cash flows have expired or when the risks and rewards incidental to ownership of the asset have been substantially transferred.

Against this backdrop, the Group derecognises discounted trade and other receivables insofar as all of the risks and rewards associated with these assets have been substantially transferred.

In contrast, the Group does not derecognise financial asset transfers in which it retains substantially all the risks and rewards of ownership, recognising instead a financial liability in the amount of any consideration received.

Financial liabilities

Financial liabilities are trade and other accounts payable by the Group deriving from the purchase of goods and services in its ordinary course of business and other liabilities that are not commercial in origin and that cannot be considered derivatives (bank borrowings, issued bonds, etc.).

ENCE classifies its financial liabilities into the following categories subsequent to initial recognition: 1) at amortised cost; and 2) at fair value through profit or loss. The latter category essentially includes the contingent payments associated with business combinations and financial derivatives that are not designated as hedging instruments.

Debentures, bonds and bank borrowings

Loans, bonds and other liabilities are initially recognised at fair value, which usually coincides with the amount of cash received, net of any transaction costs incurred. All those liabilities are subsequently measured at amortised cost using the effective interest rate method.

Finance costs and arrangement fees are recognised on an accrual basis in the statement of profit or loss using the effective interest rate method.

When issuing convertible bonds, ENCE analyses whether the instruments constitute a compound financial instrument or a liability. When issuing compound financial instruments with liability and equity components, the equity component is measured as the difference between the fair value of the instrument as a whole less the amount of the liability component. The liability component is determined by estimating the fair value of a similar standalone liability at the date of issuance with no equity component. Transaction costs associated with the issuance of compound financial instruments are allocated between the equity and liability components in proportion to their relative carrying amounts at the time of classification.

Trade and other payables

Trade and other accounts payable primarily as a result of the Group's business operations are financial liabilities that do not explicitly accrue interest. They are recognised initially at fair value and measured subsequently at amortised cost.

The balances payable to suppliers that are articulated via reverse factoring contracts with banks are included within "Trade and other accounts payable"; similarly, the related payments are classified within cash flows used in operations.

Equity instruments

An equity instrument is a contract that evidences a residual interest in the Parent's assets after deducting all of its liabilities.

The equity instruments issued by ENCE are recognised in equity at the amount received net of any issuance costs.

Own shares acquired by ENCE are recognised at their acquisition cost and are presented as a deduction from equity. The gains and losses resulting from the purchase, sale, issuance or cancellation of own equity instruments are recognised directly in equity and are not reclassified to profit or loss under any circumstances.

Interim dividends declared against profits for the year and final dividends are deducted from equity when their payment is authorised.

4.8 Derivative financial instruments

The Group's activities expose it mainly to financial and market risks deriving from: (i) variability in the dollar/euro exchange rate (which affects its revenue from pulp sales as benchmark pulp prices are quoted internationally in dollars); (ii) other exchange rate fluctuations insofar as they affect currency-denominated sales; (iii) changes in the prices of pulp, fuel-oil, gas and electricity; and (iv) movements in interest rates. The Group uses derivative financial instruments to hedge these exposures.

They are recognised under "Hedging derivatives" on the liability side of the consolidated statement of financial position if they present a negative balance and similarly under "Hedging derivatives" within current assets on the asset side if they present a positive balance.

Gains and losses resulting from fair value changes are recognised as finance income or cost in the statement of profit or loss, unless the derivative, or a portion thereof, has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

1. Fair value hedges: the hedged item is measured at fair value, as is the hedging instrument, and the changes in the fair value of both the hedged item and the hedging instruments are recognised, net, in the same statement of profit or loss heading.
2. Cash flow hedges: the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in "Valuation adjustments" within equity. The gains or losses associated with the ineffective portion are recognised immediately in profit or loss under "Change in the fair value of financial instruments".

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the option contract as a hedging instrument. Changes in the time value of options that are related with the hedged item are recognised in the statement of comprehensive income.

For these instruments to qualify for hedge accounting they are designated as hedges from the outset and the hedging relationship is documented in detail. The Group establishes its risk management objectives and strategies in entering into hedging transactions at the inception of each hedging relationship and tests its hedges for effectiveness at both inception and regularly throughout the hedging relationship, i.e., it verifies that it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) will be reasonably offset by the changes in the fair value/cash flows of the hedging instrument.

The amounts deferred in the statement of comprehensive income as a result of hedge accounting are reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Hedge accounting is discontinued when a hedge ceases to be highly effective. If hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognised directly in equity is retained in equity until the commitment or forecast transaction materialises, at which time it is reclassified to profit or loss. When a hedged commitment or forecast transaction is no longer expected to materialise, any net cumulative gain or loss that was recognised in equity is immediately reclassified to profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives when the Group believes that their characteristics and risks are not closely related to those of the host contracts, so long as the financial instrument in question as a whole is not being accounted for at fair value through profit or loss.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; that price may be directly observable or estimated using other valuation techniques. The fair value of the various financial instruments is determined in accordance with the hierarchy established in IFRS 13 as follows:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs, namely valuation techniques.

The valuation techniques used vary by instrument type. ENCE uses discounted cash flow analysis to value interest and interest rate hedges and forward points and currency forwards and the Black & Scholes model to value foreign exchange options.

Fair value is determined for the main financial instruments used as follows:

- Interest-rate swaps are valued by discounting future payments in respect of the differences between the fixed and floating legs using implied interest rates gleaned from long-term swap rate curves. The resulting fair value is adjusted for own and counterparty credit risk.

- Forward currency contracts and tunnels are valued using forward exchange rates for the respective currencies and the associated volatility matrices. The resulting fair value is adjusted for own and counterparty credit risk.

The fair values of these financial instruments are obtained from studies compiled by experts in these kinds of instruments using information provided by agencies or official data organisms and they are cross-checked with the financial institutions with which the Group arranges them.

The fair value of the various derivative financial instruments is obtained using level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all instances, as they are benchmarked to observable variables other than quoted prices.

4.9 Distinction between current and non-current

In the statement of financial position, assets and liabilities are classified by maturity, i.e. as current if they mature within 12 months of the reporting date and as non-current if they mature in more than 12 months.

4.10 Inventories

Raw material inventories are measured at purchase cost, which includes the amount invoiced plus all costs incurred until the goods are located within ENCE's facilities. Inventories of finished products and work in progress are measured at production cost, which includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.

The Group values its inventories using the weighted average cost method.

The Group writes its inventories down for impairment, with a charge against operating profit, to align their carrying amount with their realisable amount when the latter is lower than cost. Inventory impairment charges are reversed whenever the originating circumstances dissipate.

Greenhouse gas emission allowances for own use-

Emission allowances acquired are recognised as inventories, initially at the lower of their acquisition cost, calculated using the weighted average cost method, or recoverable amount.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2013-2020 are recognised at their deemed cost, recognising a grant in the same amount as the balancing entry; the grant is reclassified to profit and loss as the corresponding tonnes of carbon are emitted.

An expenditure is recognised under "Other operating expenses" in the statement of profit or loss for emissions made during the year by means of a provision whose amount is calculated as a function of the tonnes of carbon emitted, valued at their acquisition cost, which is their carrying amount in the case of allowances held at year-end and the purchase price stipulated in the corresponding forward contracts for the remaining allowances.

When trading allowances are delivered to the authorities for the tonnage of carbon emitted, both the allowance inventories and the provision set up in respect of their consumption are derecognised.

4.11 Grants

Non-repayable grants awarded to subsidise investment in productive assets (grants related to assets) are measured at the fair value of the amount awarded, net of any costs incurred to secure the grants, when all the conditions attaching to their grant have been met. They are recognised in profit or loss over the periods and in the proportions in which depreciation expense on the related subsidised assets is recognised or, when appropriate, when the asset is derecognised or written down for impairment.

Grants related to income are credited to the statement of profit or loss at the time of grant unless they are granted to finance specific expenses, in which case they are deducted in reporting the related expense.

Government assistance taking the form of interest-free loans or loans at below-market rates, granted primarily to fund R&D projects and investments in productive assets, is initially recognised at fair value in "Other financial liabilities" in the statement of financial position. The difference between the loan proceeds received and their fair value is recognised initially in "Grants" in the statement of financial position and is reclassified to profit and loss as the assets financed by the loan are depreciated.

4.12 Provisions and contingencies

ENCE recognises provisions for present obligations, whether legal or constructive, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, the amount of which can be estimated reliably.

Provisions are recognised when the liability or obligation arises, with a charge to the relevant profit or loss heading, depending on the nature of the obligation, discounted to present value when the effect of the time value of money is material. The unwinding of the discount is recognised every year within "Finance costs" in the statement of profit or loss.

Provisions, which are quantified using the best information available regarding the consequences of the obligating event, are re-estimated at each reporting date. Such provisions are only used for the specific expenditures for which they were originally recognised and they are reversed, in part or in full, when the underlying obligations are extinguished or diminish.

In accordance with prevailing labour regulations, ENCE is required to pay benefits to employees whose contracts are terminated under certain circumstances. The Group had not recognised any provisions in this regard at either year-end.

Contingent liabilities are possible obligations with third parties and present obligations that are not recognised either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is considered remote.

4.13 Activities with an environmental impact

Environmental activities are those undertaken with the aim of protecting, enhancing or repairing damage caused to the environment.

Environmental-protection expenses incurred are recognised in the income statement in the year incurred regardless of when the monetary/financial outflow occurs.

Capital expenditure deriving from environmental activities is measured at cost and capitalised in the year incurred, following the measurement rules described in sections 4.2 and 4.3 above.

Provisions for probable or certain liabilities, lawsuits in process and pending settlements or obligations of an unspecified amount of an environmental nature that are not covered by insurance are recognised when the liability or payment/award obligation arises.

4.14 Post-employment benefits

Certain Group companies have defined benefit commitments to employees who have been in active service for more than two years and remain in employment at year-end consisting of the contribution by the Group company and the employee of a pre-defined percentage of his or her pensionable salary to the "Joint Contribution Pension Plan" offered by the ENCE Group under the provisions of article 40 d) of Spain's Pension Plan and Pension Fund Regulations (defined contribution). This pension plan is part of the SERVIRENTA II F.P. pension plan and provides retirement benefits as well as permanent disability cover and life insurance.

Certain Group executives are beneficiaries of an executive pension plan that complements the standard plan; the executive plan, structured as a group insurance policy, covers beneficiaries' retirement and the risks of permanent disability and death. ENCE makes defined contributions based on a percentage of plan holder salaries.

Contributions to the defined contribution post-employment pension plans are recognised in "Employee benefits expense" in the statement of profit or loss as they accrue.

Elsewhere, a group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. That commitment was externalised through an insurance company in 2014.

4.15 Employee benefits - Long-term bonus plans

ENCE measures its commitments to employees in the form of share-based payments at the estimated value of the commitment at each measurement date.

Those commitments are recognised under "Employee benefits expense" in the statement of profit or loss on a straight-line basis during the plan's vesting period; the balancing entry varies depending on the manner of settlement. Specifically, for commitments that are settled in ENCE shares, the expense accrued is recognised in "Equity - Other equity instruments" in the consolidated statement of financial position. Elsewhere, the liability accrued in connection with commitments that are settled in cash is recognised with a credit to "Provisions" on the liability side of the consolidated statement of financial position.

The estimates made to measure the commitments assumed with employees are reviewed at the end of each reporting period and the impact of any estimate changes is recognised in "Employee benefits expense" in the statement of profit or loss.

4.16 Revenue and expense recognition

Revenue represents the amounts received or receivable in exchange for the goods delivered and services rendered in the ordinary course of the Group's activities, net of returns and discounts and amounts received but due to third parties, such as value added tax. Revenue is recognised when it can be measured reliably and it is probable that the economic benefits embodied by the transaction will flow to ENCE. It is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when control of the goods has been transferred to the buyer, which in the case of pulp sales is determined on the basis of the Incoterms (international commerce terms) applied to each transaction and in the case of timber sales is when the goods are delivered at the customer's facilities. ENCE's performance obligations to its customers are met when the goods are delivered; it is not customary for goods delivered to be returned.

Revenue from the generation of power includes the pool price received in the market plus the legally-established premiums applicable to power generated from renewable sources and is recognised when it is generated and dispatched to the national power grid.

Revenue from the rendering of services - scanty material for ENCE - is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably.

Interest income is recognised using financial criteria with reference to the principal outstanding, the remaining term to maturity and the applicable effective interest rate.

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

In the power generation business, prevailing regulations establish that any deviations between the variables estimated by the regulator for the purpose of calculating certain generation premiums, most important of which estimated pool prices, and those that ultimately materialise will be compensated for in the tariff assigned in future years (adjustments for tariff shortfall/surplus). These deviations are recognised as revenue or expense in the year they arise, as their collection from the regulator is guaranteed.

Expenses are recognised in the statement of profit or loss as they accrue. An expense is recognised immediately when it produces no future economic benefits or does not qualify for recognition as an asset.

4.17 Income tax

Income tax expense for the year is calculated by applying the prevailing tax rate to adjusted taxable income, which is the sum of current tax (the result of applying the tax rate to taxable profit less tax losses and credits) and the change in deferred tax assets and liabilities.

The Parent and the rest of the Group subsidiaries with tax domicile in Spain in which the Parent holds an equity interest of 75% or more file their income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act.

Tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate to their profit before tax.

Deferred tax assets and liabilities are taxes expected to be recoverable or payable as a result of differences between the carrying amounts of the assets and liabilities in the financial statements and their tax bases. They are recognised using the tax rates expected to apply when they are recovered or settled.

Income tax and changes in deferred tax assets and deferred tax liabilities that do not arise on business combinations are recognised in the consolidated statement of profit or loss or in equity in the consolidated statement of financial position depending on where the gains or losses giving rise to their recognition were initially recognised. Variations in deferred taxes arising on business combinations that are not recognised upon change of control due to the lack of sufficient certainty as to their utilisation are recognised by reducing the carrying amount of any goodwill recognised in accounting for the business combination or following the above criterion if there is no goodwill.

Deferred tax assets are recognised for temporary differences, unused tax losses and unused tax credits only to the extent that it is probable that the consolidated entities will generate sufficient taxable profit in the future against which these assets can be utilised. As a general rule, deferred tax liabilities are recognised for all taxable temporary differences, except where the Parent can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to check that they still qualify for recognition and the appropriate adjustments are made on the basis of the outcome of the analyses performed.

4.18 Related-party transactions

The Group conducts all related-party transactions on an arm's length basis.

4.19 Foreign currency transactions and balances

The Group's consolidated financial statements are presented in euros, which is both its functional and presentation currency.

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date, until they are cancelled, as function of exchange rate trends.

The exchange differences resulting from the collection and payment of loans and debts in currencies other than the euro and those deriving from the measurement of accounts receivable and payable denominated in foreign currency at each reporting date at prevailing exchange rates are recognised as finance cost or income in profit or loss in the reporting period in which they arise.

4.20 Statement of cash flows

The consolidated statement of cash flows was prepared using the indirect method and the following definitions:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term (< 3 months), highly liquid investments which are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable and the asset is available for immediate sale in its present condition.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale. Management tests that their carrying amount does not exceed their fair value less costs to sell every year. If this occurs, any required impairment losses are recognised in "Impairment of and gains/(losses) on disposals of fixed assets" in the statement of profit or loss.

Non-current assets held for sale are presented in the accompanying statement of financial position as follows: the assets are presented in a single line item called "Non-current assets held for sale", while the related liabilities are similarly presented in a single line item called "Liabilities associated with non-current assets held for sale".

In addition, the Group classifies any component (cash-generating units or groups of cash-generating units) that either represents a separate major line of business or geographical area of operations, has been sold or otherwise disposed of or qualifies for classification as held for sale as discontinued operations.

The after-tax results of discontinued operations are presented in a single line item in the statement of profit or loss called "Profit/(loss) after tax for the period from discontinued operations".

4.22 Segment information

An operating segment is any significant business activity from which the Group may earn revenue and incur expenses, whose operating results are reviewed regularly by the Board of Directors and senior management and for which discrete and reliable financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Committee and the Board of Directors.

4.23 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary Parent shares outstanding during the period (not including the average number of Parent shares held as treasury stock by the Group companies).

Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year.

5. Energy sector regulations

This section attempts to summarise the most noteworthy highlights of prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:

Law 24/2013 (26 November 2013), the Electricity Sector Act, establishes the economic and financial stability of the electricity system, limiting structural tariff deficits, as its governing principle.

Framed by the overriding principle of ensuring the electricity system's economic and financial sustainability, any regulatory measure that drives an increase in system expenditure or reduction in its revenue must be associated with a balancing measure to reduce other cost items or boost income by an equivalent amount in order to ensure the system's equilibrium. As a result, the possibility of a new tariff deficit is ruled out, to which end the Act introduces the obligation to automatically revise, from 2014 onwards, system tolls and royalties if the temporary mismatches between revenue and expenses in the electricity system exceed 2% of estimated system revenue in a given year or the debt accumulated in prior years exceeds 5% of the system revenue estimated for a given year.

Spanish Law 15/2012 on fiscal measures for energy system sustainability, passed on 28 December 2012, affected all electricity generating facilities in Spain from 2013 on. All ENCE Group facilities accordingly became subject to the levy on the value of electricity output, specifically 7% of the revenue obtained from the sale of electricity.

Royal Decree 413/2014 was published on 10 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to compete with the rest of the generation technologies on an even footing, establishing remuneration comprised of:

1. "Remuneration on investment", which is designed to cover any investment costs that cannot be recouped by selling electricity in the market. It is set in euros per MW;
2. "Remuneration on operations", which is designed to cover any shortfall between operating costs and the revenue obtained in the electricity market. It is also set in euros per MW.

The new remuneration system is calculated on the basis of a standard facility throughout its useful life for regulatory purposes and benchmarked against the activities of an efficient and well-managed company articulated around the following parameters: 1) the revenue derived from the sale of energy; 2) the operating expenses needed to run the business; and 3) the amount of upfront investment.

The regime establishes regulatory periods of six years and stub periods of three years. The remuneration parameters related with pool price forecasts can be revised every three years, factoring in any mismatches

arising during the stub period in question. Every six years the authorities can revise the standard facility parameters other than the amount of initial investment and the facilities' regulatory useful lives, which shall remain unchanged throughout. The regime also envisages the possibility of revising the interest rate used for remuneration purposes every six years, albeit only prospectively. The remuneration provided for operating a given technology depends on fuel prices and can be adjusted at least once a year.

The premise underpinning this remuneration system is the provision of a reasonable return on investment, which is defined on the basis of the yield on 10-year Spanish government bonds in the secondary market during the 24 months prior to the month of May before the start of the regulatory period plus a spread, initially set at 300 basis points for the first regulatory period, which ended on 31 December 2019 (i.e., a pre-tax ROI of 7.389%).

Royal Decree-Law 17/2019, adopting urgent measures for the necessary adaptation of the remuneration parameters affecting the electricity system and responding to the ramp-down in output from fossil fuel power generation plants, set the 'reasonable return' applicable for the purposes of calculating the remuneration for the facilities qualifying for the 'specific regime' during the regulatory period from 2020 to 2025 at 7.09%. Exceptionally, the 2019 legislation contemplates optionally leaving the reasonable return of 7.398% throughout the period from 2020 to 2031 for the facilities that were awarded remuneration premiums upon effectiveness of Royal Decree-Law 9/2013, adopting urgent measures towards guaranteeing the financial stability of the electricity system, so long as a series of requirements are fulfilled.

Ministerial Order IET/1045/2014 implemented Royal Decree 413/2014, establishing the classification of standard facilities as a function of the technology and capacity installed, approving the remuneration parameters for standard operational facilities. Ministerial Order ETU/130/2017 updates the remuneration parameters for 2017-2019.

Remuneration of new facilities is to be determined via a competitive tender process.

The table below sets out the remuneration applicable to the facilities managed by ENCE at 31 December 2019 in accordance with prevailing legislation:

Facility	Remuneration on operations (€/MWh) (**)					Remuneration on investment (€/MW)
	b.1.2	b.6	b.8	Gas	c.2	
Renewable Energy business:	-	-	-	-	-	-
50-MW Hueiva	-	61.58	43.18	-	-	270,576
41-MW Hueiva	-	57.74	-	-	-	253,401
20-MW Mérida	-	59.91	41.92	-	-	296,811
16-MW Jaén	-	68.58	47.42	-	-	266,896
16-MW Ciudad Real	-	68.58	47.42	-	-	266,896
14-MW Córdoba - Biomass	-	64.86	44.81	-	-	234,455
13-MW Córdoba - Gas	-	-	-	72.48	-	4,634
50-MW Puertollano - Solar thermal	50.35	-	-	-	-	452,513
50-MW Puertollano - Biomass (**)	-	45.33	-	-	-	-
46-MW Huelva (**)	-	45.33	-	-	-	-
The Pulp business:	-	-	-	-	-	-
37-MW Navia	-	63.35	44.11	-	-	234,672
40-MW Navia	-	-	-	-	37.28	10,671
35-MW Pontevedra (*)	-	63.23	43.86	-	37.28	64,475

(*) Uses vapour from the two furnaces that use c.2 and b6/b8 fuel

(**) Plants under construction at 31/12/2019

(**) Data presented in the Remuneration Parameter Order (TEC 427/2019) enacting the parameters applicable for the second half of 2018. The parameters corresponding to 2019 are currently pending approval.

Elsewhere, the Pulp Business facilities are listed for the 'Interruptibility Service' which consists of reducing their power consumption in response to orders from the system operator. This service is allocated using an auction mechanism managed by the system operator and regulated in Ministerial Order IET/2013/2013.

In addition, certain power generation facilities within the Renewable Energy business participate in the 'Electricity System Adjustment Services' regulated in the TSO's Operating Procedures No. 7.2 and 7.3.

Lastly, Royal Decree-Law 15/2018 (5 October 2018) on urgent measures related to energy transition and consumer protection included two measures with an impact on ENCE: 1) exoneration from the electricity generation levy for a period of six months (October 2018 - March 2019); and 2) amendments to Spanish Law 38/1992, on excise duty, to exempt energy products earmarked for use in the generation of electricity from the excise duty on hydrocarbons.

6. Financial risk management

ENCE's activities expose it to a range of financial risks: (i) market risk; (ii) credit risk; and (iii) liquidity risk.

ENCE has a risk management structure and systems that enable it to identify, measure and control the risks to which the Group is exposed, framed by the following basic lines of intervention:

- Ensuring that the most important risks are correctly identified, assessed and managed.
- Segregating the risk-taking areas from the risk management function.

- Ensuring that the level of exposure to a given risk in the course of carrying out its business activities is consistent with the overall target risk profile.

6.1 Market risk

Market risk is the risk of a loss due to adverse changes in market prices. The Group is exposed to different classes of market risk: pulp sales price risk; interest rate risk; and price risk with respect to the commodities used in its manufacturing processes.

ENCE monitors its exposure to market risk via ongoing sensitivity analysis. It complements that analysis with other risk measures when the nature of the exposures so warrants; those measures include the establishment of maximum exposure limits, which are defined by the Management Committee and supervised by an independent area tasked with risk management.

Pulp prices

BEKP prices are formed in an active market. The trend in pulp prices is a significant driver of the Group's revenue and profitability. Changes in pulp prices affect the cash flows generated by pulp sales.

In addition, pulp prices tend to be markedly cyclical in nature and have exhibited substantial volatility in recent years. Price trends are primarily dictated by shifts in supply and demand and the financial situation of the various sector players.

To mitigate this risk, in recent years the Group has invested significantly in reducing its production costs, increasing productivity and enhancing the quality of the products it sells. Management also continually monitors the scope for using derivatives to hedge pulp prices on future sales, although the availability of these hedging instruments is limited.

Based on the Group's 2019 revenue, a 5% change in international pulp prices in euros would have had an impact on revenue of approximately 3.2% (2018: 3.6%).

ENCE's exposure to the risks deriving from Britain's exit from the European Union (Brexit) is low. It only sells pulp to the UK market, which accounted for 4.5% of its sales in 2019 (2018: 3.3%). The sales contracts closed in that market take into consideration the potential exposure and layer in appropriate mitigating measures.

Supply of timber

Eucalyptus timber is the main raw material used in making pulp and its price can fluctuate as a result of changes in the balance between supply and demand in the regions in which the pulp biomills are located.

The risk of a shortfall in supply is mitigated mainly by means of inventory management, diversification of supply sources and, when deemed appropriate, purchases from alternative international markets, usually at higher logistics costs.

Based on the Group's timber purchases in 2019, a 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would have decreased operating income by approximately €9.7 million (2018: €9.8 million).

Exchange rate

Although the Group sells its pulp primarily in Europe, revenue from pulp sales is affected by the USD/EUR exchange rate as sales prices are linked to benchmark international pulp prices quoted in USD. Since the Group's cost and financial structure is mainly denominated in euros, changes in the rate of exchange between the dollar and the euro can affect the Group's earnings significantly.

ENCE monitors its exposure to exchange rate fluctuations constantly and actively manages positions that expose it to this risk factor via its statement of profit or loss. Specifically, it arranges derivative financial instruments in order to hedge that exposure.

Based on the Group's 2019 revenue, dollar appreciation against the euro of 5% would have increased revenue before hedges by approximately 3.2% (2018: 3.6%).

Elsewhere, the sensitivity of its net profit and equity to dollar appreciation or depreciation against the euro as a result of the impact of the derivative financial instruments arranged by ENCE at 31 December is as follows: dollar depreciation of 10% would have the effect of increasing revenue, net profit and equity by €20,262 thousand, €15,197 thousand and €4,268 thousand, respectively. In contrast, dollar appreciation of 10% would have the effect of eroding revenue, net profit and equity by €36,187 thousand, €27,141 thousand and €5,498 thousand, respectively.

Interest rate

Fluctuations in interest rates can affect interest income and expense via the financial assets and liabilities that carry or bear floating rates; they can also affect the fair value of financial assets and liabilities with fixed rates. Moreover, interest rate movements can affect the carrying amounts of assets and liabilities via changes in the applicable cash flow discount rates, returns on investments and the future cost of raising finance.

ENCE's borrowing profile is the result of arranging the financial instruments that are most competitive at any moment in time; it raises money in the capital markets or with banks depending on where market conditions are more attractive. ENCE also arranges interest rate derivatives to reduce its exposure to changes in its borrowing costs or in the fair value of its debt; those instruments are mostly designated as hedging instruments.

Eighty-one per cent of the Group's exposure to floating-rate borrowings, which are concentrated mainly in the Renewable Energy business, is hedged using interest rate swaps.

Moreover, the debt raised in the capital markets carries fixed rates, thereby minimising interest rate risk (notes 27 and 29).

The sensitivity of net profit and equity to changes in interest rates as a result of the impact on the financial instruments arranged by the Group at 31 December 2019 is as follows: a 50 basis point increase in interest rates would reduce finance costs by approximately €710 thousand, increase net profit by approximately €533 thousand and increase equity by approximately €5,108 thousand. Conversely, a 50 basis point decline in interest rates would increase finance costs by approximately €710 thousand, decrease net profit by approximately €533 thousand and decrease equity by approximately €5,298 thousand.

Regulations

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the premiums set by the Spanish government (note 5).

Based on the Group's 2019 revenue and the average price for the year, a 5% change in the tariffs that determine the revenue generated by the Renewable Energy business would have impacted revenue by approximately 1.6%.

Elsewhere, environmental regulations in the European Union have focused in recent years on tightening restrictions on wastewater discharges, greenhouse gas emissions, etc. Future changes in environmental regulations could result in higher investments and expenditure to comply with new requirements.

6.2 Credit risk

Credit risk is defined as the possibility that a third party fails to uphold its payment obligations, generating a loss for the Group. ENCE assesses and monitors credit risk on an individual customer basis.

After the Group recognises a financial asset, it checks regularly for objective indications of impairment. The criteria used to do so include the availability of credit insurance cover, the age of the debt, the existence of bankruptcy proceedings and analysis of the customer's ability to repay the amounts owed.

ENCE establishes limits on the amounts that can be invested or deposited per entity and those limits are reviewed regularly. The breakdown of impaired financial assets, along with the impact on the consolidated statement of profit or loss, is provided notes 17 and 20.

Trade and other receivables

ENCE has its own systems for constantly assessing the credit risk of all of its debtors and determining exposure limits by third party. Those systems are based on available internal information and the credit scoring analysis conducted by prestigious credit underwriters.

The allowances for the impairment of trade receivables at 31 December 2019 and 2018 were determined as follows:

1. Pulp business. ENCE trades with customers with good credit histories. Moreover, this risk is covered by a credit insurance policy that covers approximately 90% of outstanding balances. Credit risk is also mitigated by demanding irrevocable letters of credit in certain transactions. The Group estimates that the expected loss will not exceed the deductibles included in the credit insurance policy.

Using the credit ratings assigned by our credit risk underwriter, 43% of the balances outstanding in the Pulp business at 31 December 2019 correspond to customers classified as low risk; 51% to customers classified as medium risk; 3% to medium-high risk customers; and 3% to high-risk customers.

2. Trade receivables - Renewable Energy business. As these balances are ultimately backed by the Spanish state, the expected loss is considered to be nil.
3. Other balances. Scantly material and typically associated with the sale of forest assets. Provisions for the impairment of receivables are recognised whenever there are indications that they might not be collected and always when they are in arrears by more than 180 days.

The ageing analysis of the "Trade and other receivables" past due but not impaired at year-end 2019 is provided below:

	Thousands of euros
Less than 90 days	2,606
90 - 180 days	-
More than 180 days	-
	2,606

6.3 Liquidity and capital risk

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its business plan.

ENCE's liquidity management policy is designed to guarantee the availability of the funds needed to ensure fulfilment of the obligations assumed and the ability to execute its business plans, keeping an optimal amount of liquid assets at all times and striving to manage its financial resources as efficiently as possible.

Liquidity risk is one of the risk factors tracked most closely by ENCE, to which end it monitors and controls its financing needs exhaustively. That work includes drawing up short-term liquidity forecasts and financial plans to accompany the annual budget and business plan. It strives to maintain stable and diversified sources of financing that permit tapping the financial markets efficiently, all framed by a financial structure that is compatible with its credit ratings.

In keeping with this prudent financial policy, at year-end 2019, ENCE held sufficient cash and cash equivalents and undrawn credit lines to cover all of its short-term obligations; that sum is similarly sufficient to cover its short-term financial maturities by a factor of 7.

The Group has also set leverage targets to match the revenue volatility profile of its different businesses. Specifically, the leverage target set for the Pulp business is 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage target established for the Renewable Energy business is 4 times.

The Group's leverage, expressed as borrowings over EBITDA, in 2019 and 2018:

	2019	2018
Pulp	4.1	0.6
Renewable Energy	4	3.5

The increase in leverage in the Pulp business in 2019 is attributable to heavy investing, coupled with the correction in pulp sales prices in international markets during the year. The Group is already taking a number of measures in order to minimise its cash cost and bring leverage down towards the target level in the near term.

Each of ENCE's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

Note that the contractual maturity analysis in respect of the financial liabilities referred to in IFRS 7 is provided in note 27.

7. Key accounting estimates and judgements

The preparation of these consolidated annual financial statements in accordance with generally accepted accounting principles requires the use of assumptions and estimates that affect the measurement of recognised assets and liabilities, the presentation of contingent assets and liabilities at the reporting date and the amounts of income and expense recognised during the reporting period. Actual results may differ significantly from these estimates.

The accounting policies and transactions that incorporate assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

The useful lives of property, plant and equipment and intangible assets

The tangible and intangible assets held by ENCE tend to be used for very extended periods of time. The Group estimates their useful lives for accounting purposes based on the technical specifications of each asset, the period of time for which they are expected to generate benefits for the Group and applicable legislation.

Recoverable amount of non-financial instruments

As detailed in note 4.5, ENCE tests its cash-generating units for indications of impairment annually. Those impairment tests imply estimating the future performances of the various businesses and the most appropriate discount rates to be applied. ENCE believes its estimates are appropriate and consistent with the current economic climate and its investment plans and that they adequately reflect the risks specific to each cash-generating unit.

Fair value of assets and liabilities acquired in business combinations

ENCE accounts for business combinations in which it acquires control of one or more businesses using the acquisition method. That method implies recognising, on the acquisition date, the identifiable assets acquired, liabilities assumed, equity instruments issued and any contingent consideration that depends on future events or delivery of certain conditions, at their acquisition-date fair values, insofar as they can be measured reliably (note 4.1).

Revenue from energy sales Regulated activity settlement

At every year-end, ENCE estimates how much revenue it has accrued and will receive from the regulator as a result of its power generation activities, in keeping with the authorities' dicta in this respect. It bases those estimates on the provisional settlement numbers already published and available sector information.

Provisions for liabilities and charges

ENCE recognises provisions for present obligations arising from past events, mainly lawsuits and claims, as well as certain facility dismantling obligations. To do so it has to evaluate, using the best information available, the outcome of certain legal, tax and other proceedings that are not final at the date of authorising its consolidated annual financial statements for issue.

Calculation of income tax, tax credits and deferred tax assets

The correct measurement of income tax expense depends on several factors, including estimates regarding the ability to utilise the benefits of tax credits and deferred tax assets and estimates as to the timing of the tax payments. Actual receipts and payments may differ materially from these estimates as a result of changes in the business outlook or in tax regulations or the interpretation thereof and also as a consequence of unforeseen future transactions with an impact on the Group's tax assets and liabilities.

8. Operating segments

The Group has defined the following reporting segments for which detailed and discrete financial information is available and reviewed regularly along with the operating results by senior management to make decisions about resources to be allocated to the segments and to assess their performance. Those reporting segments are articulated around the two core lines of business, namely:

The Pulp business:

This business line encompasses the following reportable segments:

- **Pulp.** This segment includes the pulp production and sale activities carried out at the biomills located in Pontevedra (Galicia) and Navia (Asturias) and the power co-generation and generation activities related to the production of pulp and integrated therein using the parts of timber that cannot be transformed in pulp, essentially lignin and biomass, as inputs.
- **Forest Management.** This operating segment essentially includes the forest cover that supplies raw materials that are used in the pulp production process (forest assets located in northern Spain) or sold to third parties (forest assets located in southern Spain).
- **Forest Services & Other.** This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

The Renewable Energy business:

This business line/segment includes the plants that generate and sell electric power using agricultural and forestry biomass and solar thermal power; they are developed and operated independently.

In order to expand on the disclosures provided in this note, the Appendices include the consolidated statement of financial position at 31 December 2019 and 2018 and the consolidated statement of profit or loss and consolidated statement of cash flows for the years then ended broken down between the Pulp and Renewable Energy businesses.

8.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2019 and 2018, based on the management information reviewed regularly by senior management:

31 December 2019	Thousands of euros						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations			
Statement of profit or loss							
Revenue:							
Third parties	564.759	4.573	-	(101)	569.231	167.918	735.351
Inter-segment revenue	1.339	12.081	850	(11.120)	3.150	35	1
Total revenue	566.098	16.654	850	(11.221)	572.381	167.953	735.352
Earnings:							
EBITDA (*)	66.416	8.738	966	(964)	75.156	51.847	127.003
Operating profit/(loss)	10.975	(1.250)	691	-	10.406	22.111	32.517
Finance income	11.339	45	-	(8.344)	3.040	495	961
Finance costs	(11.827)	(2.543)	(26)	2.562	(11.834)	(14.415)	(23.675)
Hedging derivatives	-	-	-	-	-	-	-
Net exchange gains/(losses)	1.513	(1)	-	-	1.512	(22)	1.490
Impairment of financial instruments	(3.491)	(247)	-	3.550	(188)	-	(188)
Share of profit/(loss) of investees accounting for using equity method	-	(2)	-	-	(2)	-	(2)
Income tax	(4.252)	1.680	(53)	-	(2.625)	(565)	395
Profit/(loss) for the period	4.257	(2.328)	612	(2.232)	309	7.604	11.498
Profit/(loss) attributable to non- controlling interests	-	-	-	-	-	2.289	2.289
Profit/(loss) attributable to owners of the parent	4.257	(2.328)	612	(2.232)	309	5.315	9.209
Capital expenditure (**)	170.608	4.470	-	-	175.078	112.219	272.907
Depreciation and depletion of forest reserves	(883.463)	(61.013)	(2.581)	-	(947.057)	(301.923)	(1.248.980)
Provision and impairment charges	(22.338)	(7.885)	(2.855)	-	(33.078)	(1.390)	(34.468)

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

(**) Does not include the balances corresponding to *Right-of-use assets* (note 18).

31 December 2019	Thousands of euros						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations			
Assets							
Non-current	1,064,488	182,425	3,320	(131,095)	1,119,138	656,597	1,372,062
Current	195,467	5,650	1,394	(1,988)	200,523	152,424	335,966
Total assets (a)	1,259,955	188,075	4,714	(133,083)	1,319,661	809,021	1,708,028
Liabilities							
Non-current	408,819	47,689	469	(40,682)	416,295	419,384	760,502
Current	219,923	4,550	834	(2,170)	223,137	85,904	292,060
Total liabilities (a)	628,742	52,239	1,303	(42,852)	639,432	505,288	1,052,562

(a) Does not include either equity or deferred tax assets/liabilities

31 December 2018	Thousands of euros							
	PULP business					ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp			
Statement of profit or loss								
Revenue:								
Third parties	690.482	2.732	-	-	693.214	138.768	-	831.982
Inter-segment revenue	1.574	10.840	850	(9.495)	3.769	149	(3.918)	-
Total revenue	692.056	13.572	850	(9.495)	696.983	138.917	(3.918)	831.982
Earnings:								
EBITDA	237.998	7.294	1.277	(979)	245.590	45.286	-	290.876
Operating profit	173.574	9.474	792	-	183.840	25.772	(46)	209.566
Finance income	13.958	34	84	(3.605)	10.471	489	(9.975)	985
Finance costs	(30.878)	(3.524)	(82)	3.605	(30.879)	(10.902)	3.401	(38.380)
Hedging derivatives	(1.682)	-	-	-	(1.682)	-	-	(1.682)
Net exchange gains/(losses)	3.053	-	(24)	-	3.029	(38)	-	2.991
Impairment of financial instruments	-	(32)	(217)	-	(249)	-	-	(249)
Income tax	(36.972)	(1.092)	(220)	-	(38.284)	(3.708)	432	(41.560)
Profit for the year	121.053	4.860	333	-	126.246	11.613	(6.188)	131.671
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	2.541	-	2.541
Profit attributable to owners of the parent	121.053	4.860	333	-	126.246	9.072	(6.188)	129.130
Capital expenditure	84.915	5.641	-	-	90.556	147.772	-	238.328
Depreciation and depletion of forest reserves	(872.750)	(57.905)	(2.054)	-	(932.709)	(278.495)	-	(1.211.204)
Provision and impairment charges	(27.749)	(9.872)	(2.856)	-	(40.477)	(2.335)	-	(42.812)

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

31 December 2018	Thousands of euros							
	PULP business					ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp			
Assets								
Non-current	877,420	172,909	3,711	(129,555)	924,485	571,330	(354,283)	1,141,532
Current	294,832	8,335	2,462	(3,182)	302,447	244,860	(23,089)	524,218
Total assets (a)	1,172,252	181,244	6,173	(132,737)	1,226,932	816,190	(377,372)	1,665,750
Liabilities								
Non-current	303,969	76,494	2,515	(78,246)	304,732	313,764	(75,177)	543,319
Current	218,033	3,837	854	(3,268)	219,456	247,228	(23,089)	443,595
Total liabilities (a)	522,002	80,331	3,369	(81,514)	524,188	560,992	(98,266)	986,914

(a) Does not include either equity or deferred tax assets/liabilities.

The adjustments and eliminations between the various segments and businesses correspond to the elimination of inter-segment balances and transactions. The Group does not have significant amounts of non-financial assets outside of Spain.

8.2 Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp and energy production facility:

2019	Thousands of euros						
	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	454,631	457,397	-	-	912,028	-	912,028
Pulp sales volume (ADt)	448,707	461,791	-	-	910,499	-	910,499
Energy sales volume (MWh)	226,584	482,619	-	1,047,162	1,756,365	-	1,756,365
Continuing operations:							
Revenue	230,462	288,870	-	234,008	753,339	(48,036)	705,303
Cost of sales and other costs	(119,280)	(136,268)	-	(94,730)	(350,278)	45,771	(304,506)
GROSS PROFIT	111,182	152,602	-	139,278	403,062	(2,265)	400,797
Employee benefits expense	(20,014)	(24,445)	(35,706)	(12,089)	(92,254)	-	(92,254)
Other operating expenses	(52,795)	(56,846)	(8,233)	(65,930)	(183,804)	2,264	(181,540)
Overhead passed on	(16,035)	(19,642)	43,939	(8,262)	-	-	-
EBITDA (*)	22,338	51,669	-	52,996	127,003	-	127,003
Asset depreciation/amortisation and Impairment	(10,473)	(32,669)	-	(47,344)	(90,486)	-	(90,486)
Other non-recurring operating expenses	(4,000)	-	-	-	(4,000)	-	(4,000)
OPERATING PROFIT	7,866	19,000	-	5,652	32,518	-	32,517
Net finance cost	(2,268)	(2,771)	-	(16,375)	(21,414)	-	(21,414)
PROFIT BEFORE TAX	5,598	16,229	-	(10,724)	11,103	-	11,103
Income tax	(1,400)	(4,057)	-	5,852	395	-	395
PROFIT FOR THE PERIOD	4,199	12,171	-	(4,872)	11,498	-	11,498
Profit/(loss) attributable to non-controlling interests	-	-	-	2,289	2,289	-	2,289
Profit/(loss) attributable to owners of the parent	4,199	12,171	-	(7,161)	9,209	-	9,209

(a) Includes the forestry activity, Renewable Energy business and inactive companies

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

2018	Thousands of euros						
	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	437,505	530,463	-	-	967,968	-	967,968
Pulp sales volume (ADt)	429,633	517,833	-	-	947,466	-	947,466
Energy sales volume (MWh)	230,660	519,328	-	923,935	1,673,923	-	1,673,923
Continuing operations:							
Revenue	298,264	390,062	-	180,134	868,460	(32,744)	835,717
Cost of sales and other costs	(112,114)	(144,388)	-	(67,670)	(324,173)	31,262	(292,911)
GROSS PROFIT	186,150	245,674	-	112,464	544,287	(1,482)	542,806
Employee benefits expense	(18,058)	(23,274)	(28,357)	(7,983)	(77,672)	-	(77,672)
Other operating expenses	(53,876)	(58,144)	(11,030)	(52,690)	(175,739)	1,482	(174,258)
Overhead passed on	(15,620)	(18,974)	39,387	(4,792)	-	-	-
EBITDA (*)	98,596	145,282	-	46,999	290,876	-	290,876
Asset depreciation/amortisation and impairment	(8,261)	(31,807)	-	(25,542)	(65,610)	-	(65,610)
Other non-recurring operating expenses	(5,000)	(10,700)	-	-	(15,700)	-	(15,700)
OPERATING PROFIT	85,335	102,775	-	21,457	209,566	-	209,566
Net finance cost	(15,248)	(3,080)	-	(18,007)	(36,335)	-	(36,335)
PROFIT BEFORE TAX	70,087	99,695	-	3,450	173,232	-	173,232
Income tax	(16,815)	(23,918)	-	(828)	(41,560)	-	(41,560)
PROFIT FOR THE PERIOD	53,273	75,777	-	2,622	131,672	-	131,672
Profit/(loss) attributable to non-controlling interests	-	-	-	2,542	2,542	-	2,542
Profit/(loss) attributable to owners of the parent	53,273	75,777	-	81	129,130	-	129,130

(a) Includes the forestry activity, Renewable Energy business and inactive companies.

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

9. Revenue

The breakdown of Group revenue by segment in 2019 and 2018 is as follows:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Consol. Group	Pulp	Renewable Energy	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	910,499	-	910,499	947,466	-	947,466
Energy sales volume (MWh)	710,191	1,047,162	1,757,353	749,988	923,935	1,673,923
Revenue						
Pulp	476,029	-	476,029	601,744	-	601,744
Electric energy	73,338	167,097	240,435	82,837	137,935	220,772
Timber and forestry services	18,067	821	18,888	8,633	833	9,466
Inter-segment sales	4,947	35	-	3,769	149	-
	572,381	167,953	735,352	696,983	138,917	831,982

(*) The difference between the figures presented under "Consolidated Group" for 2019 and 2018 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2019 and 2018 in the amounts of €4,982 thousand and €3,918 thousand, respectively.

The revenue associated with the generation of electricity includes an estimate of the 'adjustment for tariff shortfall/surplus' concept contemplated in electricity sector regulations in order to correct the impact of deviations between the variables estimated by the regulator, for the purpose of calculating remuneration on operations, most important of which estimated pool prices, and those that ultimately materialise. That adjustment is determined every three years and its settlement is usually distributed over the remaining useful life of each facility for regulatory purposes. ENCE estimates the amount of that adjustment annually and recognises it in its financial statements. Accrual of that adjustment had the effect of reducing revenue by €8,552 thousand in 2019 (and by €13,168 thousand in 2018).

In 2019, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €221 million (2018: €309 million).

9.1 Geographic revenue split

All of the revenue from energy sales was generated in Spain. The breakdown of revenue from pulp sales by geographic market is as follows:

Percentage of pulp sales	2019	2018
Germany	20.3	28.2
Spain	17.3	14.8
France	10.4	8.4
Poland	9.3	10.3
Turkey	8.4	6.1
Italy	5.3	7.2
UK	4.5	3.3
Austria	4.3	4.0
Other	20.2	17.7
	100.0	100.0

(*) Breakdown made on the basis of the location of each customer's registered office

In 2019, one customer accounted for 10% of revenue from pulp sales.

10. Cost of goods sold

Consumption of raw materials and other consumables breaks down as follows in 2019 and 2018:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	242,579	44,515	283,196	234,884	35,903	268,104
Change in raw materials and other inventories	(8,849)	(3,370)	(12,219)	248	3,325	3,573
Other external expenses	30,101	7,536	36,553	25,132	4,723	28,620
	263,831	48,681	307,530	260,264	43,951	300,297

(*) The difference between the figures presented under "Consolidated Group" for 2019 and 2018 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of

transactions performed between these business segments in 2019 and 2018 in the amounts of €4,982 thousand and €3,918 thousand, respectively.

This heading mainly includes timber, chemical products, fuel and other variable costs.

11. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in 2019 and 2018 is provided below:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Wages and salaries	59,926	9,354	69,280	53,160	6,383	59,543
Social Security	14,039	2,371	16,410	12,103	1,687	13,790
Contributions to pension plans (note 4.14)	1,983	195	2,178	1,887	122	2,009
Other benefit expense	1,610	125	1,735	1,358	52	1,410
	77,558	12,045	89,603	68,508	8,244	76,752
Long-term remuneration plans (note 4.15)	2,292	305	2,597	652	49	701
Termination benefits	47	7	54	214	5	219
	79,897	12,357	92,254	69,374	8,298	77,672

11.1 Headcount figures

The average Group headcount in 2019 and 2018:

Job category	Average headcount during the year					
	2019			2018		
	Men	Women	Total	Men	Women	Total
Executives	8	2	10	6	2	8
Individual job contracts	277	120	397	244	93	337
Collective bargaining agreements	470	82	552	448	68	516
Temporary	128	35	163	102	35	137
	883	239	1,122	800	198	998

The breakdown of the year-end Group headcount by job category and gender:

Job category	Year-end headcount					
	2019			2018		
	Men	Women	Total	Men	Women	Total
Executives	9	2	11	8	2	10
Individual job contracts	289	129	418	255	102	357
Collective bargaining agreements	476	84	560	460	77	537
Temporary	107	35	142	111	33	144
	881	250	1,131	834	214	1,048

At year-end 2019, 13 employees had a disability of a severity of 33% or higher.

At 31 December 2019 and 2018, the Board of Directors was made up of 14 members. In 2019 there were 10 men and four women on the Board (2018: 12 men and 2 women). Three of the directors represented legal person directors in both years.

11.2 Long-term remuneration plans

2016-2018 long-term bonus plan

As contemplated in the plan rules, this remuneration plan was settled on 4 July 2019. Delivery of the objectives was determined at 84% on average, resulting in a cost of €7,211 thousand, €2,163 thousand of which was settled in cash and €5,048 thousand in shares (equivalent to 1,105 thousand shares net of the corresponding withholdings). Approximately 52% of the overall long-term bonus plan was awarded to key management personnel as of year-end 2018 (note 31).

The cost accrued under this plan in 2019 was €1,172 thousand (2018: 701 thousand).

2019-2023 long-term bonus plan

On 28 March 2019, at the Annual General Meeting, ENCE's shareholders approved the '2019-2023 long-term bonus plan', to be settled in a mix of cash and shares over several years.

The idea underpinning the new plan is to provide the management team with a performance incentive, reinforce their orientation towards delivery of the objectives set down in the 2019-2023 Business Plan, boost the Group's sustainability efforts in order to create value in the long term and align management with shareholders' interests and the goal of improving the workplace climate.

It is a five-year plan, which coincides with the horizon of the Business Plan, structured into two cycles. Cycle I runs for three years from 1 January 2019 to 31 December 2021; Cycle II spans five years, from 1 January 2019 to 31 December 2023.

The Cycle I bonuses represent 40% of the total and will be paid out, if vested, in July 2022. The Cycle II bonuses represent 60% of the total and will be paid out, if vested, in July 2024.

For the bonuses to accrue, it is vital that the minimum level of target delivery be met, measured using the criteria associated with the various targets, and for the beneficiaries to still be providing their services to ENCE (duly registered with the Social Security) on the corresponding vesting date, subject to the exceptions customary in incentive schemes such as these.

The bonus payment contemplated in this plan consists of a percentage of average annual fixed remuneration over the period covered by the plan, which ranges between 85% and 500%, depending on beneficiary job categories; it will vest depending on delivery of the following objectives:

- i. EBITDA target: Forty-five per cent of the bonus is tied to the level of delivery of the cumulative EBITDA targets (determined using constant pulp sales prices, exchange rates and discount rates) for the Group and/or Pulp and Renewable Energy businesses, as set down in the 2019 - 2023 Business Plan, subject to maintenance of certain leverage ratios. The pay scale will range between 50% and 130%; to achieve the minimum payment, at least 80% of the EBITDA target must be met.
- ii. Share price target. Thirty per cent of the bonus pool is tied to the level of delivery of the target related with the performance of ENCE's share price as of the last quarter of each cycle relative to the performance of a basket of comparable stocks made up of seven companies from the pulp and renewable energy sectors. The pay scale will range between 50% and 130%; to achieve the minimum payment, at least 80% of the share price target must be met. The valuation techniques used to measure this commitment include Montecarlo simulation models for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model for the American options in stock option plans.
- iii. Sustainability target. Fifteen per cent is tied to the level of delivery of 10 targets related with ENCE's sustainability efforts. The pay scale will range between 40% and 130%; to achieve the minimum payment, at least four of the targets must be met by 2021 and six by 2023.
- iv. Organisational climate target. Ten per cent is tied to the level of delivery of the organisational climate improvement target. The pay scale will range between 40% and 130%; to achieve the minimum payment the Group needs to obtain a score related with this target, to be measured by an independent expert, which is below the sector average by no more than 3 points (the average being rebased to 100).

The maximum payout under the plan, considering the current 118 beneficiaries and assuming 100% target delivery, amounts to €21,780 thousand. Of that total, 49.5% corresponds to key management personnel (note 31).

The bonuses will be paid 30% in cash and 70% in ENCE shares. The number of shares to be delivered will be determined using a benchmark share price of €5.8031 (the average share price during the 20 days before and after 31 December 2018). The Chairman & CEO and the members of the Management Committee who are beneficiaries of the plan have committed to holding a portion of the shares received for at least three years: a sum equivalent to two times his fixed remuneration in the case of the Chairman & CEO and one times in the case of the committee members.

To determine the amount accrued in respect of this undertaking, estimates have been made which are reviewed at each year end; the impact of any changes in those estimates is recognised in the statement of profit or loss prospectively.

The charge accrued in this respect in 2019 amounted to €1,425 thousand and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€997 thousand before the related tax effect); and ii) "Non-current provisions" in the consolidated statement of financial position (note 25) in respect of the portion to be settled in cash (€427 thousand).

12. Other operating expenses

The breakdown of this consolidated statement of profit or loss heading in 2019 and 2018 for the businesses carried on by ENCE was as follows:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	129,894	47,787	174,253	134,667	35,523	166,494
Use of emission allowances (note 25)	3,014	1,683	4,697	2,342	718	3,060
Taxes other than income tax	2,406	1,282	3,688	2,832	985	3,817
Electricity generation levy	3,771	8,837	12,608	4,316	7,521	11,837
Change in trade and other provisions	3,193	(53)	3,140	611	74	685
Other non-recurring operating expenses	4,000	-	4,000	15,700	-	15,700
	146,278	59,536	202,386	160,468	44,821	201,593

(*) The difference between the figures presented under "Consolidated Group" for 2019 and 2018 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2019 and 2018 in the amounts of €3,428 thousand and €3,696 thousand, respectively.

"Other non-recurring operating expenses" in the table above includes the costs accrued in 2019 and 2018 in relation to the Environmental Pact entered into with the environment department of the regional government of Galicia (note 33) and the impact of "Other provisions" (note 25).

12.1 External services

The breakdown of "External services" in 2019 and 2018 is as follows:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	37,226	687	37,913	35,861	1,142	37,003
Utilities	35,886	2,286	38,172	42,069	1,417	43,485
Repairs and upkeep	13,855	19,158	33,013	13,592	14,187	27,779
Rent and fees	774	443	1,217	4,862	346	5,145
Insurance premiums	3,455	1,391	4,846	2,991	850	3,841
Independent professional services	8,565	1,718	10,253	10,339	1,657	11,099
Banking and similar services	847	294	1,141	785	159	945
Advertising, publicity and public relations	2,047	9	2,056	3,741	13	3,755
Research and development costs	498	-	498	704	-	704
Other services	26,741	21,801	45,144	19,723	15,752	32,738
	129,894	47,787	174,253	134,667	35,523	166,494

(*) The difference between the figures presented under "Consolidated Group" for 2019 and 2018 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2019 and 2018 in the amounts of €3,428 thousand and €3,696 thousand, respectively.

“Rent and fees” reflects the costs incurred in respect of short-term leases and variable lease payments.

ENCE has arranged civil liability insurance which covers its directors and executives against damages caused by acts or omissions in the course of discharging their duties. The cost of that insurance was €46 thousand in 2019 (2018: €35 thousand).

12.2 Audit fees

The fees paid for financial statement audit work and other services to the auditor, Pricewaterhousecoopers Auditores, S.L., and entities related to the latter in 2019 and 2018 are shown in the next table:

Thousands of euros	2019	2018
Audit services	183	166
Other services (*)	6	6

(*) In 2019, this concept included other services related with the audit, mainly (i) the review over the internal control over financial reporting system; and (ii) the provision of a report containing the financial ratios needed to comply with covenants under financing agreements.

In addition, the network to which the auditor belongs invoiced the Group €14 thousand for audit services performed outside of Spain.

13. Finance costs

The breakdown of this heading in 2019 and 2018 was as follows:

Thousands of euros	2019			2018		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
High-yield / convertible bonds	4,800	-	4,800	8,409	-	8,409
Senior notes	-	3,253	3,253	-	1,893	1,893
Loans, credit facilities & other	3,957	4,507	8,464	2,296	2,659	4,955
Fees and other charges	1,606	3,903	5,509	1,333	2,407	3,740
Capitalised borrowing costs (note 15)	-	(3,000)	(3,000)	-	-	-
Inter-business finance costs	-	2,574	-	-	3,401	-
Right-of-use assets (note 18)	1,343	268	1,611	-	-	-
	11,706	11,505	20,637	12,038	10,360	18,997
Costs associated with refinancing work:						
Interest due on €250m high yield bonds	-	-	-	6,741	-	6,741
Penalty for prepaying €250m high yield bonds	-	-	-	6,982	-	6,982
Derecognition of arrangement fees	-	1,375	1,375	5,052	-	5,052
	-	1,375	1,375	18,775	-	18,775
Hedging derivatives:						
Settlement of IR swap (note 29)	128	1,535	1,663	66	542	608
Fair value of IR swaps reclassified to profit or loss	-	-	-	1,682	-	1,682
	128	1,535	1,663	1,748	542	2,290
	11,834	14,415	23,675	32,561	10,902	40,062

(*) The difference between the figures presented under “Consolidated Group” for 2019 and 2018 and the addition of the figures corresponding to the “Pulp” and “Renewable Energy” businesses corresponds to the elimination of

transactions performed between these business segments in 2019 and 2018 in the amounts of €2,574 thousand and €3,401 thousand, respectively.

2019

In 2019, having arranged a project finance facility to finance the acquisition in 2018 of the 50-MW solar thermal power plant located in Puertollano (Ciudad Real) (note 20), the Group cancelled the bridge loan arranged on 30 November 2018, which had been used to temporarily finance that acquisition (note 27). The unamortised arrangement fees associated with the cancelled bridge loan - €1,375 thousand - were reclassified to profit and loss.

2018

On 22 February 2018, the Board of Directors of ENCE resolved to issue bonds convertible into new-issue ordinary shares or exchangeable for existing shares with a face value of €160 million (note 27). The proceeds were used primarily to voluntarily prepay the €250 million of high-yield bonds issued by ENCE in 2015.

The cancellation costs, i.e., the interest due until 30 November 2018 (the first prepayment date contemplated in the offering terms and conditions) and cancellation penalty, totalled €13,723 thousand. In addition, the unamortised arrangement fees associated with the prepaid issue - €5,052 thousand - were reclassified to the profit and loss in 2018.

14. Goodwill and other intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation and impairment in 2019 and 2018 is as follows:

31 December 2019	Thousands of euros			
	Balance at 01/01/2019	Additions/ (charges)	Transfers (note 15)	Balance at 31/12/2019
Goodwill (*)	6,173	931	-	7,104
Software	22,581	924	4,131	27,636
Development costs	18,452	-	-	18,452
Prepayments	1,881	5,867	(4,131)	3,617
Other intangible assets	44,595	46	-	44,641
Total cost	93,682	7,768	-	101,450
Software	(16,728)	(3,017)	(6)	(19,751)
Development costs	(11,384)	(1,033)	-	(12,417)
Other intangible assets	(1,359)	(1,384)	-	(2,743)
Total amortisation	(29,471)	(5,434)	(6)	(34,911)
Goodwill	(498)	(540)	-	(1,038)
Development costs	(2,854)	-	-	(2,854)
Other intangible assets	(746)	-	-	(746)
Total impairment	(4,098)	(540)	-	(4,638)
Total	60,113			61,901

(*) The additions to "Goodwill" correspond to the acquisition of Ence Energía Termollano, S.A.

2018 (thousands of euros)	Thousands of euros				Balance at 31/12/2018
	Balance at 01/01/2018	Changes in consol. scope (note 2)	Additions/ (charges)	Transfers (notes 15 and 16)	
Goodwill	2,737	3,436	-	-	6,173
Software	20,324	231	364	1,662	22,581
Development costs	18,432	-	20	-	18,452
Prepayments	535	-	2,849	(1,503)	1,881
Other intangible assets	3,167	20,428	21,000	-	44,595
Total cost	45,195	24,095	24,233	159	93,682
Software	(13,688)	(231)	(2,808)	(1)	(16,728)
Development costs	(10,348)	-	(1,036)	-	(11,384)
Other intangible assets	(1,338)	-	(21)	-	(1,359)
Total amortisation	(25,374)	(231)	(3,865)	(1)	(29,471)
Goodwill	(249)	-	(249)	-	(498)
Development costs	(2,854)	-	-	-	(2,854)
Other intangible assets	(745)	-	-	-	(746)
Total impairment	(3,849)	-	(249)	-	(4,098)
Total	15,972				60,113

14.1 Additions and other movements

The Group continues to strategically upgrade the IT systems supporting its key business processes.

In addition, on 7 May 2018, Ence Energía, S.L.U. acquired power generation rights awarded via a public auction held in 2016 to allocate the renewable remuneration regime to new generation facilities, securing the right to build 58.5 MW of capacity entitled to this regime for €21.0 million. Those rights are going to be used primarily at the biomass power generation plant in Puertollano.

The Group did not capitalise any own work within intangible assets in 2019 or 2018.

At 31 December 2019, there were fully-amortised intangible assets still in use with an original cost of €21,704 thousand (year-end 2018: €17,143 thousand).

14.2 Goodwill

The breakdown of the Group's goodwill at 31 December 2019 by the cash-generating units to which it has been assigned is provided in the table below:

Thousands of euros				
CGU allocated to	Technology	Goodwill	Impairment	Carrying amount
Renewable Energy business:				
Jaen 16 MW - Ciudad Real 16 MW	Biomass	2,737	(747)	1,990
50-MW Puertollano	Solar thermal	4,367	(291)	4,076
		7,104	(1,038)	6,066

The goodwill will be amortised over the remaining regulatory useful lives of the power plants to which it has been allocated. The goodwill balance is written down for impairment to reflect the reduction in the plants' remaining regulatory useful lives with the passage of time. Factoring in those impairment charges, the recoverable amounts of the cash-generating units to which the goodwill has been allocated are in line with their carrying amounts.

15. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2019 and 2018 is as follows:

Thousands of euros						
31 December 2019	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Transfers (note 14)	Translation differences	Balance at 31/12/2019
Forest land	83,794	-	-	-	-	83,794
Other land	10,580	2,724	44	-	4	13,352
Buildings	112,291	998	(2,359)	13,679	-	124,609
Plant and machinery	1,684,500	4,070	(46,342)	149,393	1	1,791,622
Other PP&E	54,065	5,968	(86)	2,561	-	62,508
Prepayments and PP&E in progress	205,256	258,626	(121)	(165,585)	-	298,176
Right-of-use - Land (note 18) (*)	-	45,082	(2,634)	-	-	42,448
Right-of-use assets - Other assets (note 18) (*)	-	13,143	(204)	-	-	12,939
Cost	2,150,486	330,611	(51,702)	48	5	2,429,448
Buildings	(66,261)	(2,148)	2,202	-	-	(66,207)
Plant and machinery	(1,032,402)	(67,949)	43,038	(2,531)	(1)	(1,059,845)
Other PP&E	(35,381)	(4,946)	6	2,489	-	(37,832)
Right-of-use - Land (note 18)	-	(2,002)	11	-	-	(1,991)
Right-of-use assets - Other assets (note 18)	-	(1,766)	92	-	-	(1,674)
Depreciation	(1,134,044)	(78,811)	45,349	(42)	(1)	(1,167,549)
Land and buildings	(1,985)	-	-	-	-	(1,985)
Plant and machinery	(26,170)	-	5,711	-	-	(20,459)
Other PP&E	(1,151)	-	-	-	-	(1,151)
Impairment	(29,306)	-	5,711	-	-	(23,595)
Carrying amount	987,136					1,238,304

(*) The additions recognised in 2019 include 53,349 thousand corresponding to the first-time application of IFRS 16 - Leases (note 18).

Thousands of euros							
2018 (thousands of euros)	Balance at 01/01/2018	Changes in consol. scope (note 2)	Additions/ (charges)	Derecognitions or decreases	Transfers (note 14)	Translation differences	Balance at 31/12/2018
Forest land	83,853	-	-	(34)	(25)	-	83,794
Other land	10,533	-	-	-	35	12	10,580
Buildings	111,591	-	1,064	(4,839)	4,475	-	112,291
Plant and machinery	1,486,020	232,553	3,413	(65,259)	27,772	1	1,684,500
Other PP&E	57,275	1,195	1,365	(267)	(5,503)	-	54,065
Prepayments and PP&E in progress	28,961	216	204,839	(1,859)	(26,901)	-	205,256
Cost	1,778,233	233,964	210,681	(72,258)	(147)	13	2,150,486
Buildings	(66,982)	-	(2,060)	2,781	-	-	(66,261)
Plant and machinery	(938,585)	(84,594)	(60,215)	50,994	-	(2)	(1,032,402)
Other PP&E	(31,041)	(810)	(3,689)	159	-	-	(35,381)
Depreciation	(1,036,608)	(85,404)	(65,964)	53,934	-	(2)	(1,134,044)
Land and buildings	(1,985)	-	-	-	-	-	(1,985)
Plant and machinery	(45,388)	-	(2,746)	21,964	-	-	(26,170)
Other PP&E	(1,579)	-	-	428	-	-	(1,151)
Impairment	(48,952)	-	(2,746)	22,392	-	-	(29,306)
Carrying amount	692,673						987,136

Most of the Group's productive assets are located in Spain.

15.1 Additions

The Group invested in its productive facilities in both the Pulp and Renewable Energy businesses with a view to making its production processes more efficient, boosting power generation and making them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros	
	2019	2018
Pulp business:		
Pontevedra	47,422	39,631
Navia	123,336	42,431
Other	5,467	2,324
Renewable Energy business:		
46-MW Huelva (*)	27,046	53,236
41-MW Huelva	13,135	7,642
50-MW Puertollano (*)	35,166	59,357
Other	20,814	6,060
Total additions	272,386	210,681
Total right-of-use assets added (note 18)	58,225	-
	330,611	210,681

(*) Plants currently under construction

Renewable Energy

The Group arranged two EPC agreements for the turnkey construction of two biomass power plants in Spain, specifically in Puertollano, Ciudad Real (50 MW) and Huelva (46 MW), on 25 April 2018 and 8 November 2017, respectively. Both facilities are due for commissioning during the first quarter of 2020.

The 50-MW Puertollano plant is expected to entail a total investment of €126 million (including the €19 million investment in power generation rights). At 31 December 2019, €95 million of that capex had already been incurred. The 46-MW Huelva plant, meanwhile, is expected to entail a total investment of €101 million, €91 million having been incurred at year-end 2019. Those amounts include the capitalisation of €3 million of borrowing costs in 2019 (note 13).

Pulp

In 2019, the Group executed most of its project for the expansion of pulp production capacity at its industrial complex in Navia by 80,000 tonnes. That project is expected to entail a total investment of €121 million, €107.9 million of which had been incurred at year-end 2019.

Also in 2019, the Group added 20,000 tonnes of pulp production capacity at its industrial complex Pontevedra, a project expected to entail a total investment of €19.1 million, €15.1 million of which had been incurred at year-end. That project complements the work carried out in 2018 to increase its capacity by 30,000 tonnes. The Group has also installed a new highly efficient condensation turbine.

Other capital commitments

In addition to the undertakings detailed in note 15.2 in exchange for the 10-year extension of the concession term in Pontevedra, the Group was contractually committed to investing €20 million in the Pulp business at the reporting date.

Capital commitments in the Renewable Energy business, in addition to the commitments outlined above in connection with the ongoing construction of two biomass power plants in Huelva and Puertollano, amounted to €10.4 million at 31 December 2019.

15.2 Public-domain concession - Pontevedra biomill

The Pontevedra biofactory is located on public-domain coastal land for which ENCE holds the corresponding domain concession, to which end it is subject to the legal regime contemplated in Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014).

That concession was granted to ENCE by Ministerial Order on 13 June 1958. On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment (currently the Ministry of Ecological Transition and Demographic Challenges) agreed to extend the concession for 60 years, i.e., until 8 November 2073.

Of the agreed-upon 60-year extension, 10 years are conditional upon ENCE making certain investments at the biomill related with increasing its capacity and efficiency, improving its environmental performance and blending the facility into its surroundings.

In relation to that commitment, €58.8 million has already been invested and the Group is contractually committed to investing another €4.7 million in 2020. These investment undertakings in Pontevedra have

been similarly factored into the Environmental Pact entered into with the Environmental Department of the regional government of Galicia along with other investment commitments (note 33).

15.3 Fully depreciated assets and assets out of service

The breakdown at year-end of the original cost of fully-depreciated items of property, plant and equipment still in use is shown in the next table:

Thousands of euros	2019	2018
Buildings	34,348	34,815
Machinery & equipment	427,860	411,257
Tools	1,794	1,694
Furniture & fittings	6,547	5,511
Other	61,481	61,108
	532,030	514,385

The lack of competitiveness of the industrial complex in Huelva caused, among other factors, by the impact of the regulatory reforms undertaken in the Spanish energy sector, forced ENCE to announce, on 4 September 2014, its decision to specialise in renewable energy generation at the Huelva complex and to cease the production of pulp, which meant that some of its industrial assets were no longer used for productive purposes. Those assets' carrying amount at year-end 2019 (which is not significantly different from their recoverable amount) comprised: an original cost of €105 million; accumulated depreciation of €89 million; and impairment losses of €16 million.

15.4 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered the land's deemed cost. The gain on the revaluation amounted to €54,102 thousand at year-end 2019 (€54,132 thousand at year-end 2018) and is included in "Valuation adjustments" in equity (note 22).

15.5 Insurance cover

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent's directors and their insurance advisors believe that the coverage provided by those policies at the reporting date is sufficient.

16. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". The reconciliation of the opening and closing balances under this heading in 2019 and 2018:

31 December 2019	Thousands of euros			
	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2019
Pulp business:				
Forest cover	136,646	6,469	(9,303)	133,812
Depletion of forest reserve	(45,760)	(9,271)	6,839	(48,192)
Provision for impairment	(8,478)	(384)	1,974	(6,888)
	82,408	(3,186)	(490)	78,732
Renewable Energy business:				
Forest cover	3,007	261	(545)	2,723
Depletion of forest reserve	(1,928)	(66)	-	(1,994)
Provision for impairment	(930)	-	545	(385)
	149	195	-	344
	82,557			79,076

2018	Thousands of euros					
	Balance at 01/01/2018	Additions/ (charges)	Derecognitions	Transfer to held-for-sale	Transfers (note 14)	Balance at 31/12/2018
Pulp business:						
Forest cover	147,987	3,273	(9,532)	(5,072)	(10)	136,646
Depletion of forest reserve	(45,048)	(5,699)	4,987	-	-	(45,760)
Provision for impairment	(21,442)	(1,655)	13,547	1,072	-	(8,478)
	81,497	(4,081)	9,002	(4,000)	(10)	82,408
Renewable Energy business:						
Forest cover	4,859	141	(1,993)	-	-	3,007
Depletion of forest reserve	(3,639)	(122)	1,833	-	-	(1,928)
Provision for impairment	(1,025)	-	95	-	-	(930)
	195	19	(65)	-	-	149
	81,692					82,557

In 2019, the Group planted 784 hectares of land (2018: 223 hectares) and carried out forest preservation and protection work on 10,041 hectares (2018: 3,263 hectares), work which entailed investment totalling €6,730 thousand.

In 2019, the Group sold the company that owned its biological assets in Portugal, specifically 1,743 hectares earmarked to crops for the production of pulp (note 2). Those assets were classified as "Non-current assets held for sale" at year-end 2018.

The Group also capitalised €29 thousand of borrowing costs under forest cover in 2019 (2018: €35 thousand).

16.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2019 and 2018 is provided below:

Península Ibérica				
Year-end 2019	Pulp		Energy crops	
	Hectares	Carrying amount (€ 000)	Hectares	Carrying amount (€ 000)
Age (years)				
> 17	1,043	2,606	-	-
14 - 16	3,553	10,478	-	-
11 - 13	8,927	27,800	-	-
8 - 10	10,508	22,629	-	-
4 - 7	10,204	11,525	318	541
0 - 3	12,972	10,582	608	188
Impairment of biological assets	-	(6,888)	-	(385)
	47,207	78,732	926	344

Spain & Portugal				
Year-end 2018	Pulp		Energy crops	
	Hectares	Carrying amount (€ 000)	Hectares	Carrying amount (€ 000)
Age (years)				
> 17	1,161	2,282	-	-
14 - 16	1,889	6,420	-	-
11 - 13	10,159	32,512	-	-
8 - 10	11,840	27,183	-	-
4 - 7	11,967	14,783	494	727
0 - 3	10,085	7,706	432	352
Impairment of biological assets	-	(8,478)	-	(930)
	47,101	82,408	926	149

In addition, the land under management includes 2,594 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the ENCE Group, at market prices, of the timber produced from the land sold for a period of 20 years.

16.2 Derecognitions and impairment

In 2018, ENCE entered into several long-term agreements for the sale of timber produced at its forest plantations in southern Spain. The prices agreed upon enabled it to reverse the impairment losses recognised in prior years in the amount of €9,252 thousand.

At 31 December 2019, impairment losses accordingly stood at €7,273 thousand. A 3% increase in market timber prices would allow the Group to reverse the impairment allowances in full. In contrast, a 3% correction in timber sales prices would imply the need to recognise an additional €7.2 million of impairment losses.

16.3 Non-current assets held for sale

The breakdown of "Non-current assets held for sale" at 31 December 2019 and 2018 is as follows:

Thousands of euros - year-end 2019	Balance at 01/01/2019	Derecognitions (note 2.1)	Balance at 31/12/2019
Biological assets	4,000	(4,000)	-
Total	4,000	(4,000)	-

During the fourth quarter of 2018, ENCE initiated the sale of its forest assets in Portugal. Those assets were measured at fair value, in line with non-binding bids received. Following the sale of Iberflorestal, S.A.U. on 30 May 2019, those assets no longer belong to the Group (note 2.1).

17. Financial assets

17.1 Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short-term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value.

The Group had €222,214 thousand of cash and cash equivalents at 31 December 2019 (€101,312 thousand of which corresponding to the Pulp business and €120,902 thousand to the Renewable Energy business).

In assessing the availability of the Group's cash, readers should note that the financing taken on by the Renewable Energy business requires it to maintain a minimum cash balance of €10 million, a sum that could rise to €30 million depending on the extent to which it uses the credit facility contemplated in tranche 4. There is an additional cash sweep requirement of €4.8 million under the terms of the Termollano project finance facility to cover a forward six months' debt service requirement.

The year-end 2019 statement of financial position includes €5,800 thousand of cash denominated in US dollars (year-end 2018: €3,459 thousand).

17.2 Other financial assets

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2019 and 2018 is as follows:

Thousands of euros	31/12/2019		31/12/2018	
	Current	Non-current	Current	Non-current
ENCE's share liquidity agreement (note 22.7)	2,571	-	295	-
Account receivable from Iberdrola - Regulator claim	-	1,288	-	11,787
Security deposits and other accounts receivable	1,879	6,071	1,929	1,671
	4,450	7,359	2,224	13,458

18. Leases

The application with effect from 1 January 2019 of IFRS 16 - Leases has implied the recognition of the following balances in the consolidated statement of financial position at 31 December 2019 and the consolidated statement of profit or loss for the year then ended:

18.1 Right-of-use assets

The reconciliation of the carrying amounts of the various components of "Right-of-use assets" and the corresponding accumulated depreciation charges at the beginning and end of 2019:

		Thousands of euros			
	Note	Initial recognition	Additions/ (charges)	Derecognitions	31/12/2019
Cost:					
Pontevedra biomill land	15	33,351	-	-	33,351
Forest leases	15	11,088	643	(2,634)	9,097
Other (*)	15	8,910	4,233	(204)	12,939
Cost		53,349	4,876	(2,838)	55,387
Depreciation:					
Pontevedra biomill land	15	-	744	-	744
Forest leases	15	-	1,258	(11)	1,247
Other (*)	15	-	1,766	(92)	1,674
Depreciation		-	3,767	(102)	3,665
Carrying amount		53,349	1,109	(2,735)	51,723

(*) Mainly includes the lease of the land on which the 50-MW Puertollano solar thermal plant is located, as well as office and vehicle leases.

In 2019, the Group capitalised €1,510 thousand corresponding to payments for the right to use land earmarked for the development of biological assets.

18.2 Lease liabilities

The reconciliation of the opening and closing balances of the various items reflecting the Group's obligations under the lease agreements recognised under IFRS 16 at the beginning and end of 2019:

	Note	Thousands of euros					
		Initial recognition	Additions	Installments paid	Derecognitions	Transfers	Interest
Current debt	27.2	4,333	-	(5,080)	(201)	1,556	1,862
Non-current debt	27.2	49,015	4,817	-	(2,485)	(1,556)	-
		53,349	4,817	(5,080)	(2,685)	-	1,862

18.3 Amounts recognised in the statement of profit or loss:

The table below depicts the impact of the Group's leases on "Depreciation and amortisation" and "Finance costs" in the consolidated statement of profit or loss in 2019:

		Thousands of euros		
	Note	Depreciation	Finance expense	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	15	744	1,288	1,570
Other land	15	1,258	253	1,450
Other assets	15	1,766	321	2,060
		3,767	1,862	5,080

Considering the leases in place at 31 December 2019, depreciation charges and interest expense related to the Group's right-of-use assets will average €2.5 million and €1.7 million, respectively, in the next five years.

19. Inventories

The breakdown of the Group's inventories at 31 December 2019 and 2018 is as follows:

Thousands of euros	31/12/2019	31/12/2018
Timber and biomass	19,388	9,703
Other raw materials	3,110	2,758
Spare parts (*)	9,854	8,830
Emission allowances	4,639	2,692
Finished goods and work in progress	21,745	18,720
Prepayments to suppliers	78	842
Impairment - Realisation value	(2,262)	-
	56,552	43,545

(*) Presented net of impairment allowances of €14,460 thousand and €13,897 thousand at 31 December 2019 and 2018, respectively.

There are no restrictions on title to inventories.

At 31 December 2019, the Group had entered into agreements with suppliers for the purchase, during the next three years, of (i) 2.1 million tonnes of biomass for use at the power plants constituting the Renewable Energy business; and (ii) gas equivalent to 604 GWh PCS.

It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that coverage at year-end is adequate.

19.1 Emission allowances

The reconciliation of the opening and year-end Group-owned emission allowance balances for 2019 and 2018 is provided in the next table:

	2019		2018	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	190,642	2,692	143,136	1,713
Allocations	117,073	2,925	119,444	924
Delivered (*)	(211,526)	(3,089)	(221,938)	(2,323)
Purchased	130,000	2,111	150,000	2,378
Closing balance	226,189	4,639	190,642	2,692

(*) Corresponds to the allowances used during the previous period.

In November 2013, the Spanish Parliament approved the New National Allocation Plan for the allocation of emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 117,073 tonnes of carbon emissions, valued at €2,925 thousand, in 2019 (119,444 tonnes valued at €924 thousand in 2018).

"Current provisions" on the liability side of the consolidated statement of financial position includes €4,696 thousand in this respect at 31 December 2019 (€3,089 thousand at year-end 2018) corresponding to the liability derived from the consumption of 231,014 tonnes of carbon in 2018 (211,526 tonnes in 2018) (note 25).

Elsewhere, the Group has contractually committed to the forward purchase of allowances covering a total of 190,000 tonnes of carbon at a price of €16.24/tonne, exercisable in 2020. It is estimated that a portion of the allowance purchases committed to, approximately 69 thousand allowances, will not be consumed within the term of the current 2013-2020 Plan. At year-end 2019, the market value of the allowances was above the forecast purchase price.

20. Trade and other receivables

The breakdown at year-end of "Trade and other receivables" on the asset side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2019	31/12/2018
Trade receivables:		
Pulp	19,653	74,121
Energy	15,669	33,663
Other items	3,963	893
Sundry receivables	4,050	1,380
Provision for impairment	(4,282)	(3,135)
	39,053	106,922

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €30,163 thousand at 31 December 2019 (€14,906 thousand at 31 December 2018). A portion of that receivable has been discounted using the Group's factoring facilities.

The credit period on pulp sales averages between 58 and 63 days. The fair value of pulp receivables does not differ significantly from their carrying amount.

At year-end, the Group had €2.8 million of US dollar-denominated accounts receivable (year-end 2018: €31 million).

20.1 Factoring facilities

The Group has drawn down €100,654 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €132,407 thousand at 31 December 2019 (€49,287 thousand and €95,000 thousand, respectively, at 31 December 2018). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 0.80% and 0.95% on the receivables discounted under those agreements.

21. Trade and other payables

The breakdown at year-end of "Trade and other payables" on the liability side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2019	31/12/2018
Trade and other payables	154,578	161,258
Payable to fixed-asset suppliers	61,630	65,195
Employee benefits payable	9,271	8,571
Adjustments for tariff shortfall/surplus (note 28)	1,390	-
	226,869	235,024

The average payment period on goods and services purchased ranges between 60 and 65 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group had drawn down €92,596 thousand under non-recourse reverse factoring agreements with an aggregate limit of €151,000 thousand at 31 December 2019 (€79,097 thousand and €147,000 thousand,

respectively, at 31 December 2018). The balances arising from the use of reverse factoring facilities are classified as trade accounts payable. The reverse factoring agreements arranged by ENCE do not contemplate the provision of guarantees.

At 31 December 2019, the Group had €60 thousand of US dollar-denominated accounts payable (year-end 2018: €29 thousand).

Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2019 and 2018 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2019	2018
Average supplier payment term (days)	62	63
Paid transactions ratio (days)	63	64
Outstanding transactions ratio (days)	47	42
	Thousands of euros	
Total payments made	633,670	628,296
Total payments outstanding by more than the legally-stipulated term	37,028	34,482

22. Equity

22.1 Issued capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2019 was represented by 246,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

Since ENCE's shares are represented by the book entry method, it is not possible to ascertain its precise shareholder structure. The table below presents significant direct and indirect holdings in the share capital and financial instruments issued by ENCE at year-end 2019 and 2018 as reported by the holders of those securities to the official registers of Spain's securities market regulator, the CNMV for its acronym in Spanish, or to the Company itself, in keeping with Spanish Royal Decree 1362/2007:

Shareholder	%	
	31/12/2019	31/12/2018
Juan Luis Arregui / Retos Operativos XXI, S.L.	29.44	29.28
Víctor Urrutia / Asúa Inversiones, S.L.	6.34	6.34
Jose Ignacio Comenge / La Fuente Salada S.L.	6.38	6.01
Systematica Investments Limited	-	1.02
Bestinver Gestión S.G.I.I.C. S.A.	3.12	-
Invesco Limited	1.10	-
Own shares	1.34	0.64
Directors with ownership interest of < 3%	0.55	0.43
Free float	51.73	56.28
Total	100.00	100.00

The Company's shares are represented are officially listed on the Spanish stock exchanges and traded on the continuous market. All of its shares confer equal voting and dividend rights.

22.2 Legal reserve

In accordance with the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital. The Parent's legal reserve of €45,049 thousand covers the stipulated 20% of share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

22.3 Share premium

The Consolidated Text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital and provides no specific limitation with respect to the availability of this reserve.

22.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by the various companies comprising the ENCE Group at 31 December 2019 and 2018:

Thousands of euros	31/12/2019	31/12/2018
Pulp business:		
Celulosas de Asturias, S.A.U.	125,232	125,232
Norte Forestal, S.A.U.	(2,649)	770
Silvasur Agroforestal, S.A.U.	6,257	6,802
Iberflorestal, S.A.U.	0	(6,348)
Ibersilva, S.A.U.	(17,835)	(18,166)
Ence Investigación y Desarrollo, S.A.U.	(4,713)	(5,087)
Maderas Aserradas del Litoral, S.A.	(5,311)	(5,311)
Sierras Calmas, S.A.	5,472	5,776
Renewable Energy business:		
Celulosa Energía, S.A.U.	25,852	30,377
ENCE Energía, S.L.U.	(28,773)	(32,798)
ENCE Energía Huelva, S.L.U.	(4,131)	(10,533)
ENCE Energía Extremadura, S.L.U.	(9,566)	(12,165)
Energía de la Loma, S.A.	559	-
Energías de la Mancha Eneman, S.A.	1,485	-
Bioenergía Santamaría, S.A.	(2,118)	(2,118)
Ence Energía Solar, S.L.	3,472	-
Ence Energía Termollano, S.A.	(3,958)	-
Consolidation and other adjustments	26,395	6,777
	115,670	83,208

(*) Dividends paid out are considered additions to reserves at the receiving companies.

The balance of reserves in consolidated companies that is restricted stood at €21,492 thousand at year-end (year-end 2018: €19,334 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

22.5 Proposed appropriation of the Parent's profit

The Company's directors have resolved to submit the following appropriation of the Parent's 2019 profit of €56,014 thousand for shareholder approval at the upcoming Annual General Meeting (note that consolidated profit amounted to €9,209 thousand):

	Thousands of euros
Basis of appropriation:	
Profit/(loss) for the period	56,014
Appropriation:	
Interim dividend - paid out in September 2019 (note 23)	12,493
Capitalisation reserve	5,426
Retained earnings (prior-year losses)	38,095

22.6 Earnings per share

The basic and diluted earnings per share calculations are shown below:

Earnings per share	2019	2018
Group profit attributable to owners of the parent (€ 000)	9,209	129,130
Weighted average ordinary shares outstanding (*)	242,974,647	244,706,211
Weighted average diluted shares (**)	265,868,377	263,097,948
Basic earnings per share (€)	0.04	0.53
Diluted earnings per share (€)	0.018	0.478

(*) Number of shares outstanding less those held as treasury stock

(**) Average number of ordinary shares outstanding plus potential issuable shares associated with financial instruments convertible into shares

The diluted earnings per share calculations use the Group's profit for the year attributable to owners of the Parent less the expense accrued, net of the related tax effect, in respect of the convertible financial instruments, which amounted to €4,323 thousand in 2019 (2018: €3,382 thousand).

22.7 Own shares

The reconciliation of "Own shares" at the beginning and end of 2019 and 2018 is as follows:

	2019		2018	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	1,566,289	4,352	1,496,062	4,016
Purchases	16,240,986	76,443	9,462,282	63,864
2016-2018 LT bonus plan (note 11.2)	(1,105,436)	(3,944)	-	-
Sales	(13,403,986)	(65,068)	(9,392,055)	(63,528)
Closing balance	3,297,853	11,783	1,566,289	4,352

On 30 April 2019, the Company's Board of Directors agreed to execute a share buyback programme in order to allow it to meet the Group's obligations under ENCE's 2019-2023 long-term bonus plan (note 11.2). Under the scope of that programme, which was completed by 17 May 2019, 2,439,000 shares were repurchased for a total of €10,410 thousand, yielding an average price of €4.27 per share.

The own shares held by the Company at 31 December 2019 represent 1.34% of its share capital (0.64% at 31 December 2018) and were carried at €2,968 thousand (€1,410 thousand at 31 December 2018). Those shares were acquired at an average price of €3.57 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2016-2018 bonus plan" and the "Long-term 2019-2023 bonus plan" (note 11.2).

ENCE has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which the ENCE's shares are traded, within the limits established at the Annual General Meeting and prevailing legislation, specifically, CNMV Circular 1/2017 on liquidity agreements.

22.8 Valuation adjustments

The breakdown of "Valuation adjustments" at year-end is provided below:

Thousands of euros	31/12/2019			31/12/2018		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve (note 15.4)	54,102	13,509	40,593	54,102	13,509	40,593
Hedging transactions (note 29)						
IR swap	(6,822)	(1,706)	(5,116)	(2,853)	(713)	(2,139)
Exchange rate	(4,679)	(1,171)	(3,508)	(16,901)	(4,225)	(12,676)
	42,601	10,632	31,969	34,348	8,571	25,778

There was no significant movement in the land revaluation reserve during 2019. The changes in the fair value of the hedging transactions recognised directly in equity are recognised in the consolidated statement of comprehensive income in 2019 and 2018.

22.9 Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" at the beginning and end of 2019 and 2018 is as follows:

Thousands of euros	Balance at 31/12/2018	Settlement	Reclassified to profit or loss	Tax effect	Balance at 31/12/2019
Convertible bonds (note 27)	10,913	-	-	-	10,913
Long-term Bonus Plan (note 11)	3,152	(3,767)	1,817	(454)	748
	14,065	(3,767)	1,817	(454)	11,661

Thousands of euros	Balance at 31/12/2017	Additions	Reclassified to profit or loss	Tax effect	Balance at 31/12/2018
Convertible bonds (note 27)	-	14,551	-	(3,638)	10,913
Long-term Bonus Plan (note 11)	2,783	-	491	(122)	3,152
	2,783	14,551	491	(3,760)	14,065

22.10 Corporate credit ratings

On 12 November 2019, Moody's reaffirmed its long-term credit rating of Ba2 and changed its outlook from stable to negative. On 18 November 2019, Standard & Poor's reiterated its long-term credit rating of BB and similarly changed its outlook from stable to negative. In both cases the decision to change the outlook mainly reflects the correction in pulp prices.

22.11 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2019 and 2018 is as follows:

2019	Thousands of euros				
	Balance at 01/01/2019	Profit/(loss)	Dividend payments	Other movements	Balance at 31/12/2019
		attributable to NCI			
Company					
Energía de la Loma, S.A.	4,661	126	(314)	-	4,473
Energías de la Mancha Eneman, S.A.	4,429	1,287	(683)	-	5,033
Bioenergía Santamaría, S.A.	550	379	(531)	-	398
Ence Energía Termollano, S.A.	8,632	497	(458)	(325)	8,346
Total	18,272	2,289	(1,986)	(325)	18,250

2018	Thousands of euros				
	Balance at 01/01/2018	Profit/(loss)	Dividend payments	Changes in	Balance at 31/12/2018
		attributable to NCI		consolidation scope (note 2)	
Company					
Energía de la Loma, S.A.	4,600	627	(566)	-	4,661
Energías de la Mancha Eneman, S.A.	4,070	1,366	(1,007)	-	4,429
Bioenergía Santamaría, S.A.	1,233	531	(1,214)	-	550
Ence Energía Termollano, S.A.	-	17	-	8,615	8,632
Total	9,903	2,541	(2,787)	8,615	18,272

23. Shareholder remuneration

ENCE's dividend policy contemplates the distribution to its shareholders of an amount equivalent to approximately 50% of Group profit after tax (PAT) for the year, structured into two interim dividends, one approved at the end of the first half and the other in November, and a final dividend, to be put before the shareholders for approval at the Annual General Meeting, as warranted. This dividend policy is conditional upon delivery of the financial discipline criteria laid down in the Business Plan as well as the legal and contractual obligations of the Parent and other Group companies.

The next table itemises the dividends declared in 2019:

	Dividend per share	Thousands of euros
Final - 2018 earnings	0.054	13,112
Interim - 2019 earnings - July	0.051	12,493
		25,605

At the Annual General Meeting held on 28 March 2019, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a final dividend against 2018 profits in the amount of €0.054 per Ence Energía y Celulosa, S.A. share (before withholdings). That dividend, which totalled €13,215 thousand, was paid out on 11 April 2019.

At a meeting held on 30 July 2019, the Board of Directors of the Parent resolved to pay an interim dividend from 2019 profits of €0.051 per share (before withholdings), in cash. That dividend implied an outlay of €12.4 million euros and was paid on 19 September 2019.

The table below sets out the related forecast liquidity position, as required under article 277 of the Consolidated Text of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity at Ence Energía y Celulosa, S.A. to justify payment of the above interim dividend:

	Euros
Available liquidity as of 30 June 2019:	
Cash	104,607,750
	104,607,750
Interim dividend payment (maximum amount)	(12,493,277)
Forecast net cash flows until date of approval of interim dividend	
Forecast liquidity as of date of approval of interim dividend	92,114,474
Forecast cash receipts until 30 June 2020	
Cash flows from operating activities (proceeds net of payments)	36,514,576
Dividends	66,500,000
Forecast cash outflows until 30 June 2020	
Capital expenditure & income tax	(57,136,980)
Financing transactions (principal repayment, interest and dividend payments)	(4,000,000)
Forecast liquidity as of 30 June 2020	133,992,070

24. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2019 and 2018 is as follows:

Thousands of euros	Subsidised loans (note 27)	Grants relating to assets	Emission allowances (note 19.1)	Other	Total
Balance at 1/1/2018	360	8,750	-	86	9,196
Additions, new grants (*)	-	92	-	-	92
Emission allowances granted	-	-	924	-	924
Reclassified to profit or loss	(147)	(1,215)	(924)	-	(2,286)
Other	-	-	-	(86)	(86)
Balance at 31/12/2018	213	7,627	-	-	7,840
Additions, new grants (*)	-	299	-	-	299
Emission allowances granted	-	-	2,924	-	2,924
Reclassified to profit or loss	(108)	(1,262)	(2,924)	-	(4,294)
Other	-	(19)	-	-	(19)
Balance at 31/12/2019	105	6,645	-	-	6,750

(*) Net of expenses incurred in obtaining them.

The Group has been granted non-repayable grants by several public bodies to finance investments earmarked to enhancing the productive structure with a significant impact on job creation, energy savings and efficiency and recovery of the energy generated.

In addition, the Group has been extended loans on advantageous rates of interest with terms of up to 10 years. These loans finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp biomills as well as the Group's research and development work.

The difference between market rates and the subsidised rate as per the loan agreement is considered a grant and is recycled to the consolidated income statement over the life of the loans on a systematic financial basis (note 27).

In addition, the Group has been awarded €2,249 thousand of aid by IDEA (acronym in Spanish for the energy savings and diversification institute) to fund projects which lead to significant energy savings. That aid will be recognised and received once the related investments and projects have been executed.

25. Provisions, impairment charges, guarantees and contingent liabilities

25.1 Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions in 2019 and 2018 is as follows:

31 December 2019	Thousands of euros			
	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2019
Non-current:				
Employee commitments (note 11.2)	-	427	-	427
Dismantling provision	9,155	190	-	9,345
Other	3,132	626	(720)	3,038
	12,287	1,243	(720)	12,810
Current				
Employee commitments (note 11.2)	1,801	352	(2,153)	-
Emission allowances (notes 12 & 19.1)	3,089	4,696	(3,089)	4,696
Discontinuation of pulp production in Huelva (note 15)	1,767	356	(811)	1,312
Pontevedra Environmental Pact (notes 12 & 33)	5,000	4,000	-	9,000
Other provisions	10,700	-	-	10,700
	22,357	9,404	(6,053)	25,708

31 December 2018	Thousands of euros				
	Balance at 01/01/2018	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31/12/2018
				Changes in consolidation scope (note 2)	
Non-current:					
Employee commitments (note 11.2)	1,590	277	-	(1,867)	-
Onerous contracts (note 18)	491	-	(491)	-	-
Discontinuation of pulp production in Huelva	453	-	(394)	-	59
Dismantling provision	-	14	-	-	9,141
Other	1,633	2,367	(927)	-	3,073
	4,167	2,658	(1,812)		9,141
Current					
Employee commitments (note 11.2)	-	(66)	-	1,867	1,801
Emission allowances (note 18)	2,351	3,089	(2,351)	-	3,089
Discontinuation of pulp production in Huelva	4,735	-	(2,968)	-	1,767
Pontevedra Environmental Pact (note 30)	-	5,000	-	-	5,000
Other provisions (note 12)	-	10,700	-	-	10,700
	7,086	18,723	(5,319)	1,867	22,357

The solar thermal power generation plant consolidated by the ENCE Group for the first time in 2018 is located on a leased property where a series of dismantling costs are contemplated at the end of the plant's useful life. The line item "Dismantling provision" recognises the present value of the estimated cost of that work, discounted at a rate of 2% - 3%.

"Other provisions" mainly recognises the maximum estimated amount that ENCE foresees having to pay to terminate certain agreements arranged in 2008, related with timber and finished product logistics services at the Navia biomill, which are no longer competitive in light of currently available alternatives.

25.2 Guarantees extended to third parties

At 31 December 2019, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €149,398 thousand (€67,199 thousand at 31 December 2018), as broken down in the table below.

	Thousands of euros
Government permitting - renewable energy power generation plants	105,921
Subsidised loans (note 27)	11,632
Receivables discounting lines (note 20)	8,000
Tax claims (note 25.3)	4,836
Execution of forest projects	4,139
Pontevedra concession (note 15)	3,050
Electricity market security deposit	3,051
Participation in irrigation community works	2,533
Environmental	1,603
Payments to suppliers	1,286
Puertoilano works performance bond	1,241
Other	2,106
	149,398

The directors do not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

25.3 Contingent assets and liabilities

At year-end 2019, the Group is party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below:

Energy sector regulations in Spain – Energy crops

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass.

These new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to abandon the management of its energy crop plantations in an orderly fashion, a process it concluded in 2015. Moreover, the regulatory changes were undertaken without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment and recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

As a result, on 14 July 2014, for the unlawful economic damages caused directly to ENCE and certain Group companies (Ence Energía, S.L. Unipersonal; Ence Energía Huelva, S.L. Unipersonal; Ence Energía Extremadura, S.L. Unipersonal; Silvasur Agroforestal, S.A. Unipersonal; and Ence Investigación y Desarrollo S.A. Unipersonal; hereinafter, the "ENCE Group Companies") on account of the undue retroactive application to periods prior to 14 July 2013 of the new remuneration regime introduced for facilities generating power from biomass sourced from energy crops, the ENCE Group Companies presented a claim for damages from the Spanish state (hereinafter, the "Claim") before the Spanish Ministry of Industry, Energy and Tourism (the "Energy Ministry"). Quantification of the award sought was conditional upon presentation of a report compiled by an independent expert.

Accordingly, on 31 July 2014, the ENCE Group Companies delivered a first report compiled by an independent expert which quantified the ongoing damages already sustained in respect of 'costs incurred' at €51,190 thousand, albeit noting that the harmful consequences of the government's actions would continue to materialise in the immediate future.

Having delivered the documentation required by the Energy Ministry in order to complement/remedy the Claim on 28 January and 27 February, on 11 December 2017, another report was submitted, similarly compiled by the same independent expert, quantifying the damages caused by the application of the above-mentioned remuneration regime with retroactive effect at €63,300 thousand.

The case is currently pending ruling by the government.

Pontevedra public-domain concession

As a result of a Supreme Court ruling dated 11 July 2014 (upholding a ruling issued by the Appellate Court on 19 May 2011), the Pontevedra Provincial Coastal Service initiated proceedings seeking termination of the concession for the use of the public-domain coastal land on which ENCE's factory in this Spanish province sits.

That case was resolved by means of a resolution by the-then Ministry of Agriculture, Food and the Environment (currently the Ministry of Ecological Transition and Demographic Challenges, hereinafter, the "Environmental Ministry") on 24 July 2015. That resolution declared the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant in Placeres, the existing underwater discharge pipeline and the sports facilities, enabling the continuation of ENCE's activities at the Pontevedra Operations Centre.

The 24 July 2015 resolution was challenged by the town council of Pontevedra and a local association, *Asociación pola Defensa da Ría de Pontevedra* (hereinafter, the "APDR"), before the National Appellate Court (Chamber for Contentious Administrative Proceedings), giving rise to two separate proceedings.

In both cases ENCE is acting as co-defendant, upholding the legality of the Environmental Ministry's actions.

The proceedings brought by the town council of Pontevedra (Ordinary Proceedings 85/2016), seeking a full concession termination declaration, were dismissed by section four of the National Appellate Court on 7 December 2018, ordering the claimant to bear the legal costs. That sentence has not been appealed and is thus now a final ruling.

The proceedings brought by the APDR (Ordinary Proceedings 373/2016) were voted and decided on 10 December 2019. Notification of the sentence is pending.

Elsewhere, the Environmental Ministry, via the Directorate General of Coastal and Marine Sustainability (the "Directorate General"), issued another resolution on 20 January 2016 granting the extension of the public-domain concession for the land on which ENCE's factory in Pontevedra is located for a total term of 60 years (10 years of which subject to the performance of specific investments in the energy efficiency, water savings and environmental areas). That resolution has also been challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two environmentalist associations: Greenpeace Spain and the APDR.

Those challenges gave rise to four consecutive court proceedings before the National Appellate Court (Chamber for Contentious Administrative Proceedings), two of which have since been rolled into one, leaving three. ENCE has appeared in court in all the cases in its capacity as co-defendant, arguing the legality of the actions of the Directorate General in extending the concession.

In all three lawsuits, the Directorate General has since acquiesced to the claimants' claims by means of written deeds submitted on 6 March 2019, despite having maintained strenuously and unanimously throughout the proceedings that the Ministerial Order/Resolution of 20 January 2016 was fully lawful. ENCE is opposing the acquiescence vehemently. The Directorate General's acquiescence happened when the proceedings brought by the APDR and Greenpeace Spain (on 3/9/2019 and 26/04/2019, respectively) were declared ready for sentencing.

As a result of the state's acquiescence, the Works Committees at ENCE's head offices and at the biomill in Pontevedra have appeared in court for all three cases.

As for the legal proceedings brought by the town council of Pontevedra, the case is in the final stages of processing and is close to being ready for sentencing.

The Company, in an act of transparency, published a price-sensitive notice on 15 March 2019, outlining its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex. It was estimated that that scenario would have a one-off and extraordinary impact of €185 million, of which €74 million would entail an outflow of cash (dismantling work, contract terminations and employee layoffs).

In addition, on 19 March 2019, the Environmental Ministry began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

The Company believes that the legal arguments in favour of the legality of the Ministerial Order of 20 January 2016 extending the concession for the use of the public-domain coastal land are solid and that it will possibly receive a favourable ruling in that respect. If it does not, based on the solidity of the arguments put forward in its case defending the validity of the contested Ministerial Order, the Company will exhaust all actions available to it in the legal system, including appeals at the highest courts of appeal.

Tax contingencies

The Spanish tax authorities concluded several tax inspections encompassing several Group companies during the first half of 2013. As a result of that process, the income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-payment interest of €6,730 thousand (in the opinion of the inspection team, the object of the assessments is not subject to fine), were signed under protest; of this balance, just €4,037 thousand would result in an outflow of cash.

ENCE appealed the assessments before the National Economic-Administrative Court, which rejected its appeal on 16 June 2016. ENCE lodged a new appeal against this ruling before the National Appellate Court, which was also overturned.

In light of the solidity of the line of defence put forward by ENCE and the strong probability that it has an appeal case, these assessments are being brought before the Supreme Court. In the opinion of ENCE and its tax advisors, there are solid arguments in favour of a positive ruling on the appeals lodged before the latter court, which is why it has not recognised any provision in this respect.

Levy on the Value of Electricity Output ("generation levy")

Several ENCE Group companies have paid and subsequently claimed (firstly before the tax authorities and subsequently before the National Economic-Administrative Court) the reimbursement of sums unduly paid in the returns corresponding to the generation levy in 2013-2017, based on the grounds that the tax in question is not environmental in purpose and the fact that the regulations governing the tax go against European Community law and the principles of legal certainty, equality, ability to pay and non-confiscatory taxation enshrined in the Spanish Constitution. The amount being sought amounted to €83.6 million at 31 December 2019.

26. Financial instruments by category

The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings at year-end:

2019			Fair value through other comprehensive income	Fair value through profit or loss	Total at 31/12/2019
Thousands of euros	Note	Amortised cost			
Inversiones contabilizadas por el método de participación		-	-	49	49
Derivative financial instruments	29	-	1,419	-	1,419
Trade and other receivables	20	39,053	-	-	39,053
Other financial assets	17.2	11,845	-	-	11,845
Cash and cash equivalents	17.1	222,214	-	-	222,214
Total financial assets		273,112	1,419	49	274,580
Derivative financial instruments	29	-	16,361	-	16,361
Trade payables	21	226,869	-	-	226,869
Other accounts payable	28	26,105	-	-	26,105
Bonds and other marketable securities	27.1	239,941	-	-	239,941
Bank borrowings	27.1	384,184	-	-	384,184
Other financial liabilities	27.2	115,245	-	-	115,245
Total financial liabilities		992,344	16,361	-	1,008,705

2018		Fair value through			
Thousands of euros	Note	Amortised cost	other comprehensive income	Fair value through profit or loss	Total at 31/12/2018
Derivative financial instruments	29	-	268	-	268
Trade and other receivables	20	106,922	-	-	106,922
Other financial assets	17.2	15,682	-	-	15,682
Cash and cash equivalents	17.1	348,623	-	-	348,623
Total financial assets		471,227	268	-	471,495
Derivative financial instruments	29	-	23,649	-	23,649
Trade payables	21	235,024	-	-	235,024
Other accounts payable	28	12,665	-	6,300	18,965
Bonds and other marketable securities	27.1	236,162	-	-	236,162
Bank borrowings	27.1	370,815	-	-	370,815
Other financial liabilities	27.2	48,692	-	-	48,692
Total financial liabilities		903,358	23,649	6,300	933,307

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable either directly or indirectly using valuation techniques (note 4.8).

The convertible bonds issued by ENCE were trading at 94.26% of par at 31 December 2019. The fair value of the rest of the Group's financial assets and liabilities is not significantly different from their carrying amounts.

27. Borrowings

27.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2019 and 2018 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

Year-end 2019 - Thousands of euros	Limit	Drawn down	Maturity						
			Current						Total non-current
			2020	2021	2022	2023	Beyond		
Borrowings - Pulp business									
Notes issued	150,494	150,494	-	-	-	-	150,494	150,494	
Revolving credit facility	70,000	-	-	-	-	-	-	-	
Bank loans	155,000	155,000	-	14,543	46,904	68,286	25,267	155,000	
Arrangement fees	-	(1,802)	-	(561)	(570)	(579)	(92)	(1,802)	
Interest and coupons payable and other	-	1,131	1,131	-	-	-	-	-	
	375,494	304,823	1,131	13,982	46,334	67,707	175,669	303,692	
Borrowings - Renewable Energy business									
Notes issued	93,000	93,000	-	-	-	-	93,000	93,000	
Revolving credit facility	20,000	-	-	-	-	-	-	-	
Bank loans	146,000	131,000	17,000	25,900	26,400	24,067	37,633	114,000	
Project finance facility - Termollano	101,208	101,208	7,990	7,897	7,117	8,206	70,000	93,220	
Arrangement fees	-	(6,068)	-	(1,316)	(1,069)	(816)	(2,868)	(6,068)	
Interest and coupons payable and other	-	160	160	-	-	-	-	-	
	360,208	319,300	25,150	32,481	32,448	31,457	197,765	294,152	
	735,702	624,123	26,281	46,463	78,782	99,164	373,434	597,844	

Year-end 2018 - Thousands of euros	Limit	Drawn	Maturity					Total non-current
			Current	Non-current				
			2019	2020	2021	2022	Beyond	
Borrowings - Pulp business								
Notes issued	147,694	147,694	-	-	-	-	147,694	147,694
Revolving credit facility	70,000	-	-	-	-	-	-	-
Bank loans	110,000	110,000	-	4,075	22,925	35,574	47,426	110,000
Arrangement fees	-	{2,250}	-	(528)	(537)	(545)	(640)	(2,250)
Interest and coupons payable and other	-	892	892	-	-	-	-	-
	327,694	256,336	892	3,547	22,388	35,029	194,480	255,444
Borrowings - Renewable Energy business								
Notes issued	93,000	93,000	-	-	-	-	93,000	93,000
Revolving credit facility	20,000	-	-	-	-	-	-	-
Bank loans	285,500	264,000	153,000	16,100	22,400	22,400	50,100	111,000
Arrangement fees	-	(6,493)	(1,375)	(1,136)	(1,009)	(793)	{2,180}	(5,118)
Interest and coupons payable and other	-	134	134	-	-	-	-	-
	398,500	350,641	151,759	14,964	21,391	21,607	140,920	198,882
	726,194	606,977	152,651	18,511	43,779	56,636	335,400	454,326

Going forward, debt service payments in the Pulp Business, assuming current borrowing levels, will be approximately €3.5 million to €5.8 million per annum. In the Renewable Energy business, those future payments are estimated at approximately €6.1 million to €8.4 million.

In addition, the Group has receivables factoring facilities with a limit of €132,407 thousand (note 20) and reverse factoring lines with a limit of €151,000 thousand (note 21).

At the date of authorising the accompanying financial statements for issue, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

Borrowings - Pulp business

Convertible bond issue and revolving credit facility

On 5 March 2018, ENCE placed €160 million of bonds convertible into ordinary shares with qualified institutional investors.

The main terms and conditions of the issue:

Issue size:	160,000,000 €
Face value:	100,000 €
Ranking:	Senior unsecured
Issue date:	05/03/2018
Maturity:	05/03/2023
Coupon	1.25%
Effective interest rate:	1.58%
Conversion price:	7.2635
Conversion premium:	40%
Conversion ratio (shares / bond):	13,767
Maximum no. of shares to be issued:	22,027,948
Potential dilution (% increase in share capital):	8.21%
Traded on:	Frankfurt stock exchange
ISIN	XS1783932863
Issuance costs:	2,075,000 €

The bondholders are entitled to exercise their conversion rights at any time. ENCE, meanwhile, is entitled to prepay the issue at any time after 26 March 2021, so long as ENCE's share price exceeds €9.443 during a set period of time and at any time if 15% or less of the bonds remain outstanding.

The terms and conditions include, as is customary in convertible bond issues, a change of control clause (triggered in the event of the acquisition of 50% of more of the Company's voting shares or obtention of the right to appoint a majority of directors) entitling the bondholders to call the conversion of the bonds at a price that varies depending on the remaining term to maturity but subject to a minimum equivalent to par value. Other clauses have the effect of potentially adjusting the conversion price as a function of the dividends paid out by ENCE annually.

The convertible bonds are unsecured and imply no restrictions on the use of capital. The bonds rank *pari passu* with the rest of the Company's unsecured and unsubordinated borrowings.

Having analysed the terms and conditions, ENCE has concluded that it constitutes a compound instrument and measured the equity component at the time of issuance at €14,551 thousand and the liability component at €145,449 thousand, which is equivalent to an estimated coupon for a bond of similar characteristics with no conversion option of 3.25%. If the bondholders want to be repaid in cash they are only entitled to the bonds' par value plus any accrued and unpaid interest. All other cancellation options contemplate settlement in shares, applying the 'fixed-for-fixed' rule. This financing meets the requirements for recognition as new financing rather than the modification of existing financing.

Under the scope of this issue, the Group also arranged a €70 million revolving credit facility with a syndicate of Spanish and international banks. That facility accrues interest at a rate benchmarked to EURIBOR and matures in 2023. It was fully available for draw down at the reporting date. The interest rate on the facility may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing.

The proceeds from the issue were used to prepay, on 1 June 2018, the €250 million of non-convertible bonds issued on 30 October 2015 and to cover general corporate needs in the Pulp Business.

Against this backdrop, on 1 June 2018, ENCE voluntarily prepaid 100% of the €250 million of high-yield bonds it had issued in 2015; those bonds accrued interest at 5.375% and were originally due on 22 November 2022. The costs associated with their prepayment totalled €18,775 thousand (note 13).

In parallel, ENCE cancelled the revolving credit facility arranged in conjunction with the high-yield bonds with a syndicate of Spanish and international banks. That facility had a limit of €90 million and was originally due in 2021.

Loans

At 31 December 2019, ENCE had arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan in a combined amount of €155 million; those loans fall due in 2023 and 2024.

A portion of the loans, with a face value of €110 million, accrues interest at fixed rates ranging between 1.75% and 1.90%. The remainder mainly accrues interest at EURIBOR plus a spread of between 1.35% and 1.45%. Those loans are guaranteed by several Group companies belonging to the Pulp business (none of the Renewable Energy companies are guarantors).

Borrowings - Renewable Energy business

Recourse borrowings

On 25 November 2017, Ence Energía, S.L., the holding company for ENCE's Renewable Energy business, arranged a senior loan with a syndicate of 12 banks and one Spanish insurance company with a drawdown limit of €170 million, initially structured into four tranches; it also placed €50 million of notes in a private placement which was subscribed by a fixed-income fund.

On 8 December 2018, Ence Energía, S.L., the holding company for the Renewable Energy business, arranged to increase the limit on that senior loan by €17 million and placed €43 million of notes in a private placement, which was subscribed by two fixed-income funds.

The key terms of those loans are as follows:

	Thousands of euros		Maturity	Interest rate (*)
	Undrawn	Drawn		
Senior notes (iv)	50,000	50,000	Dec. 2025 (ii)	3.45%
Tranche 1	63,000	63,000	Dec. 2024	1.75%-3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	60,000	52,000	Dec. 2024	1.75%-3.25%
Tranche 4	20,000	-	Dec. 2024	1.25%-2.75%
Senior notes (iv) and (v)	43,000	43,000	Dec. 2025 (ii)	3.45%
Tranche 5 (v)	17,000	10,000	Dec. 2025	1.75%-3.25%
	259,000	224,000		

- (i) 6-month EURIBOR plus a spread which varies depending on the leverage ratio (net debt-to-EBITDA) in the Renewable Energy business.
- (ii) Due in a single bullet payment on the date indicated.
- (iii) Finances the ongoing construction of a 46-MW biomass power plant in Huelva (note 15).
- (iv) The notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).
- (v) Finances the ongoing construction of a 50-MW biomass power plant in Puertollano (Ciudad Real) (note 15).

The main collateral provided to secure those loans is a pledge over the shares of the Group companies encompassed by the Renewable Energy business (other than those associated with the thermal solar power plant acquired in 2018; note 2) and over their present and future assets and collection claims.

The financing similarly includes certain obligations, which are customary in these types of facilities, mainly related to the disclosure of specific business and financial information, compliance with certain solvency and profitability financial ratios and a requirement to maintain a minimum biomass stock buffer (warehoused and supply agreements), equivalent to three months' consumption.

The covenants also stipulate a cash sweep in the Renewable Energy business of at least €34.3 million, including any amounts drawn down under tranche 4, compliance with certain ratios related with the business's leverage, financial position and cash flow generation capabilities and certain restrictions regarding the payment of dividends and ability to secure additional financing.

The commissions paid and other charges incurred to arrange this funding totalled €5,813 thousand.

In order to hedge the risk deriving from this floating-rate facility, ENCE restructured the hedge agreements it had arranged for the purposes of its previous facilities. The new interest-rate swaps cover 83% of the financing drawn down and lock in an average rate of 1.35% (note 29).

Standard & Poor's assigned the Renewable Energy business's loan - considered "green" finance, an E1 rating, the highest score on its Green Evaluation spectrum.

This financing is not recourse to the Group companies comprising the Pulp business.

Project finance facility at the Puertollano thermal solar power plant

On 29 March 2019, Ence Energía Solar, S.L.U., 100%-owned by ENCE Energía, S.L.U., and Ence Energía Termollano, S.A., 90%-owned by Ence Energía Solar, S.L.U., arranged a project finance facility with a syndicate of four financial institutions to finance the acquisition of a 50-MW thermal solar power plant located in Puertollano (Ciudad Real); that acquisition closed at the end of 2018.

The amount of this project finance facility initially drawn down was €109,570; it matures on 31 December 2031. The key terms of the facility:

Thousands of euros	Drawn	Maturity	Interest rate
Tranche 1	23,203	dic-2026	6m Euribor + 1.95% - 2.3%
Tranche 2	78,005	dic-2031	6m Euribor + 1.95% - 2.3%
	101,208		

The proceeds were used to cancel the bridge loan arranged on 30 November 2018 by Ence Energía Solar, S.L.U. to initially finance the above-mentioned acquisition (note 2) and also to cancel €7,002 thousand contributed by IDAE (acronym in Spanish for the energy savings and diversification institute), the plant's minority shareholder.

The arrangement and other costs incurred to obtain this facility totalled €2,178 thousand.

The project finance facility includes guarantees related exclusively to the asset it finances (i.e., it is not recourse to the rest of the companies comprising the Pulp business), including a pledge over 90% of the shares of ENCE Energía Termollano, S.A. (the plant owner), over 100% of the shares of ENCE Energía Solar, S.L.U., and over its current and future assets and credit claims. It also implies a series of obligations related to the disclosure of certain business and financial information, which are customary in these types of facilities, and the requirement to comply with certain solvency and profitability financial ratios based on the consolidated financial information of Ence Energía Solar, S.L.U. Lastly, the facility includes certain restrictions, mainly related to the ability to pay dividends and obtain new financing and the requirement to maintain a cash sweep equivalent to coverage of 6 months' debt service.

Based on the corresponding analysis, it was concluded that this financing meets the requirements for recognition as new financing rather than the modification of existing financial liabilities (the original bridge loan).

In order to hedge the risk deriving from this floating-rate financing facility, ENCE arranged interest-rate hedges with the project financiers for a notional amount equivalent to 70% of the drawdowns estimated over the term of the loan, locking in a fixed rate of 2% (note 29).

Standard & Poor's has assigned the facility - considered "green" finance, an E1 rating, the highest score on its Green Evaluation spectrum.

Bridge loan – Solar thermal plant in Puertollano

On 30 November 2018, Ence Energía Solar, S.L.U., 100% owned by ENCE Energía, S.L.U., arranged a €139 million loan due 30 November 2019 with a bank in order to temporarily finance the acquisition of the solar thermal power plant located in Puertollano (note 2).

That loan accrued interest at a floating rate benchmarked to Euribor plus a spread ranging between 1% and 2.5%. The fees paid in 2018 to arrange this funding totalled €2,240 thousand.

In 2019, the bridge loan was taken out by a new facility tailored in terms of size and maturity schedule to that plant's cash generation capabilities.

27.2 Other financial liabilities

The breakdown of these liabilities at year-end:

Year-end 2019 - Thousands of euros	Drawn down	Maturity					
		Current 2020	Non-current				Total non-current
			2021	2022	2023	Beyond	
Other financial liabilities - Pulp business							
Financing granted by public organisms	62,029	4,618	3,391	5,848	8,242	39,930	57,411
Liabilities for right-of-use assets (note 18)	43,657	2,124	1,575	1,343	1,119	37,496	41,533
Other	953	953	-	-	-	-	-
	106,639	7,695	4,966	7,191	9,361	77,426	98,944
Other financial liabilities - Renewable Energy business							
Liabilities for right-of-use assets (note 18)	8,606	347	333	333	328	7,265	8,259
	8,606	347	333	333	328	7,265	8,259
	115,245	8,042	5,299	7,524	9,689	84,691	107,203

Year-end 2018 - Thousands of euros	Drawn down	Maturity					
		Current	Largo plazo				
			2019	2020	2021	2022	Beyond
Other financial liabilities - Pulp business							
Financing granted by public organisms	39,600	2,408	3,340	3,392	5,848	24,613	37,192
Other	2,089	2,089					
	41,689	4,497	3,340	3,392	5,848	24,613	37,192
Other financial liabilities - Renewable Energy business							
Financing extended by NCI	7,002	437	437	437	437	5,254	6,566
	7,002	437	437	437	437	5,254	6,566
	48,692	4,934	3,777	3,829	6,285	29,866	43,758

The line item "Financing granted by public organisms" corresponds mainly to loans obtained, usually at advantageous rates, to finance projects undertaken by ENCE to expand and upgrade the productive capacity of its pulp biomills, as well as its research and development work.

Most are loans extended under the scope of the so-called Re-industrialisation and Manufacturing Competitiveness Stimulus Programme and the proceeds are being used to finance certain investments at the Pontevedra and Navia pulp biomills. The loans are repayable over a 10-year term and bear interest at fixed rates ranging between 1.65% and 2.29%. There is a three-year grace period.

In 2019, the line item "Financing extended by NCI" included loans awarded by IDEA, a minority shareholder in Ence Energía Termollano, S.A. which were cancelled in the course of arranging the solar thermal power plant's project finance facility in 2019 (note 27.1).

27.3 Statement of cash flows

Below is a reconciliation between the changes in the Group's borrowings (bank borrowings, capital markets issues and other financial liabilities) and the cash flows from financing activities presented under "Proceeds from and repayment of financial liabilities" in the 2019 statement of cash flows:

Thousands of euros	Cash flows					Movements not entailing cash flows				
	Balance at 01/01/2019	Initial application of IFRS 16	Issues and drawdowns (net of fees)	Repayments/ installments paid	Interest paid	Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Unwinding of discount and other	Balance at 31/12/2019
Borrowings - Pulp business										
Notes and bonds (note 27.1)	145,443	-	(122)	-	-	-	570	-	2,800	148,692
Bank loans	110,000	-	70,000	(25,000)	-	-	-	-	-	155,000
Other financial liabilities	41,257	-	23,698	(2,599)	-	-	-	-	80	62,437
Other non-current liabilities	2,608	-	1,798	-	-	-	-	-	267	4,673
Interest and coupons payable and other	1,323	-	-	-	(3,666)	4,023	-	-	-	1,680
Liabilities related with right-of-use assets	-	46,049	-	(2,689)	(1,573)	1,573	-	297	-	43,657
	300,631	46,049	95,374	(30,288)	(5,239)	5,596	570	297	3,147	416,137
Derivatives associated with financing	263	-	-	-	(126)	-	-	-	164	301
	300,893	46,049	95,374	(30,288)	(5,365)	5,596	570	297	3,311	416,438
Borrowings - Renewable Energy business										
Notes and bonds	90,719	-	-	-	-	-	530	-	-	91,249
Bank loans	259,789	-	19,943	(153,000)	-	-	1,951	-	-	128,683
Project finance facility - Termollano	-	-	107,392	(8,362)	-	-	178	-	-	99,208
Other financial liabilities	7,000	-	-	(7,000)	-	-	-	-	-	0
Other non-current liabilities	16,357	-	6,743	-	-	-	-	-	(1,667)	21,432
Interest and coupons payable and other	134	-	-	-	(7,572)	7,599	-	-	-	161
Liabilities related with right-of-use assets	-	7,300	-	(529)	(289)	289	-	1,835	-	8,606
	374,000	7,300	134,078	(168,891)	(7,861)	7,888	2,659	1,835	(1,667)	349,341
Derivatives associated with financing	7,536	-	-	-	(3,565)	-	-	-	5,993	9,960
	381,536	7,300	134,078	(168,891)	(11,430)	7,888	2,659	1,835	4,326	359,301
	682,429	53,349	229,451	(199,178)	(16,795)	13,484	3,229	2,132	7,938	775,739

In 2018 the main reconciliation items were arrangement fees recognised in profit and loss and interest accrued and outstanding.

28. Other non-current liabilities:

The breakdown of these liabilities at year-end:

		Maturity						
		Current		Maturity				
Year-end 2019 - Thousands of euros	Total	2020	2021	2022	2023	Beyond	Total non-current	
Other non-current liabilities - Pulp business								
Adjustments for tariff shortfall	4,866	193	208	223	239	4,003	4,673	
	4,866	193	208	223	239	4,003	4,673	
Other non-current liabilities - Renewable Energy business								
Adjustments for tariff shortfall	18,314	1,197	1,285	1,381	1,483	12,968	17,117	
Other	4,315	-	4,315	-	-	-	4,315	
	22,629	1,197	5,600	1,381	1,483	12,968	21,432	
	27,495	1,390	5,808	1,604	1,722	16,971	26,105	

		Maturity						
		Current		Maturity				
Year-end 2018 - Thousands of euros	Total	2019	2020	2021	2022	Beyond	Total non-current	
Other non-current liabilities - Pulp business								
Adjustments for tariff shortfall	2,608	-	104	111	119	2,274	2,608	
	2,608	-	104	111	119	2,274	2,608	
Other non-current liabilities - Renewable Energy business								
Adjustments for tariff shortfall	10,057	-	665	714	767	7,911	10,057	
Other (note 2)	6,300	-	6,300	-	-	-	6,300	
	16,357	-	6,965	714	767	7,911	16,357	
	18,965	-	7,069	825	886	10,185	18,965	

"Adjustments for tariff shortfall/surplus" includes the Group's payment obligation to the sector regulator, the CNMC, under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste (note 5). The balance due in 2020 in this respect amounts to €1,390 thousand and is recognised in "Trade and other accounts payable" in the accompanying consolidated statement of financial position.

29. Derivative financial instruments

In keeping with the financial risk management policy outlined in note 6, the Group arranges derivative financial instruments primarily to hedge its financial risks.

The breakdown of this consolidated statement of financial position heading at 31 December 2019 and 2018 (showing the fair value of the derivatives at year-end), is provided in the next table:

Thousands of euros	Non-current assets		Non-current liabilities		Current liabilities	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash-flow hedges:						
IR swap	-	-	7,435	6,221	3,850	3,129
IR swap arrangement fee	-	-	(1,021)	(1,548)	-	-
Currency hedges	1,419	268	-	-	6,097	15,847
Total	1,419	268	6,414	4,673	9,947	18,976

These financial instruments have been measured subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

The changes in the fair value of the derivatives designated as hedging instruments that were reclassified to profit or loss in 2019 and 2018 are shown below:

Thousands of euros - gain/(loss)	2019	2018
Impact on operating profit		
Currency hedges	(30,049)	3,734
Impact on net finance costs		
IR swap (note 13)	(1,663)	(608)
Total	(31,712)	3,126

The derivatives arranged by ENCE qualify for hedge accounting under the prevailing standard.

29.1 Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 31 December 2019:

Underlying	Maturity	Strike price		Notional amount (USD m)
		Call	Put	
EUR/USD	1Q20	1.157	1.233	107.0
EUR/USD	2Q20	1.158	1.202	111.0
EUR/USD	3Q20	1.141	1.196	103.0
EUR/USD	4Q20	1.129	1.189	82.0
				403.0
EUR/USD	1Q21	1.103	1.177	67.0
EUR/USD	2Q21	1.103	1.178	10.0
				77.0

The contracts outstanding at 31 December 2019 cover approximately 74% and 28% of forecast pulp sales in 2020 and the first half of 2021, respectively.

Those instruments presented a negative market value of €4,678 thousand at 31 December 2019 (a negative market value of €15,579 thousand at year-end 2018).

29.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2019 and 2018 are shown below:

Thousands of euros	Fair value	Notional amounts at reporting date:						
		2019	2020	2021	2022	2023	2024	2025
2019								
Pulp business	300	20,000	20,000	12,000	4,000	-	-	-
Renewable Energy business	10,985	264,621	247,953	218,413	188,781	160,371	46,314	37,422
2018								
Pulp business	262	20,000	20,000	12,000	4,000	-	-	-
Renewable Energy business	9,088	184,400	169,950	147,850	125,750	105,633	-	-

In order to hedge the interest rate risk associated with the floating-rate project finance facility funding the Termollano power plant, in 2019, ENCE hedged 70% of the amount arranged at a fixed rate of 0.49% (note 27).

In 2018, ENCE arranged interest rate hedges over floating-rate loans arranged by the Pulp business covering a notional amount of €20 million at a fixed rate of 0.375%, and over 81% of the floating-rate financing arranged by the Renewable Energy business at a fixed rate of 1.35% (note 27).

30. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2019 and 2018 are shown below:

	Thousands of euros			
	31/12/2019		31/12/2018	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	54,042	-	56,477	-
Deferred tax liabilities	-	37,575	-	40,017
Total	54,042	37,575	56,477	40,017
Current:				
VAT (note 20.1)	1,493	548	14,669	2,789
Current tax on profits for the year	8,641	438	1,363	1,828
Electricity generation levy	978	4,238	357	16
Sundry other taxes	719	3,035	459	5,020
Total	11,831	8,259	16,848	9,653

30.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, ENCE Energía y Celulosa, S.A. files its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act, as the parent of Tax Group 149/02, created in 2002.

Application of this regime, on a perpetual basis unless expressly waived, means that the various companies included in this tax group (namely, all the Spanish companies itemised in note 2 in which ENCE has a shareholding of over 75%) do not file their taxes individually.

The statutory income tax rate in Spain is 25%.

Group companies resident in Uruguay and Portugal for tax purposes:

For income tax purposes, the Group companies located in Uruguay pay income tax under the general tax on income from economic activities regime at a statutory rate of 25% of accounting income adjusted for applicable prevailing deductions.

Group company Iberflorestal, S.A., meanwhile, pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 21%.

Tax consolidation group

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the aggregate of the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes, which are then restated for eliminations and adjustments.

30.2 Reconciliation of accounting profit/ (loss) to taxable income/ (tax loss)

The reconciliation of accounting profit/ (loss) to taxable income/ (tax loss) in 2019 and 2018 is provided below:

1

	Thousands of euros	
	2018	2019
Profit before tax (*)	173,231	11,103
Permanent differences:		
Arising in profit or loss	1,660	15,234
Arising in equity	(85)	(130)
Capitalisation reserve	(4,691)	(182)
Temporary differences:		
Arising during the current year	14,363	8,858
Arising in prior years	(15,397)	(9,671)
Consolidation adjustments	(2,147)	(16,800)
Utilisation of tax losses	(40,264)	(2,000)
Taxable income/(tax loss)	126,670	6,412

(*) Profit before tax was generated exclusively by continuing operations

The temporary differences arise from the recognition of income and expense in different periods due to differences between prevailing accounting and tax legislation. A breakdown of these differences by nature is provided in section 30.4.

30.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/ (loss) to taxable income/ (tax loss) in 2019 and 2018 is provided below:

	Thousands of euros	
	2018	2019
Profit before tax (*)	173,231	11,103
Permanent differences arising in profit or loss	1,660	15,234
Capitalisation reserve	(4,691)	(182)
Tax credits recognised	-	(2,077)
Elimination of the accounting profit of entities not resident in Spain	847	349
Consolidation adjustments and eliminations	(3,812)	(15,210)
Taxable income/(tax loss)	167,235	9,217
Tax payable before adjustments	41,809	2,304
Deductions and adjustments in respect of prior year	(292)	(2,706)
Tax corresponding to entities not resident in Spain	43	7
Tax expense /(income)	41,560	(395)

(*) Profit before tax was generated exclusively by continuing operations

The breakdown of tax expense / (income) in 2019 and 2018:

	Thousands of euros	
	2018	2019
Current tax and other	41,302	(598)
Deferred tax	258	203
Tax expense /(income)	41,560	(395)

30.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2019 and 2018 is as follows:

Deferred tax assets

2019	Thousands of euros				
	Balance at 31/12/2018	Increases	Decreases	Transfers & other	Balance at 31/12/2019
Deferred tax assets recognised in profit or loss:					
Non-current asset depreciation	5,556	-	(1,042)	-	4,514
Non-current asset impairment	7,161	144	(1,073)	-	6,232
Provisions	2,924	1,130	(95)	-	3,959
Employee commitments	2,063	356	(1,499)	76	996
Current-asset impairment	1,168	328	-	-	1,496
Other	268	118	(42)	-	344
Non-resident companies and consolidation adjustments	1,182	143	(378)	-	947
Unused tax losses	25,853	682	(750)	(438)	25,347
Unused tax credits	4,723	1,901	(204)	158	6,578
	50,898	4,802	(5,083)	(204)	50,413
Deferred tax assets recognised in equity:					
Hedging derivatives (note 29)	5,579	992	(2,943)	-	3,629
	5,579	992	(2,943)	-	3,629
Total	56,477				54,042

	Thousands of euros					
2018	Balance at 31/12/2017	Increases	Decreases	Transfers & other	ADDITIONS TO scope (note 29)	Balance at 31/12/2018
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	6,912	-	(940)	(1,032)	616	5,556
Non-current asset impairment	11,304	934	(2,242)	(2,835)	-	7,161
Provisions	1,137	2,677	(561)	(337)	8	2,924
Employee commitments	2,022	175	-	(134)	-	2,063
Current-asset impairment	123	226	(149)	968	-	1,168
Other	-	-	(42)	310	-	268
Non-resident companies and consolidation adjustments	1,073	90	(1,545)	1,564	-	1,182
Unused tax losses	35,768	-	(10,066)	151	-	25,853
Unused tax credits	1,547	-	(327)	138	3,365	4,723
	59,886	4,102	(15,872)	(1,207)	3,989	50,898
Deferred tax assets recognised in equity:						
Hedging derivatives (note 29)	(103)	5,682	-	-	-	5,579
	(103)	5,682	-	-	-	5,579
Total	59,783					56,477

Spanish Law 27/2014 on Corporate Income Tax eliminated, with effect from 1 January 2015, the deadline for utilising tax losses, and extended the general term for utilising all tax credits by at least 15 years.

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised within a period of approximately 10 years. In making this judgement, Management factored in the outlook for the Pulp business following the recent capacity additions and the earnings stability contributed by the Renewable Energy business.

The deferred tax assets correspond mainly to asset impairment allowances and provisions for liabilities, charges, non-performance and other items that are not deductible at the time of recognition and the temporary limit on the deductibility of depreciation charges introduced in 2013 and 2014 which the Group began to revert in 2015.

Deferred tax liabilities

2019	Thousands of euros				
	Balance at 31/12/2018	Increases	Decreases	Transfers & other	Balance at 31/12/2019
Recognised in profit or loss:					
Accelerated depreciation (RDL 4/2004)	13,173	-	(956)	-	12,217
Finance costs	100	-	(16)	-	84
Consolidation and other adjustments	9,092	-	(739)	-	8,353
	22,365	-	(1,711)	-	20,654
Recognised in equity:					
Revaluation of forest land (note 15)	13,510	-	-	-	13,510
Convertible bonds (note 27)	3,941	-	(1,261)	(303)	2,377
Consolidation and other adjustments	201	1,604	(1,073)	303	1,035
	17,652	1,604	(2,333)	-	16,922
Total	40,017				37,575

2018	Thousands of euros					
	Balance at 31/12/2017	Increases	Decreases	Transfers & other	Additions to scope (note 2)	Balance at 31/12/2018
Recognised in profit or loss:						
Accelerated depreciation (RDL 4/2004)	1,462	-	(186)	-	11,897	13,173
Finance costs	-	-	(16)	116	-	100
Consolidation and other adjustments	5,587	510	(1,808)	(304)	5,107	9,092
	7,049	510	(2,010)	(188)	17,004	22,365
Recognised in equity:						
Revaluation of forest land (note 15)	13,518	-	(8)	-	-	13,510
Convertible bonds (note 27)	3,271	3,638	(2,968)	-	-	3,941
Consolidation and other adjustments	(15)	340	(312)	188	-	201
	16,774	3,978	(3,288)	188	-	17,652
Total	23,823					40,017

30.5 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from the review of the returns still open to inspection, if any, will not have a material impact on the accompanying consolidated financial statements.

31. Director and key management personnel pay and other benefits

31.1 Compensation paid to the members of the Board of Directors

As stipulated in articles 42 and 43 of the Articles of Association, the directors, in their capacity as members of the Board and in exchange for discharging the supervisory and decision-making duties intrinsic to Board membership, are entitled to receive a fixed annual payment and attendance fees that on aggregate may not exceed the ceiling established to that end at the Annual General Meeting; it is up to ENCE's Board of Directors to determine the precise amount payable within that limit and its distribution among the various directors, factoring in the duties and responsibilities attributed to each, membership of the Board's various committees, the positions discharged by each within the Board and any other circumstances they deem pertinent.

The cap on annual remuneration payable to the directors as a whole in their capacity as such, as set down in the Director Remuneration Policy approved at the Annual General Meeting of 22 March 2018, is €1.9 million.

The remuneration accrued by the members of the Board of Directors in 2019 and 2018 in their capacity as directors:

2019 - Director	Type	Thousands of euros			
		2019			Total 2018
		Fixed remuneration	Attendance fees & other	Total	
Juan Luis Arregui Clarsolo	Proprietary	75	74	149	242
Retos Operativos XXI, S.L.	Proprietary	44	53	97	85
Pedro Barato Triguero	Other external	11	20	31	121
Fernando Abril-Martorell Hernández	Other external	44	61	105	114
José Guillermo Zubía Guinea	Other external	44	91	135	141
José Carlos del Álamo Jiménez	Independent	44	69	113	105
Isabel Tocino Biscarolasaga	Independent	44	73	117	111
Javier Echenique Landiribar	Other external	44	46	90	115
Víctor de Urrutia Vallejo	Proprietary	44	32	76	85
Luis Lada Díaz	Independent	11	17	28	97
Rosa María García Piñeiro	Independent	44	59	103	64
La Fuente Salada, S.L.	Proprietary	44	39	83	70
Turina 2000, S.L.	Proprietary	44	63	107	107
Irene Hernández Álvarez	Independent	33	32	65	-
Miren Amaia Gorostiza Tellería	Independent	33	29	62	-
Mendibea 2002, S.L.	Proprietary	-	-	-	23
Ignacio de Colmenares Brunet	Executive	105	-	105	44
		708	758	1,466	1,524

The non-executive directors only receive the indicated fixed remuneration and attendance fees; they are excluded from the Company's short and long term performance-based bonus schemes.

ENCE has arranged insurance to cover its directors as a group against the following accident risks: death, permanent outright disability and permanent partial disability. In addition, it offers its directors and their spouses an annual medical check-up. It also has a health insurance policy in the name of the Honorary Chairman of the Board of Directors.

ENCE has not extended its directors any advances or loans. The directors did not conclude any transactions with ENCE or any its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis in either 2019 or 2018.

ENCE has no pension or alternative insurance related obligations to its directors, except for its Chairman & CEO, the latter in connection with the performance of his executive duties.

31.2 Key management personnel remuneration

Key management personnel comprise the officers who report directly to ENCE's Chairman & CEO or sit on the Management Committee, as well as the head of the Internal Audit function and any other executives the Board of Directors deems as such. Below is a list of the Group's key management personnel:

Name	Position
Ignacio de Colmenares y Brunet	Chairman & Chief Executive Officer
Alfredo Avello de la Peña	Finance, Corporate Development and Forest Assets Officer
Jordi Aguiló Jubierre	Pulp Operations Officer
Felipe Torroba Maestroni	Independent Energy Plants Officer
Alvaro Eza Bernaola	Supply Chain Officer
Reyes Cerezo Rodríguez-Sedano (**)	general Secretary Sustainability Officer
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
María José Zueras Saludas	Human Capital Officer
Faustino Martínez Rodríguez (*)	Health, Safety and Environment Manager
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer
Fernando González-Palacios Carbajo (***)	Planning and Control Manager
Ángel J. Mosquera López-Leyton	Internal Audit Manager

(*) Joined ENCE on 1 April 2019

(**) Named Sustainability Officer on 19 December 2019

(***) Appointed to the Management Committee on 24 September 2019

(****) Joaquín Bohórquez Crespi de Valldaura joined the Finance and Corporate Development Department during the first half of 2019, at which point he ceased to qualify as a member of key management personnel.

Below is a breakdown of the remuneration and other benefits provided to the Group's key management personnel, including that corresponding to the Chairman & CEO in respect of the services he provides, in 2019 and 2018:

	Thousands of euros	
	2019	2018
Fixed remuneration	2,801	2,700
Variable remuneration	909	1,790
2016-2018 LT bonus plan (note 9.2)	4,855	-
Other	478	449
	9,043	4,939

The Chairman & CEO and the members of the Management Committee enjoy certain company benefits, including mixed savings, life and accident insurance coverage. In terms of the savings portion of the policy, the beneficiaries contribute 1% of their fixed remuneration to the plan and the Company contributes an additional amount equivalent to 5.25% of the latter; the risk component is borne 50/50. The contingencies covered by the insurance include retirement, total permanent disability, full permanent disability, severe disability and death. The sum of capital underwritten is equivalent to 35 times' their fixed monthly remuneration (twice that in the event the contingencies result from an accident). ENCE also provides the members of its Management Committee with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up.

Lastly, the Chairman & CEO and the key management personnel were and are beneficiaries of the 2016-2018 long-term bonus plan and 2019-2023 long-term bonus plan, respectively (note 11).

The Chairman & CEO is entitled to a termination benefit equivalent to one year's pay if the Company terminates his contract, unless the termination is the result of a breach attributable to him or he decides to leave totally voluntarily (two years' pay in the event of a change of control). That same agreement includes a two-year non-compete clause. The Chairman & CEO's remuneration also includes the premium paid for a retirement insurance policy in his name. The benefit payable under this plan is one year's remuneration, to be received upon termination of his contract, so long as this happens at the age of 62 or over.

The breakdown of the remuneration received by the Chairman & CEO in exchange for performance of his executive duties is provided in the Annual Report on Director Remuneration. Note that section C.1.39 of the Annual Corporate Governance Report discloses the termination benefits to which the directors and members of the Group's key management personnel are entitled. In addition, the contracts with the Pulp Operations Officer, the Independent Energy Plants Officer and the Supply Chain Officer include non-compete clauses ranging between one and two year vis-a-vis firms and activities considered analogous to those of ENCE.

31.3 Other developments

The Board of Directors of ENCE named Ignacio de Colmenares Brunet Chairman of the Board of Directors and Juan Luis Arregui Honorary Chairman on 23 April 2019.

In addition, the composition of the Board of Directors of ENCE Energía y Celulosa, S.A. changed as follows in 2019: Irene Hernández Álvarez and Miren Amaia Gorostiza Tellería joined the board, while Pedro Barato Triguero and Luis Lada Díaz stepped down.

In 2018, the composition of ENCE's Board of Directors underwent the following changes: Rosa María García Piñeiro joined the board; the legal person director Mendibea 2002, S.L. was replaced by legal person director La Fuente Salada, S.L., represented in both instances by José Ignacio Comenge Sánchez-Real; and Javier Arregui Abendivar stepped down as the natural person representing Turina 2000, S.L. and was replaced by Gorka Arregui Abendivar.

Note that, as per the notifications provided in this respect by the members of the Board of Directors, no direct or indirect conflicts of interest arose during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

32. Related-party transactions

The Company entered into the following transactions with related parties in 2019 and 2018:

Related party	Item	Thousands of euros	
		2019	2018
Pedro Barato Triguero (*)	Rendering of services	33	167

(*) Pedro ceased to be a member of ENCE's Board of Directors on 28 March 2019

Those transactions were arranged on an arm's length basis. The transaction with Pedro Barato corresponds to the services provision agreement entered into on 1 March 2018 and terminated on 1 March 2019.

32.1 Transactions with investees accounted for using the equity method

The year-end balances outstanding with investees accounted for using the equity method:

Investee	Item	Thousands of euros	
		2019	2018
Oleoenergía de Puertollano, S.L.	Current loans	36	-

There were no transactions with investees accounted for using the equity method in 2019.

33. Environment

A strong environmental commitment is part of ENCE's vision and one of the guiding principles of its sustainability policy. Indeed, ENCE's very business model helps protect the environment as follows:

- ✓ As a leading European manufacturer of eucalyptus pulp, it puts renewable and recyclable products on the market that can be substituted for other materials with a bigger carbon footprint, such as plastics.
- ✓ By generating power from renewable sources, it is contributing to the decarbonisation of the generation mix and preventing harmful emissions.

In addition, Ence cares for the areas surrounding its operating facilities meticulously, minimising the use of resources and implementing all of the measures within its reach to reduce the environmental impact of its activities in terms of waste generation, emissions, discharges, noise and biodiversity.

ENCE's environmental commitment translates into significant investments to introduce prevailing best available techniques and improve process efficiency. It also strives to continually improve its environmental performance, an effort which is spearheaded by its senior management and shared by the entire organisation.

ENCE extends its commitment to caring for the environment to every link in its value chain: from its forestry activities to its pulp production and renewable energy generation activities, emphasising the potential environmental ramifications of its activities and of its supply chain, urging its suppliers to similarly meet the highest standards of environmental excellence.

ENCE is also mindful of the world's pressing environmental challenges such as climate change and the need to protect biodiversity and transition towards a circular economy and factors these concerns into its environmental strategy and targets.

Compliance and best available techniques

ENCE's environmental commitment is underpinned by (i) rigorous and exhaustive compliance with prevailing legislation, which establishes the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources and (ii) adaptation to the best available techniques (BAT) reference documents (BREFs) for the pulp and paper industry and for large combustion plants approved by the European Commission.

The integrated environmental permits held by each of the biomills and energy plants establish the environmental requirements for industrial facilities. The goal is to prevent, or at least minimise, and control air, water and soil emissions with a view to protecting the environment as a whole.

To this end, the permits set emission limits for each facility based on best available techniques as well as surveillance plans in respect of all relevant environmental parameters. ENCE avails of all measures within its reach to meet or even surpass the limits set in the permits and reports to the corresponding authorities on its performance in this respect on a timely basis.

Environmental management systems

Framed by its aspiration to make a real contribution to protecting the environment, ENCE's environmental management efforts go beyond compliance with prevailing legislation. ENCE implemented its total quality management (TQM) programme as a model for cultural and management practice transformation, which addresses matters related to quality, health and safety, environmental protection and pollution prevention as one, in 2011. Under the scope of that model it has defined its environmental policy, which sets the Group's general objectives in this arena and a series of key improvement targets that are clearly focused on the environment and aimed at:

- Reducing odour pollution
- Reducing noise
- Reducing air quality impact
- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing water consumption
- Reducing the consumption of raw materials
- Cutting waste generation
- Improving the management systems

Under the scope of the TQM model, ENCE has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

At its biomills in Pontevedra and Navia and the energy operations centres in Huelva and Termollano, ENCE has developed an integrated management system with the overriding goal of ensuring that all of the Company's activities are carried out under the scope of the management policy set by senior management and the defined targets and goals are met. This integrated system is certified by an accredited organism which audits it annually. The management system is articulated around processes

that are identified and evaluated in order to facilitate control tasks and their continuous improvement. The integrated management system complies with the following international standards:

- UNE-EN-ISO 9001 - quality management
- UNE-EN-ISO 14001 - environmental management
- OHSAS 18001 - workplace health and safety management

The biomills and the Huelva energy operations centre also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables continued participation by these facilities in this scheme, each of which was the first in their respective regions to assume this demanding voluntary commitment which only a limited number of companies uphold today.

The excellent environmental records of ENCE's biomills means that the pulp produced in Pontevedra and Navia has carried the Nordic Swan seal (the official Scandinavian ecolabel, created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway) certifying compliance with the most stringent environmental standards since 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.

Obtained following a rigorous assessment of the environmental impact of the Company's products throughout their entire life cycle, this ecolabel promises compliance with the seal's stringent requirements in the areas of climate change mitigation, energy efficiency and resource consumption (water, chemical products and raw materials).

In addition, in 2019, the pulp made at the Navia and Pontevedra biomills was certified as a qualifying raw material in accordance with Commission Decision (EU) 2019/70 of 11 January 2019 establishing the EU Ecolabel criteria for graphic paper and the EU Ecolabel criteria for tissue paper and tissue products.

Climate change and carbon footprint mitigation

ENCE's business model directly helps combat climate change. Thanks to the power it generates from renewable sources, ENCE is helping to change the Spanish energy model, contributing a type of energy - that generated from biomass - that is not only renewable but is also manageable, a facet other renewable generation technologies do not present.

The use of surplus biomass represents a sustainable energy alternative with major environmental and emission-reducing benefits and contributes to the transition towards a low-carbon energy model, in line with European Union guidelines and Spanish energy policy. ENCE's commitment to mitigating climate change is embodied in its 10-Point Declaration on the Sustainability of Biomass, which includes a pledge to minimising carbon emissions all along the biomass value chain.

Meanwhile, with its pulp-making business, ENCE is helping to change society's consumption patterns by offering renewable, recyclable products with smaller carbon footprints than alternative products such as plastic.

In parallel to the contribution it makes through its business model, ENCE is working to reduce the greenhouse gas emissions generated by its operations. To that end, in 2019, it conducted exhaustive analysis of the carbon footprint of the organisation and its products, using 2018 as the base year for reference purposes.

That exercise was conducted in keeping with the GHG Protocol Corporate Accounting and Reporting Standard and its calculation tools for the pulp and paper industry and ISO 14064-1:2019 for calculation of the organisation's carbon footprint and PAS 2050 and ISO 14067:2018 for calculation of the products'

footprint, benchmark documents in Europe and Spain as far as emissions are concerned. The results for the base year were then submitted for assessment by an independent external expert to provide reasonable assurance as to their accuracy and the appropriateness of the calculation protocol and tools.

33.1. Pulp

Navia biomill

In October 2019, the Navia biomill upgraded and optimised the facility's technology. That work included the implementation of best available practices in a significant number of productive processes that will in turn lead to an increase in capacity of 80,000 ADt, as well as improving the biomill's environmental performance by enhancing equipment and system technology throughout the productive process.

In order to implement the environmental targets contemplated in the project, specifically including higher quality liquid discharges and lower emissions of total particles and SO₂, ENCE first conducted an environmental impact assessment, introducing changes that were then introduced into the environmental permit. The main environmental improvements introduced:

- Improvements in the cooking phase and continuous digester, which will increase production capacity from 1,800 ADt/day to 2,100 ADt/day, while enhancing the quality of the pulp produced, reducing energy consumption and eliminating associated diffuse emissions.
- Improvements in the pulp washing phase, derived from the improved quality of the liquors and the replacement of the existing vacuum filters with a new DD-washer, which will in turn lower fugitive emissions of odorous gases generated during washing and cut chemicals consumption significantly.
- Implementation of a second pulp drying line which will increase annual production at the facility from 605,000 tonnes at present to 685,000 tonnes, thanks to the increase in production eked out by fine-tuning the cooking phase and the elimination of other bottlenecks.
- Optimisation of the recovery boiler which will increase the production of steam and the current electrostatic precipitators' ability to eliminate particles, adding a new field.
- Optimisation of the evaporation line, making better use of the condensates (thermal and direct) from the line with the aim of achieving dry material concentration levels of 80%. Also, improvements in the lime kilns and furnaces to fine-tune the preparation of the white liquor, improving the ability of the existing electro-filter to reduce particles and control over the nitrogen oxides generated in it.
- Improvements at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, as well as replacing the current primary clarifier (to be used as a secondary clarifier) with a new dissolved air flotation (DAF) clarifier.
- Maximum utilisation of the existing back-pressure turbine's capacity to increase its energy yield (from 40 MWe to 44 MWe) by boosting the steam originating from the bark furnace and making use of the low and medium pressure steam extracted from the turbine.
- Improvements in the raw water and demineralised water treatment systems and the supply of compressed air at the facility to adapt them for the new operating conditions and production capacity.

These higher standards will lead to operational excellence, one of the cornerstones for achieving the impact improvement targets set for the Navia biomill. Environmental capital expenditure at this plant totalled €25.5 million in 2019.

Significant progress was also made on reducing pulp and paper sector specific nuisance odours in 2019: odours in minutes decreased by 65% year-on-year at the Navia biomill, this being one of the key aspects of the environmental improvements achieved via the operational control enhancements.

Thanks to the improvements and changes introduced at this facility, the greenhouse gas emissions authorisation was revised to state biomass as the main fuel used to produce electricity at the facility.

Contribution to the surroundings in Navia

ENCE strives to improve the reputation of its facilities in the vicinity of its Navia biomill by highlighting the effort made to care for the environment and its role as an engine for economic growth in the town, specifically a source of wealth and employment in that part of Asturias. To that end, in 2019, it planned and executed a community relations plan which encompasses all of the activities related with local and regional entities, neighbourhood, sports, cultural and community associations and environmentalists. That plan also pools and channels all the information generated by the biomill to its community stakeholders and provides for sponsorship and patronage activities in the area.

The most important such initiative is the collaboration agreement with the Navia town council, signed in July 2017 and in effect since then. That agreement contemplates earmarking €100,000 to sponsorship of community and environmental activities each year; a commitment to ensuring that 50% of new hires hail from the municipality; priority contracting of local suppliers; the development of job skills by offering work practice to university graduates; undergraduates and post-graduates and support for projects that enhance and care for nature in Navia.

Under the scope of that agreement, in 2019 ENCE spearheaded the sponsorship and patronage of multiple community, cultural and sports events and helped with the donation of gear to local residents. Most notably, 2019 marked the conclusion and inauguration of sports grounds in the area of Navia known as El Pardo. That facility has been considerably upgraded thanks largely to funds donated by ENCE.

Pontevedra biomill

Kraft pulp mills generate odorous compounds during certain stages of the process which, if not managed correctly, can escape into the air, generating nuisance smells in the vicinity of the biomill. Aware of this, in Pontevedra ENCE has been working for years to improve its processes, facilities and operations in order to prevent and at least manage its odorous gases. It is working towards a 'zero odour' target. That effort is articulated around a Zero Odour Plan which began in 2010, since when odour emissions from stationary sources have been slashed by 98%.

As for liquid waste, the Pontevedra biomill improved its performance once again in 2019 with respect to the limits set in its environmental permit. All of the biomill's wastewater readings are well below the limits set in the permit, notable among which its chemical oxygen demand (COD) - the key measure of wastewater quality - which outperformed the limit by 65%, coming in at 2.46 kg/ADt, compared to the stipulated threshold of 7 kg/ADt.

The trend in this metric evidences the progress the biomill has made on improving the quality of its end wastewater. Note, additionally, that COD in Pontevedra is 88% better than the upper end of the reference range set for this parameter in the pulp sector BREF.

Efficient management of water resources, particularly reduction of water consumption, is one of the biomill's environmental priorities, to which end it has been introducing specific measures to foster water usage efficiency and reuse. Thanks to that effort, in 2019 ENCE managed to cut this biomill's water

consumption per tonne of pulp produced by 11% compared to 2018, cementing a 20% reduction in consumption over the past four years.

ENCE also applies circular economy principles in its own productive processes, prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. As part of that ongoing effort, in 2019, the Pontevedra biomill attained certification in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, making it one of the first companies in Spain and the first in its manufacturing sector to obtain it. That milestone evidences the excellence of ENCE's waste management model. Indeed, it has cut waste generation by 25% since 2014 and achieved recovery rates of over 99%.

Elsewhere, the process of getting the Madrid regional environmental authorities to authorise a subsidiary called *Sostenibilidad y Economía Circular S.L.* as a waste manager continued. The aim is to create a mobile plant capable of making soil improvers for use in the recovery of degraded land (mines, refills, etc.).

As in Navia, work was undertaken at the Pontevedra biomill to increase annual capacity to 515,000 tonnes, accompanied by measures designed to boost its process efficiency and environmental performance. Environmental capital expenditure at this biomill totalled €7.4 million in 2019.

Lastly, in keeping with its commitment to transparent reporting, the Pontevedra biomill's environmental readings are available for consultation on its website, at www.encepontevedra.com.

Pontevedra Environmental Pact

ENCE and the environment department of the regional government of Galicia entered into an "Environmental Pact" on 28 June 2016 triggering the rollout of a five-year programme comprising environment-related investments and projects designed to contribute to economic development in Pontevedra and Galicia and boost the sustainability of the activities performed by ENCE at its Pontevedra Operations Centre under the scope of its corporate social responsibility strategy.

The Pact is a legal concept provided for in Galician legislation and already used by ENCE and the regional government in the past. Under such a pact, a company undertakes to bring its environmental management beyond that stipulated in prevailing environmental legislation by pursuing best available techniques in this arena.

Under the pact, ENCE has committed to:

- Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- Fostering job creation by using regional forest resources.
- Creating a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- Installing a biomass-fuelled co-generation plant and three bioenergy centres, which is expected to entail €94 million of capital expenditure.
- Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:

- I. A commitment to contribute up to €15 million to any investments mandated by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the city of Pontevedra;
- II. A commitment to contribute up to €5 million to the refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to the construction of a football pitch in the vicinity of Lourizán;
- III. Creation of a framework agreement for application in tandem with ENCE's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

Effectiveness of these commitments and projects is contingent upon effectiveness and survival of ENCE's concession rights in Pontevedra and the grant of the necessary permits and authorisations, which have been applied for from the competent bodies of the regional government of Galicia, some of which are still being processed.

The Pact was modified via addenda signed on 16 January 2017 and 5 March 2018, as a result of which, exceptionally and with effect solely in 2017 and 2018, respectively, ENCE assumed the commitments outlined in the "Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy", which contemplates annual funding of up to €3 million. The 2018 addendum also included the commitment to contribute up to €5 million to upgrading and modernising the urban waste treatment plant located in the city of Pontevedra and up to €3 million to the construction of a new building to serve as the head offices of the Research Centre, in the event the regional government of Galicia contracted and executed the related works that year.

A further addendum to the Pact was signed on 16 September 2019 under which, exceptionally and with effect solely in 2019, ENCE has once again assumed the commitments outlined in the "Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy", endowed with up to €3 million. It has also been agreed to negotiate a new addendum to cover 2020. The addendum currently under negotiation contemplates the assumption of a number of commitments of up to €9 million (note 25).

Forestry

ENCE maintained its position and role as the leading private forest manager and a key player in the timber-based product market in Spain throughout 2019. It also reinforced its position as benchmark buyer of biomass for conversion into energy.

ENCE manages its forest assets end-to-end (from plantation to harvesting); those assets include forest land it owns and acreage operated under consortia and leased from third parties through its forest management companies, Silvasur and Norte Forestal. The purchase of standing timber (where ENCE is responsible for the purchase, harvesting and transport of the timber) and of timber straight from suppliers (where ENCE purchases directly from timber specialists) is managed by the Group's corporate supply chain department.

In both cases - forest management and purchases from third parties - the internal management requirements are framed by an integrated forest management system which is in turn articulated around applicable regulatory requirements and the benchmark sustainable forestry management and chain of

custody standards: FSC® (Forest Stewardship Council®) (with license numbers FSC-C099970 and FSC-C081854) and PEFC® (Programme for the Endorsement of Forest Certification Schemes).

Thanks to the 10-Point Declaration on the Sustainability of Biomass presented by ENCE in 2017 and the effort to reach out to benchmark NGOs, the resulting primary agricultural biomass (direct sub-product) is now managed as a formal operating process, which is systematically monitored and assessed, and specific action plans. As with timber, the related requirements are adapted for the various sources of production (managed forest land, purchase of standing timber and/or direct purchases from traders).

The corporate supply chain department is tasked with ensuring that all the raw materials sourced for the production of timber and energy, whether produced on owned forests or purchased from third parties (standing timber and directly from traders) comply with prevailing legal and regulatory requirements.

The procurement of timber and biomass generates income and jobs in rural communities, with knock-on effects on the economy in areas in which raw material production activities constitute one of the main ways of earning a living. ENCE's contribution to the rural economy goes beyond development of its direct businesses by helping its stakeholders raise their capabilities: financing schemes for certification groups; nursery discounts; transfer of know-how to forest owners and companies; training and education, biomass collection technological developments, assistance with regulatory compliance for forest owners and companies etc., all with the aim of accelerating genuine sector development framed by the Group's environmental and community policies.

As noted, management and monitoring of these activities is framed by prevailing legislation and regulations. ENCE is a forestry sector benchmark in terms of compliance with labour, technical and regulatory requirements and is positioned to assure that all of the activities performed by it and its partners are compliant with the European due diligence regulation with respect to the legal origin of timber (EUTR). Its biggest challenge lies with the development of stakeholder policies (owners, suppliers, sellers of standing timber, associations, etc.). To overcome that challenge it reaches out continuously to its partners with the aim of communicating the desirable and expected management requirements, which are focused on compliance with community and, naturally, environmental standards, such as forest asset longevity, impact minimisation, structural and specific diversity preservation, alternative uses for goods and services, ongoing innovation, forestry principles in rural areas, active engagement with stakeholders and forest certification.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 92% and 71%, at year-end 2019, respectively. Dual certification (PEFC+FSC), an initiative being spearheaded by Ence in the market, remains high, at standard-setting levels (89% and 63% of incoming timber at Navia and Pontevedra, respectively).

In 2019, ENCE managed to produce 216,832 cubic metres of timber, 97% of which certified. Elsewhere, ENCE invested over €6.6 million in its forest assets as a whole in 2019, money which was earmarked primarily to forestry care, reforestation, infrastructure upgrades and fire protection.

ENCE's proprietary forestry management activity was audited in accordance with the sustainable forest management standards during the first half of the year with satisfactory outcomes. As a result, ENCE's management of its owned forests remains a benchmark not only in terms of robust technical management at the national level but also as a source of timber, for the large part doubly certified.

On the technical management front, the following benchmark projects stand out:

- Project for the recovery of eucalyptus plantations affected by fire, managerial shortcomings or pests and diseases.
- Continuation of the GONIPTERUS project for the biological treatment of this pest in eucalyptus plantations for the fourth year running. Since the Group embarked on this pest control strategy in 2016, over 155,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner.
- Rollout of a programme for the selection of trees that are more resistant to the *Teratosphaeria nubilosa* fungus.
- Rollout of the RENOVA project, designed to make use of every last bit of the tree.
- Expansion of the experimental network in the Forestry R&D area with the installation and rollout of 34 new test plots for genetic and forestry care experimentation purposes in forestry land owned by the Group and other plots owned by individuals and associations.
- Improvements in the supply of *Eucalyptus globulus* and *E. nitens* plants to the sector. This falls under the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best materials for planting and recommendations regarding the best forestry care solutions for each situation.
- The project dubbed "Improved ownership accreditation" designed to pinpoint the location of mature and extra-mature eucalyptus plantations in Galicia and Asturias in order to inform their owners of their value, mobilise existing idle resources and possibly present bids, getting them into the market.
- Project designed to draw out oversized timber in order to attract mature plantations, with high tonnage per hectare, onto the market.
- Agricultural biomass supply project at the energy plants in southern Spain designed to foster the recovery of waste, and not only forest but above all agricultural sub-products, preventing it from being burned and unlocking value.

ENCE's forest management activity is a source of technical support and knowledge that underpins an important know-how sharing process (the provision of training and support for producers and associations via forums, talks and financing formulae addressing issues such as forest care, plant selection, pest control, legal compliance and forestry certification) and the promotion of standing timber and supplier purchases, as well as fostering communication and debate in general on relevant forestry matters with the rest of the sector, the public authorities and civil society. ENCE participates in the main sector associations as a partner in some instances and as an observer in others. It engages actively in sector debates, the development of sector standards and technical or management requirements.

In 2019, ENCE also carried out the compulsory traceability audits in accordance with the FSC® and PEFC® schemes encompassing all of its business activities (the entire chain, from timber production through purchases and procurements to pulp and timber sales to other customers), including an extraordinary Assurances Services International (ASI) FSC audit under the scope of its Transaction Verification policy. In all instances the audit results were positive in respect of the stock of timber managed by ENCE, which in 2019 amounted to a total of 2,284,616.4m³ of factory-certified timber.

The improvements introduced to the forest logistics process gathered traction during the year (reorganisation of logistics tasks; fleet diversification and flexibility; LNG-propelled trucks; load geolocation tracking during vehicle assignment, etc.)

On the safety front, the Group continues to foster implementation of a safety culture by the firms it works with by means of initiatives on the ground related with employee health and safety awareness-raising by means of seminars, talks and oversight of critical interventions such as manual felling.

33.2. Renewable Energy business

In 2019, ENCE continued to execute the projects aimed at adapting the energy operations centres for implementation of best available techniques ahead of effectiveness in 2021 of the BREF for Large Combustion Plants. The focus during the initial phase of adaptation was on preparing for compliance with the new emission limits, planning different emission treatment systems depending on each power plant's needs. The rest of the interventions needed will be concentrated in 2019 and 2020 and will focus on the introduction of all the required technological, operational and managerial improvements which, while not associated with specific new thresholds, will enable ENCE not only to guarantee compliance with the various regulatory requirements but also to achieve sustained environmental excellence. That work will be evident in the revisions to the environmental permits planned for 2019-2020.

During 2019, ENCE also continued to execute the so-called Reliability of Environmental Indicator Measurements project, investing in redundant continuous emissions measurement equipment and equipment for the automated capture and processing of data. That effort was complemented by specific internal and external training initiatives.

Framed by its circular economy strategy, ENCE is prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. In fact, the percentage of waste sent to landfill in 2019 was below 10% at all plants except for the Termollano plant.

ENCE plays a key role in helping other sectors to close the circle, e.g., it helps the agriculture sector by using vine shoots and olive pomace produce power. Not only does ENCE address the issue of what to do with that waste, it monetises it and prevents potential environmental damage as a result, for example, of uncontrolled burning or other non-sustainable forms of treatment.

Huelva operations centre

The Huelva operations centre is a prime example of the production of power from biomass as it is home to two important plants (HU41 and HU50) with another one under construction (HU46). Considerable progress was made on the construction of the new plant during 2019, with the various processes undergoing their first tests in May and June. The plant was successfully commissioned during the first quarter of 2020.

On the environmental front, all of this facility's wastewater readings, both the volume discharged and the main indicators tracking the quality of the effluents discharged, remained below the thresholds stipulated in the environmental permit. New investments are planned for 2019 to improve the analysis of the centre's water readings in order to make further progress on the targets for enhancing the use of water and for separating the effluents and treating them onsite.

As for air emissions, following the annual stoppage at the HU-41 MW biomass furnace, both the bag filter and the emissions desulphurisation system contemplated in the plan for getting ready for the sector BAT are operational.

Projects to improve the air quality and noise levels were ongoing; specifically, action plans for reducing particle emissions from diffuse sources continued to be designed and executed. A noise map was drawn up at the plant, factoring in the installations to be dismantled.

As for waste, in 2019 a range of projects were studied for the use of ash and slag in mine restoration, soil improvers and also as a by-product in the manufacture of fertilisers.

Lastly, in terms of the dismantling of the pulp-making facilities, in 2019, the work continued as scheduled, complying notably with the stipulated workplace safety and environmental standards, particularly those related with diffuse emissions, noise and waste management.

In 2019, ENCE obtained the required 'non-substantial modifications' permit for the capacity to be added via the new biomass plant and for the related changes in the emission limits and the addition of new emission points.

It has also secured environmental authorisation for the plans to include 858 kWp of photovoltaic panels to enable generation for self-consumption, and that was duly added to the plant's environmental permit.

Capital expenditure on environmental projects totalled €4.2 million at this plant in 2019. Those investments were earmarked primarily to enhancing the management of wastewater, emissions and air quality and improving the biomass storage facilities.

Merida operations centre

In 2019 Merida continued to comply with its wastewater and emissions requirements.

The most important investment made during the year was the installation of selective non-catalytic reduction (SNCR) technology to reduce NOx emissions in combustion gases. That technology is currently being tested under warranty and is producing very positive results. The project is framed by the process of readying the centre for more stringent emissions controls ahead of looming effectiveness of the Best Available Techniques.

Within the plant's operational management, a series of periodic activities have been adapted and introduced at the centre to encourage ENCE's employees, operations and maintenance subcontractors and other people working at the plant to keep sustainability in mind. For example, waste handling awareness courses, the implementation of a suggestions box for ideas for how to improve the plant's environmental performance and monitoring of the environmental oversight programme designed for the facility.

With the aim of furthering the sustainable economy model at this centre, meetings have taken place with the Extremadura regional government's sustainability team addressing the possibility of introducing the degraded mine land recovery project in Salamanca into the region. The authorities have expressed interest in this circular economy initiative and work is underway to speed up the permitting process.

Lastly, the plant continues to collaborate with other companies in the region on the LIFE ICIRBUS Circular Economy project, researching how to recover the ash produced in the furnace. This project is in its final phase and the results for the harvests collected at which this fertiliser was used are being analysed. The prototype has been installed and the Lobón (Badajoz) urban waste treatment plant is operating continuously.

In Merida, ENCE is also participating in the Life Renatural NZEB sustainable construction project, the goal of which is to develop buildings which consume barely any energy and have a low carbon footprint, using natural and recycled materials and products.

It is also worth highlighting the financial effort being made to reduce the activity's noise impact in the surrounding areas: phase one, involving a number of interventions at the furnace area, is underway and will be expanded on during a second phase that will start following the corresponding assessment.

In all, environmental investments totalled €1.4 million in 2019 and were concentrated in projects related with noise, waste and emission reduction and air quality.

Enemansa operations centre

The priority at Enemansa for 2019 in terms of improving the plant's environmental performance was to enhance the management of the discharges by making progress on the project for connecting up with the municipal treatment facility. As a result, the ability to send discharges outside of the plant has been reestablished and the separation of the various flows within the plant has been improved.

Another area of significant improvement at this facility was the environmental data reliability initiative. Indeed, that was this plant's most significant project cost-wise, entailing an investment of €300 thousand and an annual maintenance agreement worth around €80 thousand. That project has been executed and was fully functioning by the first half of 2019.

As for air emissions, all of the plant's existing emission points comply with the limits stipulated in its integrated environmental permit.

On the noise front, work continued on the projects planned for 2019 with follow-up targets already set for 2020.

In all, environmental investments totalled €0.7 million in 2019 and were concentrated in projects related with noise and wastewater reduction and air quality.

La Loma operations centre

Important upgrade work was carried out at this centre in 2019, including the implementation of a forced evaporation system for the plant's discharges, the installation of noise screens and improvements to wastewater tank. In 2020, the centre plans to continue to execute other projects started in 2019 such as diversification of the evaporation systems, modification of the discharge point and wastewater separation.

As for emissions, aware of the air quality situation in the town near Villanueva del Arzobispo, the plant boasts excellent results in terms of the particle emissions from the biomass plant.

On the waste management front, again taking a circular economy approach, this facility continues to manage its ash as a byproduct and not as waste, having filed the corresponding information with Spain's environment ministry and notified the regional department of the environment.

In all, environmental investments totalled €0.7 million in 2019 and were concentrated in projects related with noise, wastewater and discharge reduction.

Lucena operations centre

Execution of a range of efficiency and environmental performance improvement projects continued at this plant in 2019. Those projects included fitting a bag filter at the biomass furnace emissions point, a noise emissions reduction project and the project for improving the reliability of the plant's environmental readings.

The atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

In 2019, within the stipulated deadline, the application was duly filed for the allocation of free emission allowances for Phase 4 of the European Union Emissions Trading System (EU ETS), which are granted in two periods: 2021-2025 and 2026-2030. The CHP plant successfully completed the application verification and registration process and awaits notice of the linear reduction factors applicable to the plant as a new entrant.

In all, environmental investments totalled €2.2 million in 2019 and were concentrated in projects related with emissions and wastewater.

Termollano operations centre

In 2019, the work at this plant consisted of integrating the Renewable Energy business's dynamics and standards, implementing and certifying the UNE EN ISO 14001-based environmental management system.

Among the various environmental upgrade investments undertaken at this plant, it is worth highlighting the installation of thermal imaging cameras for the early detection of possible heat transfer fluid leaks and the improvements made to the solar field connection systems. A benchmarking exercise is also underway with respect to the improvements being made to heat transfer fluid management at the plant to ensure sustained application of prevailing best available techniques at the Puertollano plant.

34. Events after the reporting date

No significant events have taken place since 31 December 2019, other than those already disclosed herein, that would imply modifying the accompanying 2019 consolidated financial statements.

Appendix

Statement of financial position at 31 December 2019 and 2018 and statement of profit or loss and of cash flows for the years then ended for the PULP and RENEWABLE ENERGY

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2019 AND 2018

Thousands of euros	2019				2018			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	6,066	-	6,066	-	5,675	-	5,675
Other intangible assets	14,925	55,300	(14,390)	55,835	12,381	42,057	-	54,438
Property, plant and equipment	647,322	592,710	(1,728)	1,238,304	475,441	513,424	(1,729)	987,136
Biological assets	78,731	345	-	79,076	82,408	149	-	82,557
Non-current financial assets:								
Securities portfolio	312,378	-	(312,378)	-	277,378	-	(277,378)	-
Equity-accounted investments	48	1	-	49	-	-	-	-
Loans to group companies and associates	75,177	-	(75,177)	-	75,177	-	(75,177)	-
Hedging derivatives	1,419	-	-	1,419	268	-	-	268
Other financial assets	2,184	5,175	-	7,359	1,432	12,026	-	13,458
Deferred tax assets	38,622	15,420	-	54,042	42,817	13,648	12	56,477
	1,170,805	675,017	(403,673)	1,442,150	967,302	586,979	(354,272)	1,200,009
CURRENT ASSETS:								
Non-current assets held for sale	-	-	-	-	4,000	-	-	4,000
Inventories	44,850	11,702	-	56,552	35,980	7,565	-	43,545
Trade and other receivables	29,209	5,789	-	34,998	89,485	16,044	-	105,529
Trade receivables, third parties	6,744	10,178	(16,922)	-	6,445	16,644	(23,089)	-
Receivable from group companies and associates	3,506	549	-	4,055	1,198	195	-	1,393
Other receivables	2,116	1,074	-	3,190	12,937	2,548	-	15,485
Tax receivables	6,900	1,741	-	8,641	-	1,363	-	1,363
Income tax receivable	-	-	-	-	-	-	-	-
Current financial assets:								
Loans to group companies and associates	-	36	-	36	-	-	-	-
Other financial assets	4,441	9	-	4,450	2,218	6	-	2,224
Cash and cash equivalents	101,311	120,903	-	222,214	148,161	200,462	-	348,623
Other current assets	1,667	163	-	1,830	2,023	33	-	2,056
	200,744	152,144	(16,922)	335,966	302,447	244,860	(23,089)	524,218
TOTAL ASSETS	1,371,550	827,161	(420,595)	1,778,116	1,269,749	831,839	(377,361)	1,724,227

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2019 AND 2018

Thousands of euros	2019				2018			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
PATRIMONIO NETO:								
Issued capital	221,645	22,604	(22,604)	221,645	221,645	22,604	(22,604)	221,645
Share premium and parent company reserves	334,463	77,604	(77,604)	334,463	332,042	75,684	(75,684)	332,042
Parent company retained earnings (prior-year losses)	(43,666)	(28,632)	(33,598)	(43,666)	(71,196)	(45,912)	(45,912)	(71,196)
Reserves in fully-consolidated companies	159,469	(10,201)	(33,598)	115,670	129,892	(75)	(46,609)	83,208
Interim dividend	(12,493)	-	-	(12,493)	(51,309)	-	-	(51,309)
Translation differences	10	-	-	10	13	-	-	13
Own shares - parent company shares	(11,783)	(4,891)	-	(11,783)	(4,352)	-	-	(4,352)
Valuation adjustments	36,860	116	-	31,969	27,720	(1,942)	-	25,778
Other equity instruments	11,545	-	-	11,545	13,830	235	-	14,065
Other owner contributions	-	222,890	(222,890)	-	-	173,500	(173,500)	-
Group profit for the period	309	5,315	3,585	9,209	126,246	9,072	(6,189)	129,130
Equity attributable to owners of the parent	696,359	284,803	(324,479)	656,683	724,531	233,166	(278,673)	679,024
Non-controlling interests	-	18,250	-	18,250	-	18,272	-	18,272
TOTAL EQUITY	696,359	303,053	(324,479)	674,933	724,531	251,438	(278,673)	697,296
NON-CURRENT LIABILITIES:								
Borrowings:								
Bonds and other marketable securities	148,692	91,249	-	239,941	145,443	90,719	-	236,162
Bank borrowings	155,000	202,903	-	357,903	110,000	108,164	-	218,164
Other financial liabilities	98,944	8,259	-	107,203	37,196	6,562	-	43,758
Derivative financial instruments	157	6,257	-	6,414	142	4,531	-	4,673
Grants	5,446	1,304	-	6,750	6,257	1,583	-	7,840
Deferred tax liabilities	22,994	18,598	(4,017)	37,575	21,029	19,408	(420)	40,017
Non-current provisions	3,381	9,429	-	12,810	3,087	9,200	-	12,287
Non-current accruals and deferred income	2	3,374	-	3,376	-	1,470	-	1,470
Other non-current liabilities	4,673	21,432	(75,177)	26,105	2,608	16,357	-	18,965
Borrowings from Group companies and associates	-	75,177	-	-	-	75,178	(75,178)	-
	438,289	437,882	(79,194)	798,077	325,762	333,172	(75,598)	583,336
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	1,131	25,150	-	26,281	893	151,758	-	152,651
Other financial liabilities	7,695	347	-	8,042	4,494	440	-	4,934
Derivative financial instruments	6,244	3,703	-	9,947	15,971	3,005	-	18,976
Trade and other payables	181,416	45,453	-	226,869	150,721	84,303	-	235,024
Borrowings from Group companies and associates	10,588	6,334	(16,922)	-	16,823	6,267	(23,090)	-
Trade payables, third parties	438	-	-	438	1,608	220	-	1,828
Income tax payable	4,365	3,456	-	7,821	7,459	366	-	7,825
Taxes payable	24,025	1,683	-	25,708	21,487	870	-	22,357
Current provisions	235,902	86,126	(16,922)	305,106	219,456	247,229	(23,090)	443,595
	1,371,550	827,461	(420,595)	1,778,416	1,268,749	831,839	(377,361)	1,724,227

CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR 2019 AND 2018

Thousands of euros	2019				2018			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	572,381 (30,049)	167,953	(4,982)	795,352 (30,049)	696,983	138,917	(3,918)	831,982 7,354
Gains/(losses) on hedging transactions	-	-	-	-	3,734	-	-	7,386
Changes in inventories of finished goods and work in progress	3,024	-	-	3,024	7,386	887	-	6,423
Own work capitalised	10,853	2,083	-	12,936	5,536	-	-	2,053
Other operating income	4,002	1,355	(3,428)	1,929	4,386	2,053	(3,696)	2,743
Grants taken to Income	3,264	1,050	-	4,294	1,788	499	-	2,287
Operating income subtotal	563,475	172,421	(8,410)	727,486	719,813	142,356	(7,614)	854,555
Cost of goods sold	(263,831)	(48,681)	4,982	(307,530)	(260,264)	(43,951)	3,918	(300,297)
Employee benefits expense	(79,897)	(12,357)	-	(92,254)	(69,374)	(8,988)	-	(77,672)
Depreciation and amortisation charges	(53,819)	(29,166)	-	(82,985)	(51,973)	(17,856)	-	(69,829)
Depletion of forest reserve	(9,271)	(66)	-	(9,337)	(5,699)	(122)	-	(5,821)
Impairment of and gains/(losses) on disposal of fixed assets	2,340	(504)	-	1,836	11,622	(15,36)	(46)	10,400
Impairment of financial assets	(2,313)	-	-	(2,313)	183	-	-	183
Other operating expenses	(146,278)	(59,536)	3,428	(202,386)	(160,468)	(44,821)	3,636	(201,593)
Operating expenses subtotal	(553,069)	(150,310)	8,410	(694,969)	(535,973)	(116,584)	7,558	(644,989)
OPERATING PROFIT	10,406	22,111	-	32,517	183,840	25,772	(46)	209,560
Finance income:								
From equity instruments:								
Group companies and associates	-	-	-	-	6,574	-	(6,574)	-
Third parties	29	-	-	29	-	-	-	-
From marketable securities & other financial instruments:								
Group companies and associates	2,574	-	(2,574)	-	3,401	489	(3,401)	985
Third parties	437	495	-	932	496	-	-	-
Finance costs								
Group companies and associates	-	(2,574)	2,574	-	-	(3,401)	3,401	-
Third-party borrowings	(11,834)	(11,841)	-	(23,675)	(30,879)	(7,501)	-	(38,380)
Change in fair value of financial instruments	-	-	-	-	(1,682)	-	-	(1,682)
Net exchange gains/(losses)	1,512	(22)	-	1,490	3,029	(38)	-	2,991
Impairment of and gains/(losses) on disposals of financial assets	(188)	-	-	(188)	(249)	-	-	(249)
NET FINANCE COST	(7,470)	(13,942)	-	(21,412)	(19,310)	(10,455)	(6,574)	(36,335)
Share of profit/(loss) of investees accounted for using the equity method	(2)	-	-	(2)	-	-	-	-
PROFIT BEFORE TAX	2,934	8,169	-	11,103	164,530	15,321	(6,620)	173,231
Income tax	(2,625)	(565)	3,585	395	(38,284)	(3,708)	432	(41,560)
PROFIT FOR YEAR FROM CONTINUING OPERATIONS	309	7,604	3,585	11,498	126,246	11,613	(6,188)	131,671
Profit for the year from continuing operations attributable to non-controlling interests	-	2,289	-	2,289	-	2,501	-	2,501
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	309	5,315	3,585	9,209	126,246	9,072	(6,188)	129,130

www.ence.es

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR 2019 AND 2018

Thousands of euros	2019				2018			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Profit before tax from continuing operations	2,934	8,169	-	11,103	164,530	15,321	(6,620)	173,231
Adjustment for:								
Depreciation and amortisation	64,055	28,267	-	92,322	58,652	16,998	-	75,650
Changes in provisions and other deferred expense (net)	18,587	1,286	-	19,873	22,504	365	-	22,869
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	(2,371)	503	-	(1,868)	(11,388)	1,614	46	(9,728)
Finance income and costs (net)	7,377	13,919	-	21,296	19,799	10,413	6,574	36,786
Grants taken to income	(1,116)	(254)	-	(1,370)	(1,108)	(254)	-	(1,362)
	86,532	43,721	-	130,253	88,458	29,136	6,620	124,215
Changes in working capital:								
Inventories	(12,267)	(4,045)	-	(16,312)	(9,177)	2,675	-	(6,502)
Trade and other receivables	68,460	14,389	-	82,849	(7,478)	3,414	-	(4,064)
Short-term investments	(2,226)	-	-	(2,226)	4,151	-	-	4,151
Trade payables, other payables and other liabilities	(4,206)	5,393	-	1,187	(2,106)	(1,624)	-	(3,730)
	49,761	15,737	-	65,498	(14,610)	4,465	-	(10,145)
Other cash flows from operating activities:								
Interest paid, net (including right-of-use assets)	(4,770)	(11,050)	-	(15,820)	(19,893)	(10,016)	-	(29,909)
Dividends received from group companies	-	-	-	-	6,574	-	(6,574)	-
Income tax paid	(7,505)	(2,143)	-	(9,648)	(26,675)	(2,132)	-	(28,807)
Other amounts received/(paid)	(4,724)	(159)	-	(4,883)	(1,321)	-	-	(1,321)
	(16,999)	(13,352)	-	(30,351)	(41,315)	(12,148)	(6,574)	(60,037)
Net cash from operating activities	122,228	54,275	-	176,503	197,064	36,774	(6,574)	227,264
CASH FLOWS FROM INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment	(155,683)	(129,920)	-	(285,603)	(77,988)	(88,313)	2,542	(163,759)
Intangible assets	(6,416)	(14,728)	14,390	(6,754)	(1,999)	(22,235)	-	(24,234)
Business combinations	-	(6,300)	-	(6,300)	-	(124,852)	-	(124,852)
Financial assets	(35,210)	(123)	35,000	(333)	(78,179)	1,817	78,779	2,417
	(197,309)	(151,071)	49,390	(298,990)	(158,166)	(233,593)	81,321	(310,428)
Proceeds from disposals:								
Property, plant and equipment and biological assets	705	133	-	838	2,158	57	(860)	1,355
Financial assets	4,302	-	-	4,302	-	-	-	-
	5,007	133	-	5,140	2,158	57	(860)	1,355
Net cash used in investing activities	(192,302)	(150,938)	49,390	(293,850)	(156,008)	(233,526)	80,461	(309,073)
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Proceeds from issuance of own equity instruments	-	49,390	(49,390)	-	-	80,461	(80,461)	-
Proceeds from issuance of convertible bonds, net of arrangement fees	-	-	-	-	14,551	-	-	14,551
Buyback of own equity instruments	(76,443)	-	-	(76,443)	(63,864)	-	-	(63,864)
Disposal of own equity instruments	64,419	-	-	64,419	63,368	-	-	63,368
	(12,024)	49,390	(49,390)	(12,024)	14,055	80,461	(80,461)	14,055
Proceeds from/(repayments of) financial liabilities:								
Group companies and associates	(4,547)	4,547	-	-	(5,937)	5,937	-	-
Proceeds from issuance of convertible bonds	(118)	(4)	-	(122)	142,767	41,523	-	184,290
Repayment of bonds and other marketable securities	-	-	-	-	(250,000)	-	-	(250,000)
Increase/(decrease) in bank borrowings, net of issuance costs	45,003	(34,029)	-	10,974	84,285	171,177	-	255,462
Repayment of other borrowings	22,900	(260)	-	22,640	21,661	4,217	-	25,878
Payments under finance leases	(2,689)	(529)	-	(3,218)	-	-	-	-
Grants received	304	(25)	-	279	90	25	-	115
	60,853	(30,300)	-	30,553	(7,134)	222,879	-	215,745
Dividends and payments on other equity instruments								
Dividends from related parties	-	-	-	-	-	(6,574)	6,574	-
Dividends paid to ENCE shareholders	(25,605)	-	-	(25,605)	(67,110)	-	-	(67,110)
Dividends paid to minority shareholders	-	(1,986)	-	(1,986)	-	(2,786)	-	(2,786)
	(25,605)	(1,986)	-	(27,591)	(67,110)	(9,360)	6,574	(69,896)
Net cash from/(used in) financing activities	23,224	17,104	(49,390)	(9,062)	(60,189)	293,980	(73,887)	159,904
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(46,850)	(79,559)	-	(126,409)	(19,133)	97,228	-	78,095
Cash and cash equivalents - opening balance	148,161	200,462	-	348,623	167,294	103,234	-	270,528
Cash and cash equivalents - closing balance	101,311	120,903	-	222,214	148,161	200,462	-	348,623

ENCE Energía y Celulosa, S.A. and subsidiaries

2019 Group Management Report

Contents

1. Introduction.....	3
2. Governance structure	4
3. Group activity	5
4. Key risks and sources of uncertainty	12
APPENDIX 1 - NON-FINANCIAL STATEMENT.....	20
APPENDIX II – 2019 GROUP ACTIVITY REPORT	21
APPENDIX III – ANNUAL CORPORATE GOVERNANCE REPORT	22

ENCE Energía y Celulosa, S.A. and subsidiaries

2019 Group Management Report

1. Introduction

This Management Report has been drawn up in keeping with the terms of article 49 of Spain's Code of Commerce, as worded by Spanish Law 16/2007 (of 4 July 2007), revising and adapting the accounting aspects of company law for international harmonisation purposes, article 262 of the Spanish Corporate Enterprises Act and the recommendations issued by the Spanish securities market regulator, the CNMV, in its "Guide for the preparation of management reports for listed companies".

The Management Report also includes the following reports, which are included as Appendices:

- The non-financial statement, drawn up in keeping with the requirements stipulated in Spanish Law 11/2018 (of 28 December 2018), which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Legislative-Decree 1/2010, and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity reporting.

It was drawn up also taking into consideration the guidelines on non-financial reporting issued by the European Commission (2017/C 215/01) in response to Directive 2014/95/EU. The sustainability report constituting the non-financial statement was prepared in accordance with the Global Reporting Initiative (GRI) standards (In-Accordance option: core).

The information included in the non-financial statement has been assured by an independent assurance firm.

- The report about the Group's activities in 2019, which includes a detailed assessment of ENCE's business performance during the year, provides additional details about the markets it operates in and the key trends in the main income statement, cash flow and capital structure indicators. That report also includes information about ENCE's share price performance.
- The Annual Corporate Governance Report.

With the aim of avoiding overlap in the information provided in this Management Report, below is a list of the main sections included in the CNMV's "Guide for the preparation of management reports for listed companies" which are addressed in the Appendices:

1. The non-financial statement provides information about environmental matters (mainly in the section headed "Sustainable growth drivers - Safe and eco-friendly operations), its R&D efforts (mainly in the section titled "Committed to doing better - R&D") and about employee matters (mainly in the section titled "Sustainable growth drivers - ENCE's people and values); it also provides the non-financial key performance indicators.
2. The report providing details about the Group's activities in 2019 provides detailed information about the business trends and performance, ENCE's liquidity and financial resources, its share price performance and the alternative performance measures used by ENCE to report on its financial performance.

3. The annual financial statements to which this Management Report is attached include disclosures about significant developments occurring since the end of the reporting period (note 34 of the consolidated financial statements), own share transactions (note 22) and the average supplier payment term (note 21).

2. Governance structure

The highest governing bodies at Ence Energía y Celulosa, S.A. (the "Company") are the Annual General Meeting and the Board of Directors, vested with the duties stipulated in company law and the bylaws. The Board of Directors is tasked with supervision, management and control of the Company. It is responsible for calling the Annual General Meetings; authorising the financial statements; approving the Company's financial and non-financial information and its publication; approving the directors' remuneration regime within the limits established at the AGM; evaluating the performances of its committees, chairman, directors and the board as a whole and of the Company's CEO; debating and approving the business plan of the Company and its Group, including definition and revision as needed of its mission and values and its financial, social and environmental objectives; approving corporate policies, including, among others, the sustainability policy, the risk control and management policy and the dividend policy; determining the Company's and Group's corporate governance regime; and approving the corporate crime prevention and detection model.

The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders, framed by the observation of its corporate social responsibility and sustainability principles.

The Board of Directors is made up of executive, proprietary, external and independent directors. The Board has an Executive Chairman; the chairmanship is currently held by the CEO. The positions of Board Secretary and Vice-Secretary are currently held by two individuals who are not directors.

The Board of Directors is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over these bodies and setting the guidelines under which they should operate.

The Board is supported by an Executive Committee (in which it has delegated all of the powers that can be delegated) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Sustainability Committee.

The Chairman and Chief Executive Officer (CEO) is responsible for the Company's everyday management. He is supported in this work by the Management Committee, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the Supply Chain Officer, the Financial, Corporate Development and Forest Assets Officer, the Human Capital Officer, the Communication and Institutional Relations Officer, the Sales Manager, the Health, Safety and Environment Manager, the Sustainability Officer and General Secretary and the Planning and Control Manager. The officers report directly to the Company's CEO.

At the executive level, the Company is also assisted by a Compliance Committee, an Executive Sustainability Committee and an Operational Excellence Committee.

The Compliance Committee reports to the Audit Committee and is made up of the heads of the corporate Human Capital and Health, Safety and Environment Departments, the General Secretary and the head of the Internal Audit Department, who chairs it. The Compliance Committee's duties in respect of the Company's Code of Conduct include fostering familiarity with it and its application, communication and enforcement at

ENCE; overseeing its application at all Group companies; issuing binding interpretations of the Code; approving and implementing rules and procedures to implement and enforce it; and receiving notifications submitted via ENCE's whistle-blowing channel and issuing the corresponding findings and responses.

As for the Corporate Crime Prevention and Detection Protocol, the Compliance Committee controls, supervises and evaluates compliance with the rules and procedures set down in the Crime Prevention Protocol, updating them regularly as required, to ensure that all of the controls and oversight measures established by the Company to prevent or mitigate the risk of criminal conduct within the organisation are duly identified and detailed. This Committee is also in charge of drawing up plans for remedying, updating, creating or modifying the measures and controls that constitute ENCE's Corporate Crime Prevention and Detection Protocol.

It additionally supervises compliance with all of the regulations related with the General Data Protection Regulation.

The Executive Sustainability Committee reports to the Board's Sustainability Committee and is made up of the CEO, who chairs it, the General Secretary and Sustainability Officer and the heads of the corporate Health, Safety and Environment Department, Human Capital, Pulp, Independent Energy Plant Operations, Finance and Corporate Development, Supply Chain and Communication and Institutional Relations Departments. That committee's permanent members also include the head of corporate sustainability and the designated sustainability officers in each business unit. Its main duties include execution at the operating level of the corporate sustainability strategy set by the Board committee, work which includes setting targets and monitoring their delivery. That committee also approves ENCE's membership of sector or cross-sector initiatives for the promotion of sustainability and establishes the channels for engaging with stakeholders. It also coordinates the preparation of the non-financial reports for presentation to the Board's Sustainability Committee.

The Operational Excellence Committee is made up of the CEO, who chairs it, the members of the Management Committee and the management teams at the pulp biomills and the energy plants. That committee meets weekly to monitor the pulp biomills' and the energy plants' key performance indicators with respect to employee safety, environmental matters, workplace climate, sales matters related with customers and products, operational and cost indicators and matters related with the procurement of timber and biomass.

In addition, ENCE has an Internal Audit Department which reports directly to the Audit Committee.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former in the case of the wholly-owned subsidiaries, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. Indeed, the Company is the sole director of its Group companies, other than those in which there are non-controlling interests.

The companies with non-controlling interests are: Energía la Loma, S.A., Energías de la Mancha ENEMAN, S.A., Bioenergía Santamaría, S.A. and Ence Energía Termollano, S.A., in which Ence Energía, S.L.U., 100%-owned by Ence Energía y Celulosa, S.A., holds ownership interests of 64.06%, 68.42%, 70% and 90%, respectively.

The above five companies are governed by a board of directors and the other shareholders are represented on three of them.

3. Group activity

ENCE has articulated its activities around two core businesses: the production of pulp, which represented 59% of Group EBITDA in 2019, and the generation of energy from renewable sources at standalone power plants, which accounted for 41%.

3.1. Pulp production

ENCE has two eucalyptus pulp biomills in Spain: a 685,000-tonne-capacity facility in the town of Navia, Asturias, and a 515,000-tonne-capacity complex in Pontevedra, Galicia.

As an integral part of its pulp production process, ENCE uses the lignin and forest sub-products derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biomill. The energy produced at these power plants is sold to the grid and subsequently repurchased.

The Pulp business therefore includes the production and sale of pulp; the generation and co-generation of energy at the plants involved in the productive process; and the supply of timber from the plantations managed by the Company.

Pulp is the basic raw material used to manufacture the various kinds of paper that form part of our everyday lives. More specifically, ENCE makes pulp from cultivated eucalyptus timber acquired in Galicia and along the Cantabria coast.

The eucalyptus tree is a natural, renewable and indigenous resource. It grows abundantly in the north of Spain but is scarce in most of the world as it only grows in very specific climate conditions, normally warm subtropical regions.

In addition, eucalyptus timber is very valuable because it provides the best quality pulp for the manufacture of tissue paper, i.e. sanitary paper products, such as kitchen paper, facial tissues, paper napkins, toilet paper, etc.

3.2. Renewable power generation

ENCE's Renewable Energy business encompasses the generation of power from renewable sources at independent plants with aggregate installed capacity of 316 MW that have no relation to the pulp production process.

ENCE has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW). In addition, Ence owns a 50-MW solar thermal plant in Ciudad Real.

Two new agricultural and forestry biomass plants - a 46-MW plant in Huelva and a 50-MW facility in Ciudad Real - will start up during the first quarter of 2020.

Those assets position ENCE as one of Europe's largest hardwood pulp (BHKP) producers, with installed capacity of 1,200,000 tonnes between the two biomills in Galicia and Asturias, and as the leading generator of biomass-fuelled renewable energy, with installed capacity of 112 MW integrated within the pulp biomills and another 316 MW distributed between nine standalone plants located in Andalusia, Extremadura and Castile la Mancha. Moreover, ENCE is the leading player in the end-to-end and responsible management of forest land and crops in Spain.

3.3. 2019-2023 Business Plan

Market context

ENCE has articulated its activities around two independent yet complementary businesses, both of which present solid long-term growth prospects. The first consists of the manufacture of special pulp and the second, the generation of power from renewable sources. The first is a cyclical business, while the second provides earnings stability and visibility.

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in demand for pulp for hygiene products and for viscose for use in the textile industry. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, renewable and biodegradable raw material with a smaller carbon footprint than other materials such as plastics and synthetic fibres.

The growth in renewable energy is being driven by the targets set nationally and internationally as part of climate action. The European Union, for example, in its Climate and Energy Policy Framework 2030, is looking to have the share of the energy mix represented by renewable sources account for at least 32%. That Framework was adopted by the European Council in October 2014; in October 2018, the renewable energy and energy efficiency targets were revised upwards.

To achieve that target, Spain will double its renewable energy generation capacity within the next decade. Specifically, Spain's National Integrated Energy and Climate Plan contemplates the development of 22 GW of wind power, 30 GW of photovoltaic solar power, 5 GW of solar thermal power, 3 GW of pumped hydropower and 1 GW of biomass power.

Moreover, the European Green Deal presented by the European Commission in December 2019, laying out the roadmap for achieving climate neutrality in Europe in 2050, proposes tightening current emission-cutting and decarbonisation objectives for the energy sector, marking an even greater thrust for the renewable electricity generation industry.

3.1 2019-2023 Business Plan

At the end of 2018, ENCE presented its Business Plan for 2019 - 2023, articulated around four key lines of initiative:

1) Growth

By executing its new Business Plan, ENCE's objective is to virtually double Group EBITDA (assuming constant pulp prices) and mitigate earnings cyclicity. To that end it is planning to increase pulp capacity by 40% and triple operating profit in the Energy business, achieving a minimum run rate of €150m.

2) Diversificación

In order to tap potential growth opportunities, ENCE is strategically committed to diversification, which will also increase the solidity and flexibility of its business model. That diversification is not only centred on products but also raw materials and renewable power generation technologies.

PULP

In the Pulp business, the Business Plan contemplates the addition of two new products to the special pulp portfolio: pulp for absorbent hygiene products and pulp for viscose for application in the textile industry. Both present higher growth rates than the various types of pulp currently sold by ENCE for manufacture into paper.

In addition, the Plan contemplates diversifying the species of trees used by ENCE as raw material for the manufacture of pulp. In addition to stepping up the use of the *Nitens eucalyptus* species, ENCE is planning to use pine in its productive process. By diversifying its raw materials the goal is to increase the availability of timber and be able to offer customers higher value-added products.

RENEWABLE ENERGY

In the Renewable Energy business, ENCE similarly wants to reap the benefits of diversification. On the one hand, it plans to add new sources of agricultural and forest biomass to its supply sources to increase availability and reduce costs. It also plans to diversify its renewable energy generation technologies, on the other.

3) Excellence in sustainability

The third pillar underpinning the 2019 - 2023 Business Plan is excellence in sustainability, applicable across all of the Company's business activities. ENCE has earmarked a budget of up to €140 million over the time horizon contemplated by the Business Plan for investment in reinforcing the reliability, flexibility, environmental excellence and safety of its facilities.

In its 2019-2023 Sustainability Master Plan, the Company has set down its priority lines of action and the roadmap for achieving the excellence it aspires to in sustainability within the same time horizon as its Business Plan. The Master Plan is described in detail in the Group's non-financial statement.



d) Financial discipline

To achieve its Business Plan objectives, ENCE has designed an investment plan articulated around various independent projects that will be executed in stages in order to guarantee ongoing financial discipline. Each project must be reconfirmed by the Board before proceeding in order to:

- Ensure compliance with the return criteria;
- Ensure that the leverage thresholds set for each business are not surpassed (net debt-to-EBITDA of 2.5x in the Pulp business at mid-cycle prices and 4.5x in the Renewable Energy business);
- After paying out 50% of net profit in dividends.

Change in the state's criteria regarding the extension of the biomill concession in Pontevedra

Following the change in criteria regarding the extension of ENCE's concession in Pontevedra, in March 2019, the Board of Directors decided to concentrate the Business Plan investments for the Pulp business at the Navia biomill, reiterating in the interim the approved targets for growth, diversification, sustainability and financial discipline.

As of the end of 2019, ENCE continues to defend the legality of the extension of its concession in Pontevedra until 2073 in the courts.

3.2 Progress on execution of the 2019-2023 Business Plan

Pulp Business

The Business Plan contemplates four independent projects for the Pulp business to which an investment budget of around €600 million has been allocated.

The first two projects, the addition of 20,000 tonnes of capacity at the Pontevedra biomill and 80,000 tonnes at the Navia biomill, were executed in 2019 and have increased pulp production capacity by 9%.

Progress was made in parallel during the year on the engineering and permitting work and on negotiating the EPC contracts for the other two projects: staggered adaptation of the Navia biomill to permit the manufacture of absorbent hygiene products; and the construction, also in Navia, of a new swing line. The swing line would have the capacity to produce up to 340,000 tonnes of pulp for making paper or, alternatively, up to 200,000 tonnes of dissolving pulp for viscose, or any combination thereof, depending on market conditions.

The kick-off of both projects is currently pending, in keeping with the commitment to executing the Business Plan gradually in order to guarantee financial discipline.

By executing these four projects, ENCE is pursuing the following three objectives:

- ✓ Pulp capacity expansion to **1.36 million tonnes**.
- ✓ Addition of two new products: pulp for absorbent hygiene products and pulp for viscose textiles.
- ✓ Reduction in the cash cost of our pulp for paper (BHKP) to **€365/tonne**.

In 2019, ENCE launched a cost-cutting programme in order to ensure delivery of the cost targets set down in its Business Plan.

Renewable Energy business

For the Renewable Energy business, the 2019-2023 Business Plan contemplates €475 million of investments, including the construction in 2019 of two new biomass plants with combined capacity of 96 MW which are expected to be commissioned in the first quarter of 2020.

Those two new plants will increase installed capacity in the Renewable Energy business by 44% to 316 MW: 266 MW of biomass plants and a 50-MW solar thermal plant in Puertollano (Ciudad Real) acquired for €140 million in December 2018.

With that acquisition, ENCE took its first step towards diversifying into new renewable energy technologies.

By acquiring that facility in the vicinity of the new biomass plant which the Company is building in that same town, ENCE is committing to the hybridisation of two technologies - solar thermal power and biomass furnaces; the aim is to increase capacity utilisation (hours) and thus convert a non-controllable asset into a manageable one without major investment.

In order deliver the Business Plan targets, ENCE has a pipeline of 405 MW of grid-authorised projects for which locations have been secured: 240 MW of photovoltaic solar power, 140 MW of biomass and 25 MW of hybrid solar thermal power. Development of the latter two technologies is pending implementation of the European and Spanish renewable energy plans.

4. Key risks and sources of uncertainty

ENCE's enterprise risk management (ERM) system is a process that is embedded within the organisation and is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. Various areas of ENCE participate in the process, each with specific responsibilities which, combined, constitute the end-to-end system.

ENCE identifies and evaluates emerging risks continuously and systematically. It also monitors developments with respect to risks identified and those that have dissipated or materialised in prior years. The purpose of this monitoring and control process is to ensure execution and effectiveness of the agreed-upon action plans and to guarantee continuous supervision of the Company's key risk factors.

The result of this process is the Risk Register and Map, which is presented to the Management Committee for joint debate and review. Subsequently, the Risk Register and Map is presented to the Audit Committee for approval and subsequent reporting to the Board of Directors.

ENCE's risk control and management process assigns the following specific roles and responsibilities:

1. The risk management officers are tasked with executing the action plans and establishing the controls needed to provide the agreed-upon response to the risks identified within their respective purviews.
2. Throughout the year the Internal Audit Department closely monitors the level of progress on executing the risk mitigation plans, providing the Board's Audit Committee with regular updates on these matters.
3. The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.
4. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's ERM system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

ENCE's ERM system takes into consideration the possible threats to delivery of the strategic objectives of all of the Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

This system encompasses the entire Group, understood as each and every one of the companies in which Ence Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investees.

The ERM contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

1. Strategic
2. Operational
3. Financial Information and Reporting
4. Compliance

The risks addressed by ENCE's ERM model are in turn classified as follows:

1. Environmental Risks
2. Risks associated with Decision-Making Information
3. Financial Risks
4. Organisational Risks
5. Operational Risks
6. Corporate Crime Risks
7. Tax Risks

In keeping with ENCE's Risk Management and Control Policy, the Company has a methodology for assigning specific risk appetite thresholds depending on the activities involved. Its risk tolerance levels are contingent upon ensuring that rewards and potential risks are fully understood before decisions are made, to which end it establishes reasonable risk management measures as required.

ENCE analyses each situation based on the risk-reward trade-off. This analysis contemplates multiple factors including strategy, stakeholder expectations, prevailing legislation, the environment and third-party relations.

1. ENCE takes a zero-tolerance stance towards any situation which could compromise the health or safety of its employees.
2. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to the Company, particularly in respect of the impact of its operations on the environment or its facilities' surroundings, the Group's reputation in the eyes of others and business sustainability.
3. ENCE has a team of external advisors and expert in-house staff who lay down the guidelines for ensuring compliance with tax requirements so that it assumes no risk whatsoever in this arena.
4. ENCE's appetite for situations related to product research, development and innovation can be described as moderate, the aim being to provide solutions that fully satisfy its customers' needs so that the Company remains a benchmark in the pulp market.
5. In addition, aware of prevailing economic complexity, ENCE is committed to the pursuit of financial discipline such that it can control the organisation's overall debt and maintain enough liquidity to ensure its ability to service its payment obligations and fund its priority investments. Against this backdrop, its risk appetite for speculative financial trades is low.
6. Nevertheless, a significant percentage of ENCE's transactions are exposed to the exchange rate between the dollar (\$) and the euro (€). ENCE, knowledgeable of the prevailing economic situation and trends in the rate of exchange between these two currencies, has defined a low risk appetite strategy in this arena, managing its currency exposure rigorously in keeping with the guidelines set by the Executive Committee of the Board of Directors and the Finance Department, as warranted.

The chief risks to delivery of the organisation's fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

Goal: Financial discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to impose financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

To mitigate this risk factor, first and foremost, ENCE goes to lengths to reduce its production costs. In addition, ENCE has a Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, if necessary and the prices are right, financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on the Company's earnings.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically with the aim of arranging financial hedges to mitigate currency exposure if necessary.

The Group has currently hedged approximately 74% of estimated 2020 sales and approximately 28% of first-half 2021 sales under different forward currency contracts.

c) TRADE CREDIT RISK - PULP BUSINESS

In the pulp market it is possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

ENCE has a credit insurance policy, which has been renewed until 31 December 2019, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

To mitigate this risk, ENCE also has a Credit Committee which is tasked with continuously monitoring outstanding receivables balances and available insurance coverage.

d) LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and equity markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its 2019-2023 Business Plan.

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteed business continuity in any pulp price scenario.
2. Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.
3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp business is around 2.5 times recurring

EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4.5 times.

4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp business and using bank financing and raising money from institutional investors in the Renewable Energy business.

Each of the Group's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

e) **REGULATORY CHANGES (INCLUDING TAX REGULATIONS)**

It is feasible that the state, regional and/or local tax authorities could make further changes to current tax regulations, such as changes/reforms to corporate and/personal income tax, which could directly affect ENCE and its earnings.

To mitigate this risk, ENCE has a team of in-house specialists who work together with external tax advisors and experts and have established internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Goal: Enhancing the Company's Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and uses total quality management (TQM) methodology to boost its competitive positioning and the quality of its products. However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its productive facilities.

This target is exposed to factory obsolescence risk. In the absence of an investment and maintenance plan to address facility obsolescence, the firm cannot guarantee delivery of the various operations centres' targets and the biomills' and energy plants' installations, machinery and equipment could become impaired.

In order to manage the risks that could jeopardise delivery of this strategic objective, ENCE works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) review of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

Goal: New Product Development

ENCE attempts to differentiate its products from those of its competitors while building a globally recognised brand in parallel. Here the main risks include that of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

The strategy adopted to satisfy customers' needs is to reduce risk by enhancing productive processes and maintaining a customer complaints/claims management system. In 2019, ENCE continued to raise the profile of

and assign new resources to its Customer Service Department. In addition, it shored up its salesforce quantitatively and qualitatively with a view to identifying customers' specific needs in order to factor them into the Company's product range.

Goal: Minimising the Cash Cost

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective, thus translating into a loss of competitiveness for ENCE: inflation in the cost of acquiring chemical products, fuel, gas, industrial supplies and spare parts, logistics and transportation costs, strike action, the economic fallout from sector and environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

ENCE attempts to mitigate the risk of price changes by having the Corporate Supply Chain Department periodically monitor the performance of its main suppliers with a view to taking corresponding action (search for alternative products, identification of more competitive goods and services, enhancement of the firm's bargaining power and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall of timber supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually with higher logistics costs, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers. Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of the development of superior technology by its competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility for the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Goal: Increasing ENCE's Market Share

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a deterioration in contractual sales terms, a shift in customers' production mixes, a contraction in demand for its products and evolving market preferences.

ENCE's Marketing Plan for 2020 is designed to reinforce the presence and positioning of the Company's products in the European market and materialises in initiatives aimed at: (i) increasing the customer base in order to reduce concentration risk; (ii) differentiating ENCE's products by means of plans to enhance the properties and qualities of its pulp; and (iii) improving customer service.

In addition, ENCE continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

Goal: Streamlining of Post-Production Logistics

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

End product stockouts can occur as a result of *ad-hoc* technical incidents in the productive process (breakdowns, bottlenecks, etc.) resulting in lower than initially-planned product availability. This situation can lead to the failure to deliver within the agreed-upon deadlines, causing damage to the end customer and to ENCE's reputation, generating costs deriving from contract non-performance and ultimately adversely impacting the Company's earnings. These events can also trigger the cancellation of orders by our customers thereby increasing stock levels. To minimise this risk, the Pulp Business reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

Goal: Minimising the Impact of our Operations on the Environment

Generally speaking, the activities performed by ENCE in both its Pulp and Energy Businesses are carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities where it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise or aesthetic contamination as a result of its industrial activities.

ENCE mitigates this risk by reducing the impact its operations have on the environment by means of its integrated quality, environment and safety management system which is certified under the UNE-EN-ISO 14001 environmental management standard, by means of education about how to prevent environmental risks, writing insurance policies, conducting audits and implementing inspection, oversight and control measures, framed by a preventative approach. Note that in 2019, the Group also continued to invest to make its facilities more environmentally-friendly.

Goal: Business Continuity

The Pontevedra biomill's original concession of 1958 was extended for a term of 60 years (starting from 8 November 2013) by the then Ministry of Agriculture, Food and Environment via a resolution dated 20 January 2016 by virtue of: (i) Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act; and (ii) the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014). That resolution was challenged by the Council of Pontevedra and two environmental associations (Greenpeace Spain and *Asociación Pola Defensa da Ría de Pontevedra* or the APDR), giving rise to three court cases before the National Appellate Court's Chamber for Contentious Administrative Proceedings, in which the Ministry, along with ENCE in its capacity as co-defendant, had been defending the legality of the concession extension.

On 8 March 2019, the newly-named Ministry of Ecological Transition presented written deeds effectively acquiescing in all three lawsuits. In other words, it requested to have Greenpeace's and the APDR's claims

upheld, despite having previously argued throughout all of the proceedings that the Resolution of 20 January 2016 was lawful. ENCE is opposing the acquiescence vehemently.

The cases taken by Greenpeace and the APDR are pending sentencing. In the court proceedings instigated by the town council of Pontevedra, the National Appellate Court issued a measure of organisation on 29 January 2020, declaring the pre-trial proceedings complete and ready for hearing. The state attorney has appealed the Appellate Court's measure of organisation of 16 January 2020 in which the latter had decided not to accept the state attorney's request to be given more time to present its case before declaring it ready for hearing.

Although ENCE and its legal counsel believe that both the appeals lodged and the arguments put forward by the state government to substantiate its acquiescence lack legal grounds, in order to act transparently, on 15 March 2019, the Company filed a price-sensitive notice in which it provided its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex.

The Company estimates that in the unlikely event that operations have to be discontinued, that development would have an extraordinary impact on its income statement of €185 million. Of that sum, €74 million would entail an outflow of cash: €43 million for dismantling work; €16 million to terminate existing contracts (based on the prior experience of dismantling the former mill in Huelva); and €15 million related with employee layoffs. The remaining €111 million would correspond to asset impairment charges and would not, accordingly, affect cash.

In addition, on 19 March 2019, the Ministry of Ecological Transition began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

Given the legal uncertainty generated by the change in the state's criteria regarding the extension of ENCE's concession in Pontevedra, the Company's Board of Directors has decided to freeze all growth capital expenditure at this biomill not already contracted and to embark on the engineering work needed to concentrate those investments at the Navia biomill, reiterating in the interim the targets for growth, diversification and financial discipline approved in the 2019 - 2023 Business Plan.

ENCE engages continuously with the various authorities with a view to correctly executing the various agreed-upon investments, as well as a host of initiatives and projects in the local community.

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, regular audits, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

Goal: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, guided by stringent compliance with prevailing legislation in Spain. Certain

situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk, the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. In parallel, it has drawn up contingency plans for specific situations to ensure safety compliance in the field.

ENCE is firmly committed to upholding its workplace safety plans, which include an action plan for preventing/reducing accidents that is based primarily on employee training initiatives, process upgrades, regular compliance audits and adequate oversight of the plans' effectiveness and any associated requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives to make harvesting safer and more cost effective.

Goal: Regulatory and Reporting Compliance

The EU-endorsed Best Available Techniques Reference Document (BREF) for the sector took effect in 2017. Companies have until 2020 to fully adapt to the new requirements. The BREF requirements are more stringent than the prior requirements in terms of production and emissions depending on process types, geographic location and local environmental conditions, triggering the need for new environmental investments and control systems.

The strategy employed by ENCE to tackle this risk factor is two-fold. Firstly, ENCE staff have reached out to the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account. In parallel, the most important environmental investments required at all of the Operations Centres to adapt to the new regulations were analysed and approved by ENCE's Investment Committee in 2018.

In addition, following effectiveness of Spanish Law 1/2015 (of 30 March 2015), amending the Criminal Code and regulating in greater detail the criminal liability of legal persons, in 2015, ENCE implemented a Corporate Crime Detection and Prevention Risk Management and Control System which includes a plethora of measures and controls designed to prevent or at least mitigate to the extent possible the risk of commission of any form of crime at the organisation and ensure the lawfulness of all actions taken by the Company's staff and executives in the course of discharging their professional duties.

In 2019, ENCE formulated and implemented policies and procedures for mitigating its exposure to specific crimes, framed by its commitment to complying with the corporate crime prevention model certified by AENOR in accordance with the UNE 19601:2017 standard on criminal compliance management systems.

Goal: Tax Risk Control

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining ENCE's tax risk management and control policy.

ENCE has a dedicated tax division and receives specific tax counselling to ensure its in-house guidelines guarantee compliance with prevailing tax regulations, framed by a zero risk tolerance approach in this arena.



