ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated annual financial statements for 2020 and Group management report, along with the independent auditor's report

Consolidated financial statements for 2020

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

Thousands of euros	Note	Year-end 2020	Year-end 2019 (*)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	15	1.742	6.066
Other intangible assets	15	40.161	55.835
Property, plant and equipment	16	1.092.876	1.238.304
Biological assets	18	71.270	79.076
Non-current financial assets			
Investments accounted for using the equity method	24	31	49
Hedging derivatives	24 & 30	-	1.419
Other financial assets	24 & 27	24.196	7.359
Deferred tax assets	32	71.952	54.042
		1.302.228	**1.442.150**
CURRENT ASSETS:			
Inventories	20	51.831	56.552
Trade and other receivables	24 & 25	57.895	39.053
Tax receivables	32	310	3.190
Income tax receivable	32	962	8.641
Current financial assets			
Loans to group companies and related parties	24 & 34	36	36
Hedging derivatives	24 & 30	6.764	-
Other financial assets	24 & 27	18.215	4.450
Cash and cash equivalents	24 & 27	532.620	222.214
Other current assets		1.332	1.830
		669.965	**335.966**
TOTAL ASSETS		**1.972.193**	**1.778.116**
EQUITY:			
Issued capital	21.1	221.645	221.645
Share premium	21.2	170.776	170.776
Parent company reserves	21.3	169.416	163.687
Parent company retained earnings (prior-period losses)		(5.573)	(43.668)
Reserves in fully-consolidated companies	21.4	144.329	115.670
Reserves in equity-accounted investees		(8)	-
Interim dividend		-	(12.493)
Translation differences		18	10
Own shares - parent company shares	21.6	(11.856)	(11.783)
Valuation adjustments	21.7	39.421	31.969
Other equity instruments	21.8	11.687	11.661
Profit/(loss) for the period attributable to owners of the parent	21.5	(26.432)	9.209
Equity attributable to owners of the parent		**713.423**	**656.683**
Non-controlling interests	21.10	**136.706**	**18.250**
TOTAL EQUITY		**850.129**	**674.933**
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	24 & 28	238.869	239.941
Bank borrowings	24 & 28	291.103	357.903
Other financial liabilities	24 & 28	103.983	107.203
Derivative financial instruments	24 & 30	5.602	6.414
Grants	23	5.558	6.750
Deferred tax liabilities	32	21.661	37.575
Non-current provisions	31	2.832	12.810
Non-current accruals and deferred income		1.764	3.376
Other non-current liabilities	24 & 29	5.955	26.105
Non-current borrowings from group companies and related parties	24 & 34	36.835	-
		714.162	**798.077**
CURRENT LIABILITIES:			
Borrowings			
Bank borrowings	24 & 28	79.062	26.281
Other financial liabilities	24 & 28	6.407	8.042
Derivative financial instruments	24 & 30	8.097	9.947
Trade and other payables	24 & 26	258.951	226.869
Income tax payable	32	5.635	438
Taxes payable	32	20.396	7.821
Current provisions	31	29.354	25.708
		407.902	**305.106**
TOTAL EQUITY AND LIABILITIES		**1.972.193**	**1.778.116**

The accompanying notes 1 to 36 and Appendices are an integral part of the consolidated statement of financial position at 31 December 2020.

(*) The consolidated statement of financial position at 31 December 2019 is presented exclusively for comparative purposes.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

Thousands of euros	Note	2020	2019 (*)
Continuing operations:			
Revenue	9	707.708	735.352
Gains/(losses) on hedging transactions	30	(9.344)	(30.049)
Changes in inventories of finished goods and work in progress	20	(4.829)	3.024
Own work capitalised	16 & 18	1.974	12.936
Other operating income		11.158	1.929
Grants taken to income	23	4.321	4.294
Operating income		710.988	727.486
Cost of goods sold	10	(337.837)	(307.530)
Employee benefits expense	11	(92.375)	(92.254)
Depreciation and amortisation charges	15 & 16	(97.080)	(82.985)
Depletion of forest reserve	18	(10.063)	(9.337)
Impairment of and gains/(losses) on disposal of fixed assets	19	(1.615)	1.836
Impairment of financial assets	25	(369)	(2.313)
Other operating expenses	12	(211.798)	(202.386)
Operating expenses		(751.137)	(694.969)
OPERATING PROFIT/(LOSS)		**(40.149)**	**32.517**
Finance income		649	961
Finance costs	13	(28.922)	(23.675)
Net exchange gains/(losses)		(1.288)	1.490
Impairment of and gains/(losses) on disposal of financial assets	6	33.071	(188)
NET FINANCE INCOME/(LOSS)		**3.510**	**(21.412)**
Share of profit/(loss) of entities accounted for using the equity method		(18)	(2)
PROFIT/(LOSS) BEFORE TAX		**(36.657)**	**11.103**
Income tax	32	11.925	395
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(24.732)**	**11.498**
Profit/(loss) for the year from continuing operations attributable to NCI	21.10	1.700	2.289
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (**)		**(26.432)**	**9.209**
Earnings/(loss) per share attributable to owners of the parent		**€/share**	
Basic	14	**(0,11)**	**0,04**
Diluted	14	**(0,11)**	**0,04**

The accompanying notes 1 to 36 and Appendices are an integral part of the 2020 consolidated statement of profit or loss.

(*) The consolidated statement of profit or loss for the year ended 31 December 20189is 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 2020

Thousands of euros	Note	2020	2019 (*)
GROUP PROFIT FOR THE YEAR (***)		**(24.732)**	**11.498**
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (**)		(9.448)	(23.459)
- Translation differences (**)		8	(3)
- Tax effect		2.362	5.866
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	**21**	**(7.078)**	**(17.596)**
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (**)		13.038	31.712
- Tax effect		(3.260)	(7.928)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	**21**	**9.778**	**23.784**
TOTAL COMPREHENSIVE INCOME		**(22.032)**	**17.686**
Attributable to:			
Owners of the parent		**(23.732)**	**15.397**
Non-controlling interests		**1.700**	**2.289**

The accompanying notes 1 to 36 and Appendices are an integral part of the 2020 consolidated statement of comprehensive income.

(*) The consolidated statement of comprehensive income for the year ended 31 December 2019 is presented exclusively for comparative purposes.

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

(***) Corresponds to "Profit/(loss) 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 2020

Thousands of euros	Issued capital	Own shares	Share premium	Reserves	Interim dividend	Consolidated profit/(loss) for the period	Translation differences	Valuation adjustments	Other equity instruments	**Total equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at 31 December 2018	221.645	(4.352)	170.776	173.278	(51.309)	129.130	13	25.778	14.065	**679.024**	18.272	**697.296**
Total recognised income/(expense)	-	-	-	-	-	9.209	(3)	6.191	-	**15.397**	2.289	**17.686**
Appropriation of prior-year profit/(loss)	-	-	-	77.821	51.309	(129.130)	-	-	-	**-**	-	**-**
Dividends distributed (**)	-	-	-	(13.112)	(12.493)	-	-	-	-	**(25.605)**	(1.986)	**(27.591)**
Trading in own shares	-	(7.431)	-	(647)	-	-	-	-	-	**(8.078)**	-	**(8.078)**
Other movements	-	-	-	(1.651)	-	-	-	-	(2.404)	**(4.055)**	(325)	**(4.380)**
Balance at 31 December 2019 (*)	**221.645**	**(11.783)**	**170.776**	**235.689**	**(12.493)**	**9.209**	**10**	**31.969**	**11.661**	**656.683**	**18.250**	**674.933**
Total recognised income/(expense)	-	-	-	-	-	(26.432)	8	2.692	-	**(23.732)**	1.700	**(22.032)**
Appropriation of prior-year profit/(loss)	-	-	-	(3.284)	12.493	(9.209)	-	-	-	**-**	-	**-**
Dividends distributed (**)	-	-	-	-	-	-	-	-	-	**-**	(1.408)	**(1.408)**
Trading in own shares	-	(73)	-	(41)	-	-	-	-	-	**(114)**	-	**(114)**
Other movements (notes 6 & 21)	-	-	-	75.800	-	-	-	4.760	26	**80.586**	118.164	**198.750**
Balance at 31 December 2020	**221.645**	**(11.856)**	**170.776**	**308.164**	**-**	**(26.432)**	**18**	**39.421**	**11.687**	**713.423**	**136.706**	**850.129**

The accompanying notes 1 to 36 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2020.

(*) The consolidated statement of changes in equity for the year ended 31 December 2019 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 2020

Thousands of euros	Note	2020	2019 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		(36.657)	11.103
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	15 & 16	97.080	82.985
Depletion of forest reserve	18	10.063	9.337
Changes in provisions and other deferred expense (net)		5.174	19.873
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	6 & 19	(31.456)	(1.868)
Adjustments for tariff shortfall/surplus and sector regulations	9	(36.170)	8.577
Finance income and costs (net)		29.182	21.296
Grants taken to profit and loss		(1.248)	(1.370)
		72.625	**138.830**
Change in working capital			
Inventories	20	3.518	(16.312)
Trade and other receivables	25	(10.827)	82.848
Financial and other current assets	27	(4.532)	(2.226)
Trade payables, other payables and other liabilities	26	54.310	1.187
		42.469	**65.497**
Other cash flows from operating activities			
Interest paid, net (including right-of-use assets)		(22.008)	(15.820)
Income tax received/(paid)	32	5.928	(9.648)
Long-term remuneration and other plans		-	(4.883)
		(16.080)	**(30.351)**
Net cash from operating activities		**62.357**	**185.079**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment	16	(92.216)	(285.603)
Intangible assets	15	(4.818)	(6.754)
Business combinations		-	(6.300)
Financial assets		-	(333)
		(97.034)	**(298.990)**
Proceeds from disposals:			
Property, plant and equipment	16	749	838
Financial assets	6	58.499	4.302
		59.248	**5.140**
Net cash used in investing activities		**(37.786)**	**(293.850)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests	6	219.872	-
Buyback of own equity instruments	21.6	(48.489)	(76.443)
Disposal of own equity instruments	21.6	48.376	64.419
		219.759	**(12.024)**
Proceeds from/(repayments of) financial liabilities:			
Notes (net of arrangement fees)	28	(4.967)	(122)
Increase/(decrease) in bank borrowings, net of issuance costs	28	76.381	10.974
Increase/(decrease) in other borrowings	28	1.705	14.063
Payments for right-of-use assets	17	(5.804)	(3.218)
Grants received, net	23	169	280
		67.484	**21.977**
Dividend payments			
Dividends paid to ENCE shareholders		-	(25.605)
Dividends paid to non-controlling interests	21.10	(1.408)	(1.986)
		(1.408)	**(27.591)**
Net cash from /(used in) financing activities		**285.835**	**(17.638)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**310.406**	**(126.409)**
Cash and cash equivalents - opening balance		222.214	348.623
Cash and cash equivalents - closing balance	27	532.620	222.214

The accompanying notes 1 to 36 and Appendices are an integral part of the 2020 consolidated statement of cash flows.

(*) The consolidated statement of cash flows for the year ended 31 December 2019 is presented exclusively for comparative purposes.

Notes to the 2020 consolidated financial statements

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2020 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter, 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 by-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 Energía y Celulosa, S.A. 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 from eucalyptus timber of bleached eucalyptus kraft pulp (BEKP), by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences, and of unbleached eucalyptus kraft pulp (UEKP).

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. That 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 62,624 hectares of 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; these plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 266 MW, broken down as follows:

Location	Capacity MW	Regulatory useful life
Huelva	50	2037
Huelva	41	2028
Huelva (*)	46	2045
Merida	20	2039
Jaen	16	2027
Ciudad Real	16	2027
Cordoba	14	2031
Cordoba	13	2030
Ciudad Real (*)	50	2045

(*) Plants that were commissioned during the first half of 2020

In addition, the Group is in the process of applying for permits for a number of other renewable energy developments. It currently has a pipeline of 405 MW of projects, for which it has grid-connection authorisation and locations and for which the government permitting process is expected to finalise between the third quarter of 2021 and the first quarter of 2022. In addition, Ence has secured permits to connect a further 100 MW of photovoltaic solar power up to the national grid.

In December 2020, ENCE closed the sale of a minority interest, of 49%, in Ence Energía, S.L., its Renewable Energy business holding company, to Ancala Partners (note 6).

ENCE's bylaws and other public information are available on its corporate website, at www.ence.es.

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. Basis of preparation and consolidation

2.1 Basis of preparation

Ence Energía y Celulosa, S.A.'s 2020 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 adopted by the European Union (IFRS-EU), as provided for in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, and other financial reporting framework provisions to present fairly the Group's financial position at 31 December 2020 and its financial performance and cash flows for the year then ended.

The Group's consolidated financial statements for 2020, 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 2019 were approved at the Annual General Meeting held by the Parent on 31 March 2020.

Note 3 summarises the most significant accounting policies and measurement criteria used to prepare the accompanying consolidated financial statements.

These consolidated financial statements were prepared on a going-concern basis, using the historical cost convention, except for the derivative financial instruments and equity instruments, if any, which are measured at their fair value.

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

2.2 Principles of consolidation

Appendix I lists the subsidiaries, jointly ventures and associates ENCE is invested in, also itemising the consolidation or measurement bases used, along with other salient information.

Subsidiaries

Subsidiaries are entities over which ENCE exercises control either directly or indirectly. 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. The ENCE Group deems that it controls an entity when it has existing rights that give it the current ability to direct its relevant activities and it is exposed, or has rights, to variable returns from its involvement with that investee and has the ability to affect those returns through its power over it. Subsidiaries are consolidated using the "full consolidation" method.

The subsidiaries' income, expenses and operating cash flows are consolidated from the acquisition date, i.e., the date on which the Group obtains effective control over them. Subsidiaries are deconsolidated from the date on which such control is relinquished.

Upon consolidation, intragroup balances and transactions are eliminated in full, as are unrealised profits and losses from intragroup transactions.

Non-controlling interests are initially recognised at an amount equivalent to their proportionate interest in the net identifiable assets recognised on the date control is obtained. The shares of non-controlling interests in fully-consolidated subsidiaries' equity and earnings are presented, respectively, 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 of profit or loss.

Changes in ownership interests in subsidiaries that do not give rise to a loss of control are accounted for as equity transactions, i.e., any gain or loss obtained is recognised directly in equity (notes 4 and 6).

If the Group loses control of a subsidiary, that subsidiary's assets and liabilities and any non-controlling interests are derecognised. The resulting gain or loss is recognised in the consolidated statement of profit or loss. Any interest retained in the former subsidiary when control is lost is measured at its fair value on the date on which control was lost, that amount being its deemed cost for subsequent remeasurement purposes.

Investments consolidated using the equity method

The Group's investments in associates and jointly ventures are consolidated using the equity method.

Associates are entities over which ENCE exercises significant influence, either directly or indirectly. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over that entity. Significant interest is generally accompanied by an ownership interest of between 20% and 50% of the entity's voting rights.

Investments in associates and joint ventures are recognised using the equity method from the date on which the Group obtains significant influence or joint control, respectively. Such investments are initially recognised at cost.

Any surplus between the cost of the investment and the Group's share of the net fair value of the investee's identifiable net assets is recognised as goodwill and included in the carrying amount of the investment. In contrast, any excess of the Group's share of the fair value of the investee's net identifiable assets over the cost of the investment is included as income in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

The Group's share of the profits or losses of its associates earned after the acquisition date is recognised as an increase or decrease in the carrying amount of the investment with a balancing entry under "Share of profit/(loss) of entities carried using the equity method" in the consolidated statement of profit or loss. Any dividends distributed by equity-accounted investees reduce the carrying amount of those investments. The carrying amount of such investments is also adjusted to reflect the Group's share of changes in the equity of those entities that have not been recognised in profit and loss.

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 "Other comprehensive income" 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.

Uniformity and other adjustments

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 subsidiaries' accounting policies have been aligned with those used by the Group. The financial statements of the subsidiaries refer to the same presentation date (i.e., 31 December) and reporting period as those of the Parent.

Profits and losses resulting from intragroup transactions are eliminated and deferred until they are realised with independent parties.

Own work capitalised is recognised at production cost and any profits or losses on intragroup transactions are eliminated.

Note 6 itemises the changes in the the universe of fully-consolidated and equity-accounted entities in 2020 and 2019. Where material, the notes to the accompanying consolidated financial statements show the impact of additions to and exits from the consolidation scope under the table heading, "Changes in consolidation scope".

2.3 Comparison of information and transaction seasonality

The information provided in these notes in respect of 2019 is presented for comparison purposes only.

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 6.
- Certain new accounting standards took effect on 1 January 2020 (note 2.6).

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 the generation of energy from renewable sources require annual stoppages of between 10 and 15 days for maintenance purposes.

Changes in the comparative disclosures

For a better understanding of the information included in the consolidated statement of cash flows, the 2019 impact of "Adjustments for tariff shortfall/surplus (electricity market)" in the amount of €8,577 thousand, which in the 2019 financial statements was presented as a financing activity cash flow under "Increase/(decrease) in other borrowings" has been reclassified as a cash flow from operating activities, similarly named "Adjustments for tariff shortfall/surplus (electricity market)".

The 2019 diluted earnings per share figure has been corrected to factor in the employee remuneration regulated under IFRS 2 *Share-based payments*, and other effects. As a result, diluted earnings per share for 2019 amounts to €0.04/share, while the figure disclosed in the 2019 consolidated annual financial statements was €0.02/share.

2.4 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; 2) the consolidated statement of profit or loss is presented using the nature-of-expense method; and 3) the consolidated statement of cash flows is presented using the indirect method.

2.5 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 such instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

There were no significant changes in accounting policies in 2020 or 2019, except as indicated in note 2.6 below, and it was not necessary to correct for any errors.

2.6 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 2019, except for the application, as from 1 January 2020 (1 June 2020 in the case of the amendment to IFRS 16), 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 2020:

Standard	Contents
Standard amendments:	
Amendments to IAS 1 and IAS 8. Definition of 'material'.	Aligns the definition of 'material' with that provided in the Conceptual Framework
Amendments to IFRS 9, IFRS 7 and IAS 39 - Interest rate benchmark reform (Phase 1)	Provides certain relief in connection with interest rate benchmark reform related with accounting hedges (Phase 1).
Amendments to IFRS 3 - Definition of a business	Clarifies the definition of a business.
Amendment of IFRS -16 - Financial instruments. Rent concessions	Provides an optional practical expedient for lessees from assessing whether a rent concession related to Covid-19 is a lease modification

The above amendments have not had a significant impact on the accompanying consolidated financial statements.

2.7 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying consolidated 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 2023
Standard amendments:		
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform (Phase 2)	Specific guidance as to how entities should recognise financial assets and liabilities for which the basis for determining their contractual cash flows changes as a result of this reform.	1 January 2021
Amendments to IFRS 4 - Deferral of the effective date of IFRS 9	Extension of the temporary exemption from applying IFRS 9 until 2023.	1 January 2021
Amendments to IFRS 3 - Reference to the Conceptual Framework	IFRS 3 is being updated to align the definitions of 'asset' and 'liability' in IFRS 3 - Business combinations with those contained in the Conceptual Framework and to introduce certain clarifications with respect to the recognition of contingent liabilities and assets.	1 January 2022
Amendment to IAS 16 - Proceeds before intended use	This amendment prohibits entities from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use.	1 January 2022
Amendment to IAS 37 Onerous contracts – Cost of fulfilling a contract	The amendment outlines which costs comprise the direct costs of fulfilling a contract.	1 January 2022
Annual Improvements to IFRSs, 2018-2020 Cycle	Narrow-scope amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022
Amendment to IAS 1 - Classification of liabilities as current or non-current	Clarifications with respect to the presentation of liabilities as current or non-current	1 January 2023

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.

3. 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:

3.1 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 date on which ENCE obtains control of the acquired business, 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.

If the initial accounting for a business combination is incomplete by the end of the reporting period, the identified net assets are initially recognised at provisional amounts; any adjustments to those amounts are recognised during the 'measurement period', which cannot exceed one year from the acquisition date, as if the information about the facts and circumstances underlying the adjustments had been known on the acquisition date, restating the prior-year comparative figures as required. Provisional amounts are only adjusted for new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. After the measurement period ends, the initial accounting is only revised to correct an error.

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 3.5.

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 an acquiree at that shareholders' proportionate share of the identifiable net assets acquired.

3.2 Other intangible assets

Intangible assets, mainly software, development costs and electric power generation rights, 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.

Electric power generation rights:

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

3.3 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 28).
- Own work performed by the Group on property, plant and equipment is recognised at cumulative cost, which is the sum of external costs plus internal costs, mainly labour costs, warehouse materials and other operating costs. In 2020 the Group capitalised €634 thousand of own work (2019: €7,686 thousand); that balance is recognised under "Own work capitalised" in the consolidated statement of profit or loss.
- 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 net costs estimated 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 consolidated statement of financial position. The rest of the Group's productive assets are located on sites owned by ENCE.

- The cost of an asset is reduced by the amount of any revenue earned during the asset testing phase prior to commissioning. In 2020, the Group recognised net income obtained during testing of €895 thousand.

- Prior to its transition to IFRS-EU (on 1 January 2004), the ENCE Group revalued the land recognised within "Property, plant and equipment" on the consolidated statement of financial position to its market value at the time (note 16); that revalued amount was deemed part of the cost of those assets, as provided for in IFRS 1.

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 the consolidated statement of profit or 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.

Depreciation and impairment charges

In 2020 and 2019, 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 plant	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.

The Group reviews its assets' residual values, useful lives and depreciation methods periodically. Any changes in the initially established criteria are recognised as a change in accounting estimate.

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.

The Group companies evaluate periodically, and at least at every year-end, their assets or groups of assets for indications of impairment, adjusting as warranted, as indicated in section 3.5 below, their carrying amounts to their recoverable amount through impairment losses, or the reversal thereof, albeit limited in the case of reversals to the extent of previously recognised impairment loss. Any impairment losses are recognised under "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss.

3.4 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 for sale 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 consolidated statement of financial position (note 3.3).

The Group measures it 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 28).

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 consolidated 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 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 2020 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 3.5, 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.

3.5 Impairment of non-financial assets

At least at the end of each reporting period, the ENCE Group assesses the value of its non-financial 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.

ENCE uses internal and external sources of information to tests its assets for impairment. The external sources used include declines in market value beyond those caused by the passage of time or normal usage and the identification of possible future adverse developments in the legal, economic or technology environments that could materialise in a decline in the realisable value of its assets. Internally, the Group tests for the physical damage or obsolescence of its assets as well as verifying whether they are performing economically in line with expectations.

Value in use amounts are calculated for each cash-generating unit (CGU). Goodwill is allocated to each of the CGUs expected to benefit from the synergies arising from the business combination in question.

To determine the value in use of the assets tested for impairment, management estimates the present value of the net cash flows projected for each CGU to which the assets belong excluding cash inflows or outflows from financing activities, income tax payments and future net cash flows from initiatives to improve or enhance the performance of the assets belonging to the related CGUs.

The projected cash flows are based on the projections prepared by the management of each CGU, which typically cover a 3-5 year period, except where specific business characteristics justify longer projection periods. The growth rates, sales price forecasts and direct costs modelled are based on binding contractual commitments, publicly available information, sector-specific forecasts and ENCE's experience. In addition, management performs sensitivity analysis, varying revenue growth inputs, margin assumptions and the discount rates in order to assess the impact of potential changes in these variables.

The cash flows are discounted to present value using a rate that reflects current market assessments of the time value of money and the risks specific to each CGU.

In the case of the renewable energy generation plants 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.

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 the consolidated statement of profit or loss. Impairment losses other than those recognised against goodwill are reversible.

3.6 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 lease term, it considers the initial duration of the lease agreement and any extension options that ENCE has the power and reasonably expects to exercise.

Lease liabilities are recognised at the present value of outstanding lease payment obligations, less any incentives received in connection with the lease. The 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.

After initial recognition, lease liabilities are carried at amortised cost using the effective interest rate method. Lease liabilities increase, therefore, to reflect the interest accruing on the outstanding payments (with a charge in profit and loss) and are reduced by the amount of lease payments made.

Right-of-use assets, meanwhile, are initially recognised at the amount of the lease liability at its initial recognition plus lease payments made at or before the commencement of the lease (less any lease incentives received), any initial direct costs incurred by the lessee and, if applicable, as estimation of the costs to be incurred to dismantle the asset (initial cost). They are subsequently measured at initial cost less accumulated depreciation and any impairment losses, in keeping with IAS 16 - Property, plant and equipment (notes 3.2 and 3.5).

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. If ownership is transferred to the lessee or it is virtually certain that the lessee will exercise a purchase option, the asset is depreciated over its useful life.

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, which are residual in the lease agreements entered into by ENCE, are recognised as incurred under "External services" in the consolidated 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 within "Property, plant and equipment" on the consolidated statement of financial position and classifies the lease liability under "Borrowings - Other financial liabilities" within non-current and current liabilities on the consolidated statement of financial position.

3.7 Financial assets and liabilities

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

Financial assets

Upon initial recognition, ENCE 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 consolidated statement of profit or loss.

Subsequent to initial recognition, ENCE classifies its financial assets into the following categories: 1) at amortised cost; 2) at fair value through other comprehensive income; or 3) at fair value through profit and loss. Classification depends on the business model used by ENCE to manage the financial assets and the characteristics of their contractual cash flows:

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 the consolidated statement of profit or loss as accrued, using the effective interest rate method.

   This category mainly includes the Group's "Trade and other receivables", "Other financial assets", "Deposits, guarantees and other" and "Cash and cash equivalents". "Cash and cash equivalents" includes cash balances and 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.

   The trade accounts receivable arising in the ordinary course of the Group's business are recognised at their face value, as they tend to mature within less than 12 months, corrected for expected credit losses. Those impairment losses are recognised in the consolidated statement of profit or loss.

ii. Fair value through profit or loss: this category includes derivatives that don't quality as hedges; financial assets that must be measured at fair value through profit or loss pursuant to other standards (such as contingent consideration in business combinations); and financial assets that, if measured differently, would result in an accounting mismatch.

   Changes in the fair value of such instruments are recognised when they arise in "Finance costs" and "Finance income", as warranted, in the consolidated statement of profit or loss.

iii. Financial assets at fair value through other comprehensive income: The Group values its investments in entities over which it does not exercise control, joint control or significant interest at fair value through other comprehensive income. Impairment losses on such investments are recognised in the consolidated statement of other comprehensive income.

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 2020 or 2019.

Impairment losses -

The Group tests its financial assets at amortised cost for impairment on an expected credit loss basis. Note 5 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 do so 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 of impairment allowances against trade receivables and any reversals thereof are are presented within “Impairment of financial assets” in the consolidated 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.

Depending on its prevailing cash requirements, the Group sells its trade receivables to financial institutions (factoring). When it transfers its collection claims in that manner, it transfers substantially all of the risks and rewards of ownership, including control thereover; it does not enter into repurchase agreements with the factor banks (i.e., non-recourse factoring). In keeping with IFRS, the receivables sold in this manner are derecognised.

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 the 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 consideration associated with business combinations and financial derivatives that are not designated as hedging instruments.

ENCE derecognises a financial liability (or a part of it) when it discharges the obligation specified in the contract or has been legally released from primary responsibility for the liability.

Notes, bonds and bank borrowings

Loans, notes and other liabilities are initially recognised at fair value, which usually coincides with the amount of cash received, net of any transaction costs incurred. In subsequent periods, all of these liabilities are measured at amortised cost. Finance costs and arrangement fees are recognised on an accrual basis in the consolidated 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.

Refinancing transactions are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, insofar as the contractual terms of the instruments are substantially different, a circumstance that arises if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any arrangement fees associated with the liabilities derecognised still pending reclassification to profit and loss are taken to profit and loss upon derecognition.

If the terms of the instruments are not substantially different such that the refinanced transaction does not quality for derecognition, the new cash flows are discounted at their original effective interest rate and any difference with respect to the previous carrying amount is recognised in profit or loss. Finance costs and arrangement fees are recognised on an accrual basis in the consolidated statement of profit or loss using the effective interest rate method.

The repurchase of debt instruments implies that the debt has been extinguished, even if the issuer plans to try to resell it in the immediate future.

Trade and other payables

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

The Group has reverse factoring arrangements in place with a number of banks for the management of its supplier payments. The trade liabilities whose settlement is managed by those banks are presented under "Trade and other account payable" and are classified within cash flows from operations in its consolidated statement of cash flows insofar as ENCE only transfers the management function to the banks and continues to be the primary obligor vis-a-vis the trade creditors (reverse factoring). In the event any of the banks is the primary obligor, such transfers are accounted for as bank borrowings.

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.

The cancellation of any ENCE shares gives rise to a reduction in capital equivalent to the par value of those shares and the gain or loss arising from the difference between their par value and the price at which were repurchased is recognised within reserves.

Interim dividends declared against profits for the year and final dividends paid by ENCE are deducted from equity when they are approved.

3.8 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 "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and similarly under "Hedging derivatives" 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 consolidated 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 are recognised in the consolidated statement of profit or loss.

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" in the consolidated statement of comprehensive income. 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 tests whether those transactions are highly probable; if they are, it 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 consolidated statement of comprehensive income.

The amounts deferred in the consolidated 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.

At the inception of the hedge, ENCE formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how hedge effectiveness will be tested.

ENCE tests whether its hedges are effective at their inception and at each reporting date. Specifically, it verifies whether 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 Group tests effectiveness using the qualitative method if the critical terms of the hedging instrument and the hedged item match. Whenever the principal terms do not fully match, the Group uses a hypothetical derivative with critical terms equivalent to the hedged item to identify and measure ineffectiveness.

ENCE discontinues hedge accounting prospectively only when some or all of the hedging relationship ceases to meet the hedge accounting requirements. That can occur when the hedging instrument expires, is sold or is exercised, the risk management objective has changed, the credit risk effect dominates the changes in value, the hedging instrument matures or is settled, or the underlying hedged item ceases to exist. For such purposes, the substitution or the renewal of a hedging instrument does not imply expiration or termination so long as the transaction remains consistent with the Group's documented risk management objective.

In cash flow hedges, following the discontinuation of hedge accounting, the gain or loss accumulated in other comprehensive income is not reclassified to profit or loss until the forecast transaction occurs. However, the amounts deferred in other comprehensive income are reclassified as finance income or costs when the Group no longer expects a forecast transaction to take place.

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

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.

To determine the fair value of each of the main classes of derivative financial instruments, the Group relies on the advice of external experts in each type of instrument, using information provided by information providers or official data bodies, as follows:

- The fair value of interest rate swaps is calculated as the present value, discounted at market interest rates, of the spread between the swap rates;
- The fair value of exchange rate futures contracts is determined by discounting the future cash flows calculated using the forward exchange rates prevailing at the reporting date (forward points); the Black-Scholes method is used for options; and

- The fair value of contracts for the purchase-sale of non-financial assets and liabilities to which IFRS 9 applies is calculated based on the best estimate of the future price curves for those non-financial items at the reporting date, using the prices formed in the futures markets to the extent possible.

In using those valuation methods, the Group takes into consideration the risks associated with the asset or liability, including the credit risk of both the counterparties (credit value adjustment) and the entity itself (debit value adjustment). Credit risk is calculated as a function of exposure; probability of default; and loss given default.

The metrics obtained are cross-checked with the financial institutions with which ENCE arranges the financial instruments being measured.

The fair values of the various derivative financial instruments are obtained using level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all instances, except for the pulp price hedges and the contingent consideration arising from business combinations, which are valued using level 3 inputs (note 4).

3.9 Distinction between current and non-current

In the consolidated 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.

3.10 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 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 consolidated 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.

3.11 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 them, and they are recognised 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 consolidated 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 consolidated statement of financial position. The difference between the loan proceeds received and their fair value is recognised initially in “Grants” in the consolidated statement of financial position and is reclassified to profit and loss as the assets financed by the loan are depreciated.

3.12 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 consolidated 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.

In accordance with prevailing labour regulations, ENCE is required to pay benefits to employees whose contracts are terminated under certain circumstances. Termination benefits are recognised on the date on which the Group has raised a valid expectation among those affected that the restructuring will be carried out.

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.

3.13 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, including its Chairman & CEO and its team of officers, are beneficiaries of an executive pension plan that complements the standard plan; the executive plan, structured as a group insurance policy, covers the beneficiaries’ retirement and the risks of permanent disability and death.

In terms of the savings portion of that policy, as a general rule, the beneficiaries contribute 1% of their fixed remuneration and ENCE contributes 5.25% of the latter. The risk component is structured as a life and accident insurance policy and is financed 50/50 by the parties. The contingencies covered by the policy include retirement, total permanent disability, full permanent disability, severe disability and death. The capital underwritten is equivalent to 35 times' their fixed monthly remuneration (twice that in the event the contingencies result from an accident).

Contributions to the defined contribution post-employment pension plans are recognised in "Employee benefits expense" in the consolidated 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.

3.14 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 consolidated 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 consolidated statement of profit or loss.

3.15 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 - scantly 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, via so-called "Adjustments for tariff shortfall/surplus" (hereinafter, "Tariff Adjustments"). ENCE recognises revenue corresponding to the remuneration for operations (Ro) accrued each year considering the volume actually delivered to the wholesale market managed by OMIE, as well as application of the provisions of Royal Decree 413/2014 and its implementing regulations. That income comprises the amounts contemplated by the regulator for each year at the start of the corresponding regulatory stub period plus the Tariff Adjustments for the year. The Tariff Adjustments each year in turn comprise a collection claim or payment obligation that is acknowledged in sector regulations and is recognised as an asset or liability, respectively, in the consolidated statement of financial position; it is settled via modifications to the remuneration for investment (Ri) applicable over the facilities' remaining regulatory useful lives (or sooner in the event a facility loses entitlement to that remuneration regime).

Expenses are recognised in the consolidated 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.

3.16 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. The ability to utilise any deferred tax assets recognised is reassessed at each reporting date and they are written down as necessary on the basis of the outcome of the analyses performed.

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.

Deferred tax assets and deferred tax liabilities are recognised in the consolidated statement of financial position as non-current assets and non-current liabilities, irrespective of the expected date of recovery or settlement.

3.17 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 EPS amounts are calculated by dividing "Profit/(loss) for the year attributable to owners of the parent" by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. To that end, it is assumed 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.

3.18 Related-party transactions

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

3.19 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.

3.20 Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Board of Directors and senior management team to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.21 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 Group.

3.22 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 consolidated statement of profit or loss.

Non-current assets held for sale are presented in the consolidated 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 consolidated statement of profit or loss called "Profit/(loss) after tax for the period from discontinued operations".

3.23 Activities with an environmental impact

Environmental activities are those undertaken by ENCE with the primary aim of protecting the environment or reducing or repairing damage caused to the environment by its business activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred.

Items of property, plant and equipment acquired for the purpose of sustained use in its business operations whose main purpose is to minimise environmental damage and/or enhance environmental protection, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets, applying the measurement, presentation and disclosure criteria outlined in notes 3.2 and 3.3 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. The Group had not recognised any provisions in this regard at either year-end.

4. 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 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:

Control over the Renewable Energy business

On 20 December 2020, Ence Energía y Celulosa, S.A. completed the sale of a minority interest of 49% in Ence Energía, S.L.U., ENCE's Renewable Energy holding company (note 6).

ENCE controls Ence Energía, S.L.U. and its subsidiaries in accordance with IFRS 10 - Consolidated financial statements, as it has the power to direct its relevant activities, is exposed to variable returns from its involvement with that investee and has the ability to use its power over the investee to affect the amount of its returns.

In assessing the existence of control, the following factors were taken into consideration:

ENCE is the majority shareholder, which, as a general rule, gives it the majority vote in the substantive resolutions of its board and shareholders, including the ability to appoint the majority of the board members.

A shareholder agreement has been entered into between ENCE and the non-controlling shareholder in order to give the latter a series of minimum protection rights that are customary in transactions of this nature and are designed to protect its 49% interest (the non-controlling shareholder does not have substantive rights). The key terms considered in the control analysis and the protective rights awarded to the non-controlling shareholder:

- Business plan and annual budget. The non-controlling shareholder has accepted the business plan prepared by ENCE which contemplates annual budgets until 2080; it will have a veto right if there are proposals to alter the annual budget by at least 15% of the budget items deemed essential and within ENCE's control (that do not, therefore, depend on external variables). Considering that the Group plants covered by the agreement are governed by the renewable energy regulatory regime, this business is deemed relatively stable, which is why variations of more than 15% are expected to prove the exception.

- Appointment of the management team. ENCE has appointed the management team. A qualified majority will only be required for new hires being offered more than €245 thousand per annum (other than the chief executive, nobody currently earns that sum). Regardless, ENCE will appoint the chief executive and the non-controlling shareholder will appoint the CFO, whose responsibilities are limited to decisions encompassed by the above-mentioned Business Plan.
- Significant contracts, meaning those related with plant investments, supplies and operations. The non-controlling shareholder may only veto such agreements in situations in which the contracts could seriously adversely affect that shareholder's interests (protective right).
- Investment and financing decisions not contemplated in the ENCE business plan accepted by the non-controlling shareholder. Decisions involving more than €20 million require a qualified majority. That amount, which is in addition to the sums contemplated in the business plan, is considered sufficiently high to constitute a protective right.
- ENCE's policies shall apply to any matters not specifically contemplated in the shareholder agreement.

ENCE's control also materialises in certain other aspects: (i) the management team directing the relevant activities of the Renewable Energy business is comprised of ENCE professionals; and (ii) management of the Renewable Energy business relies on ENCE for its technical and managerial expertise (the non-controlling shareholder does not have such experience).

Renowned independent experts were also asked to provide legal and accounting advice on the transaction; those experts have confirmed that ENCE has retained control over Ence Energía, S.L.U. and the Renewable Energy business.

Contingent consideration

Contingent consideration arrangements between parties as a result of the sale of ownership interests in subsidiaries that to not imply the loss of control are measured at fair value at all times. The Group has estimated that fair value by modelling the cash flows contemplated in the various scenarios, which it weighted by probability of occurrence. The key assumptions used to estimate those cash flows include the probability of attaining each of the milestones on which the contingent consideration is conditional, the estimated timeframes for doing so and the discount rate. Those assumptions are based on management's best estimates. Changes in those assumptions could have an impact on the contingent consideration recognised in the financial statements, potentially leading to the recognition, prospectively, of finance income or costs, as warranted, in the consolidated statement of profit or loss (note 6).

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 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 (notes 3.2 and 3.3).

Right-of-use assets - lease term determination:

In determining the terms of its leases, ENCE considers all of the relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the option to extend the lease or not exercise the option to terminate it (note 3.6).

Recoverable amount of non-financial instruments

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; that they reflect its investment plans and the best available estimate of their future expenses and income; and that the discount rates adequately reflect the risks specific to each cash-generating unit (notes 3.5 and 19).

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 (notes 3.4 and 6).

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 prevailing regulatory framework. It bases those estimates on the provisional settlement parameters already published and available sector information (note 9 and Appendix III).

Provisions for liabilities and charges

ENCE recognises provisions for present obligations arising from past events, mainly lawsuits and claims, as well as certain undertakings made that meet the definition of a liability. 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, as well as the probability of having to uphold certain contractual commitments and their impact (notes 3.12, 31 and 35).

Calculation of income tax and recognition of deferred tax assets

The correct measurement of income tax expense depends on several factors, including estimates regarding the ability to utilise tax credits and other deferred tax assets within certain timeframes and the tax rates that will prevail at the time of their utilisation, etc. Actual receipts and payments may differ materially from those estimates as a result of changes in the business outlook or in tax regulations or the interpretation thereof, or as a result of unforeseen future transactions with an impact on the Group's tax assets and liabilities (note 32).

5. Financial risk management

The activities performed by ENCE expose it to certain risks that, if they were to materialise, could have an impact on its financial statements: (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, managed and monitored. Management of the Group's financial risks is coordinated between ENCE's corporate departments and its various businesses and subsidiaries.
- 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.

5.1 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; regulatory 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 management 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 cash cost, 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. At 31 December 2020, ENCE had arranged hedge pulp price hedges - swaps - over 238,200 tonnes of pulp; those hedges settle in 2021 (note 30).

The sensitivity of operating profit and equity (before tax) to changes in pulp prices is shown in the table below:

Thousands of euros	Change in pulp prices	Impact on operating profit (-)/+	Impact on equity (-)/+
2020	5% increase	20.370	20.370
	5% decrease	(20.370)	(20.370)
2019	5% increase	23.801	23.801
	5% decrease	(23.801)	(23.801)

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.

The sensitivity of operating profit and equity (before tax) to changes in timber sales prices is shown in the table below:

Thousands of euros	Change in timber prices	Impact on operating profit (-)/+	Impact on equity (-)/+
2020	5% increase	(10.427)	(10.427)
	5% decrease	10.427	10.427
2019	5% increase	(9.680)	(9.680)
	5% decrease	9.680	9.680

Exchange rate risk

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 functional currency is the euro and its 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.

To manage and minimise that risk, ENCE monitors its exposure to fluctuations in the exchange rate constantly, tracks forecasts for the USD/EUR exchange rate closely and, on occasion, uses hedging strategies.

The sensitivity of operating profit and equity (before tax) to appreciation or depreciation of the dollar against the euro is shown in the table below:

Thousands of euros	Change in USD/EUR exchange rate	Impact on operating profit (-)/+	Impact on equity (-)/+
2020	5% appreciation	20.370	20.370
	5% depreciation	(20.370)	(20.370)
2019	5% appreciation	23.801	23.801
	5% depreciation	(23.801)	(23.801)

Interest rate risk

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 arranged at 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 manages this risk by writing interest derivatives that swap floating rates for fixed rates.

The Group's financial structure at year-end 2020 and 2019, factoring in the hedges arranged as a result of the derivatives written, is as follows:

	Pulp		Renewable Energy	
Thousands of euros	2020	2019	2020	2019
Fixed-rate	269.358	260.494	182.700	261.688
Floating-rate	121.980	45.000	38.000	63.520
Fees and interest	(134)	(671)	(2.870)	(5.908)
Total borrowings (note 28)	391.204	304.823	217.830	319.300

The sensitivity of pre-tax profit to a 50 basis point change in interest rates is negligible. The sensitivity of equity (before tax) to an equivalent movement in interest rates would imply an impact on the consolidated statement of profit or loss of approximately €2.7 million in 2020 (2019 : €6.0 million).

Reform of the interbank offered rates (IBOR)

The global effort to reform benchmark interest rates is significant because interbank offered rates (IBORs) are key benchmarks in the financing arranged by ENCE at floating rates of interest.

In 2019, the European institutions forged ahead with benchmark rate reform and the transition to new alternative indices that conform with Regulation (EU) 2016/1011. On 2 October 2019, the European Central Bank began to publish the euro short-term rate, or the €STR, which reflects the wholesale euro unsecured overnight borrowing costs of euro area banks and is already the benchmark for determining EONIA. As for EURIBOR, the benchmark rate used to determine interest rates on ENCE's floating-rate borrowings, a new calculation methodology was developed in 2019. That new methodology has been approved by the authorities so that it is not necessary to amend the existing contracts benchmarked to EURIBOR.

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 (Exhibit III). ENCE monitors regulatory developments meticulously in order to duly reflect their impact in its financial statements.

Brexit

On 1 February 2020, the United Kingdom left the European Union, following completion of a transition period that ran until 31 December 2020, during which it continued to participate in the EU's single market and customs unions, apply its policies and avail of its programmes. Now that the UK's exit from the EU has materialised, the parties have signed a Trade and Cooperation Agreement.

ENCE's exposure to the risks deriving from "Brexit" is low and is limited to the sale of pulp to the UK in euros or dollars, sales that accounted for 6.1% of its sales in 2020 (2019: 4.5%).

The key consequences of Brexit for the goods trade include the establishment of formal customs borders, a new customs and tax regime applicable to the import and export of goods (tariffs, VAT and duties), and new rules and regulations about products exported from the EU.

ENCE has taken the steps needed to continue to trade with the UK in the wake of Brexit.

5.2 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. For the most part, 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 factors considered in making that assessment notably include the availability of credit insurance cover, the age of the debt, the existence of bankruptcy proceedings and solvency analysis to determine the customer's ability to repay the amounts owed.

As a general rule, in the absence of other objective evidence of non-performance, ENCE assumes that there is objective evidence of impairment when a payment is past due by more than 180 days.

Trade and other receivables

Trade receivables are presented on the consolidated statement of financial position net of impairment. Receivables impairment amounted to €4,160 thousand at year-end 2020 (year-end 2019: €4,282 thousand). The table below provides a breakdown of the age of ENCE's trade debt net of impairment provisions (including expected credit losses):

	31/12/2020		31/12/2019	
Thousands of euros	**Accounts receivable**	**Impairment**	**Accounts receivable**	**Impairment**
Not past due	50.693	-	23.407	-
Past due by 0 - 30 days	6.374	-	14.871	-
Past due by 30 - 180 days	828	-	1.661	886
Past due by > 180 days	4.160	4.160	3.396	3.396
	62.055	**4.160**	**43.335**	**4.282**

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

Pulp

Credit risk is spread across 200-300 customers and other counterparties. ENCE's biggest single exposure was 10% of pulp sales in 2020 and 2019.

To mitigate credit risk, ENCE does business with creditworthy customers with suitable credit histories; also, it mostly sells to customers that are covered by the credit insurance programmes arranged by ENCE (which cover approximately 90% of invoiced amounts). Those measures are complemented by period specific financial solvency assessments of the Group's biggest customers and the addition of certain contractual clauses designed to guarantee collection.

The credit scores of the Group's customers with balances outstanding at year-end, factoring in the assessments performed by our credit underwriters, are as follows:

Thousands of euros	2020	2019
Low risk	37%	43%
Medium risk	47%	51%
Medium-high risk	15%	3%
High risk	1%	3%

Renewable Energy

Under the regulatory framework in effect, in 2020 and 2019, the power generated was sold on the spot market, MIBEL for its acronym in Spanish, collecting the related revenue from the market operator, OMIE, which has a payment guarantee scheme, and from the energy sector regulator, the CNMC, which falls under the Spanish Ministry of Industry. As those balances are ultimately backed by the Spanish state, the expected loss is considered to be nil.

5.3 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.

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.

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 2020, ENCE held sufficient cash and cash equivalents and undrawn credit lines to amply cover its short-term obligations.

The Group has also set leverage targets to match the revenue volatility profile of its different businesses. Against this backdrop, 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 for the Renewable Energy business is 4 times.

Net debt and EBITDA are alternative performance measures that are not disclosed in the financial statements. They are quantified in Appendix II of the 2020 Group's Activities Report, where those alternative performance measures are reconciled with the financial statement amounts. The two businesses' net debt/EBITDA ratios at 31 December 2020 and 2019 are shown in the table below:

Millions of euros	Pulp		Renewable Energy	
	2020	2019	2020	2019
Net debt	43,4	305,7	134,5	207,0
EBITDA	13,9	75,2	59,8	51,8
Net debt/EBITDA	3,1	4,1	2,3	4,0

The transactions completed in 2020 have enabled a drastic reduction in leverage in the Pulp business (even though the 2020 ratio is penalised by the low level of EBITDA reported).

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 28.

6. Main acquisitions and disposals

2020

Sale of a minority interest in Ence Energía, S.L.U.

On 20 December 2020, Ence Energía y Celulosa, S.A. completed the sale to Woodpecker Acquisitions S.a.r.l, an entity controlled by Ancala Partners LLP (an independent UK-based manager of infrastructure investments), of a minority interest of 49% in its subsidiary, Ence Energía, S.L.U., ENCE's Renewable Energy business holding company.

The shareholding was sold for €357.3 million. Of that amount, ENCE collected €223.3 million at the close (€186.4 million for the shares in Ence Energía, S.L.U. and €36.9 million for 49% of the credit claim that ENCE held vis-a-vis that entity); collection of the remaining up to €134 million (a variable sum) depends on the level of ENCE's success developing its pipeline of biomass-fuelled renewable energy projects over the next eight years.

Specifically, that contingent price breaks down and is conditional upon the following milestones: (i) up to €8 million will be collected when Spain calls the tender for the auction of up to 140 MW of biomass capacity; (ii) up to €42 million depends on the price fetched at those auctions; (iii) up to €18 million depends on the level of investment required to commission the facilities; (iv) up to €63 million depends on the returns earned by the new facilities between their commissioning and year-end 2028; and (v) up to €3 million depends on the amount collected from an insurance claim. There are no contingent consideration arrangements associated with this transaction for which ENCE has to recognise a liability.

The cash proceeds of €219.9 million (net of transaction costs of €3.4 million) have been presented under “Transactions with non-controlling interests” in the 2020 consolidated statement of cash flows.

ENCE has retained control over Ence Energía, S.L.U., specifically retaining the majority of board and shareholder meeting votes and the ability to direct its subsidiary's relevant activities (note 4), so that the gain obtained on the sale, in the amount of €75.5 million, has been recognised as an equity transaction, increasing ENCE's reserves by that amount (note 21.3).

That gain includes the recognition of the contingent consideration, which would be collected between 2021 and 2028. The fair value of that consideration, discounted back to year-end 2020 using a discount rate equivalent to the Renewable Energy business' cost of capital of 8.4%, has been estimated at €21.4 million (note 34). Management has run sensitivity analysis with respect to that estimate varying the discount rate by 50bp and the price obtained in the capacity auctions by €5 per megawatt-hour; those changes in the key assumption inputs reduce the fair value of the contingent consideration by €0.3 million and €6.8 million, respectively.

Sale of ENCE's shareholding in Ence Energía Solar, S.L.U.

On 15 December 2020, Ence Energía, S.L.U. closed the sale to Q-ENERGY SORDINA, S.L.U., an entity controlled by Q-Energy Private Equity, S.G.E.I.C., S.A., of 100% of its shares in Ence Energía Solar, S.L.U., an entity whose core purpose is to hold a 90% ownership interest in Ence Energía Termollano, S.A., the operating company that owns a 50-MW thermal solar thermal plant in Puertollano, which ENCE acquired in November 2018.

The price collected by ENCE at the transaction close was €82.5 million and the buyer has assumed the borrowings of the acquiree, of €74.8 million.

The price agreed includes a contingent amount of up to €4 million, which is conditional upon future actions in relation to the thermal solar plant's electric connection facilities. There are no contingent consideration arrangements associated with this transaction for which ENCE has to recognise a liability.

The gain obtained by Ence Energía, S.L. on the sale amounted to €32.9 million and has been recognised under "Impairment of and gains/(losses) on disposal of financial assets" in the 2020 consolidated statement of profit or loss. That gain includes the recognition of the associated contingent consideration, whose fair value discounted back to year-end 2020 has been estimated at €1.1 million.

The cash proceeds of €58.3 million (net of the cash on hand at the business sold of €24.2 million) have been presented under "Proceeds from disposals - Financial assets" in the 2020 consolidated statement of cash flows. The transaction costs amounted to €0.2 million.

The breakdown of the main assets and liabilities excluded from the consolidation scope or derecognised as a result of this transaction are:

	Note	Thousands of euros
Goodwill	15	3.785
Intangible assets	15	17.704
Property, plant and equipment	16 & 17	137.361
Non-current financial assets	27	4.194
Deferred tax assets	32	3.205
Cash and cash equivalents	27	24.216
Other current assets		5.559
Total assets		**196.024**
Borrowings:		
Bank borrowings	28	91.560
Other financial liabilities	28	7.425
Derivative financial instruments	30	3.151
Deferred tax liabilities	32	15.403
Non-current provisions	31	9.539
Other non-current liabilities		8.935
Other current liabilities		3.194
Total liabilities		**139.207**
NET ASSETS		**56.817**

Other transactions

In 2020 Ence Energía, S.L.U. incorporated the following companies in order to develop renewable energy projects: Ence Andujar I Solar, S.L.U., Ence Andujar II, S.L.U., Ence Jaén III, S.L.U., Ence Sevilla Solar I, S.L.U., Ence Sevilla II, S.L.U., Ence Sevilla Solar III, S.L.U. and Ence Energía Puertollano 2, S.L.U.

2019

Sale 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, along with a credit extended by the Group to that subsidiary.

The transaction price was €4,602 thousand (€4,302 thousand of which has been collected and €300 thousand has been deferred), which is very similar to the carrying amount of the investment plus the credit extended at the time of the sale.

Other transactions

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 entail significant costs.

In 2019, ENCE also incorporated Oleoenergía de Puertollano, S.L. and Captación de Servicios Forestales, S.L., in which the Group holds interests of 30% and 25%, respectively.

7. Impact of Covid-19

On March 11, 2020, the World Health Organization escalated the status of the public health crisis triggered by the SARS-COV-2 virus, also known as Covid-19, to that of a global pandemic.

The rapid initial expansion of Covid-19 worldwide and the successive waves of infection have given rise to an unprecedented health, social and economic crisis, which remains ongoing. Spain, as with the rest of the developed world, has rolled out rafts of temporary measures to curb the spread of Covid-19, including mobility restrictions, lockdowns, geographic perimeters, border closures and the closure of public and private establishments, that are affecting economic activity and ENCE's operations to varying degrees.

In order to mitigate the economic ramifications and facilitate a speedier rebound, the various governments and central banks are putting a number of plans in place to support economic recovery. However, the impact of Covid-19 in Europe, the region in which ENCE operates, was significant in 2020. The situation is expected to gradually improve in 2021, as gleaned from the forecasts of several economic institutions.

Throughout this entire time, from the onset of the health emergency, ENCE's top priority has been to deploy all of the measures within its reach to protect the health and safety of what it dubs the "ENCE Family", made up of its employees and all the professionals from its suppliers and customers who visit the Group's facilities.

Below is a description of the main impacts Covid-19 has had for ENCE and its business activities.

7.1 People

As early as the second half of February, with the aim of ensuring the health and safety of its people, ENCE began to work on a General Covid-19 Prevention Protocol, applicable across all ENCE workplaces and activities and binding upon all the people who form part of the ENCE Family.

That Protocol, which has been updated and distributed across the entire organisation over and over, includes, among other measures: the requirement to keep a minimum area of 9 square metres per person and a minimum distance of 2 metres between each; personal hygiene and disinfection measures and the cleaning of work stations, equipment and tools; the use of a face mask, provided by ENCE, at all times; temperature checks for all people entering ENCE's facilities; restrictions on travel and face-to-face meetings; preventive medical testing with a frequency dictated by the case incidence figures in the places where ENCE conducts its business, etc.

In addition, to ensure compliance with and the correct application of the practices defined in the Protocol, daily audits have been carried out across all facilities and activities. The results of those audits are analysed regularly by the high-level Crisis Committee set up to that end, made up of the Chairman & CEO and the rest of the members of ENCE's Management Committee.

Working from home was initially mandated for all jobs in which such an arrangement was possible and for 100% of critical staff. Work groups and shifts were redefined using criteria designed to minimise the spread of the virus. In-person work has since resumed, albeit restricted and organised around rotating shifts.

During the gradual rollback of the lockdown measures, ENCE has devised its own protocol for addressing how to respond to fresh outbreaks based on the incidence and cluster figures reported regionally in Spain. That protocol sets objective criteria for classifying the risk of any such outbreak and guidelines, including preventive quarantines for people living in areas affected by clusters and PCR and antibody testing for people potentially exposed to the virus. That protocol has been complemented by the implementation of a team of internal track-and-tracers.

ENCE has developed an in-house app called "COVID Passport" which allows it to manage access to its workplaces in a safe and automated manner. The use of qualitative staff data and the results and frequency of the diagnostic tests determine whether or not access is authorised. The passport app applies to the entire ENCE Family.

The intense and proactive approach taken early on has proven effective, preventing the spread of the virus in the Group's workplaces and enabling business continuity throughout the health crisis. ENCE has been able to maintain all its jobs throughout 2020 and has not had to avail of the various furlough schemes at any time.

7.2 Market and operating risks

ENCE kept its pulp and renewable energy plants operating safely throughout 2020 as both of its business activities were deemed strategic or "essential".

The pulp market has also remained fully functional, despite Covid-19, registering growth in demand in volume terms with respect to 2019, growth that was concentrated in China. Benchmark BHKP prices in Europe remained stable throughout 2020 at around USD680/tonne, a 10-year low. Towards the end of 2020, however, prices began to firm, with the leading producers announcing price increases to USD750/tonne. Covid-19 has not had a significant impact on the USD/EUR exchange rate, however.

In the Renewable Energy business, meanwhile, generation volumes evolved in line with ENCE's expectations. Sales prices, however, particularly during the early stages of the pandemic when demand contracted sharply, were lower than initially expected. Note in that respect that the Spanish remuneration regulations applicable to the generation of power from renewable sources feature an adjustment to hedge against significant fluctuations in pool prices called the "Adjustment for tariff shortfall/surplus" (note 9 and Appendix III) which largely mitigates the impact of the downtrend in energy sales prices.

The other mechanism contemplated in prevailing electricity regulations that protects against the impact of the pandemic is the remuneration for investment, a parameter that guarantees the recovery of the initial investment plus a return of 7.4% on the estimated cost of building a 'standard' plant. It translates into a sum of remuneration per gross MW installed, which in the case of ENCE's Renewable Energy business implies annual income of €41 million; its accrual requires production during 3,000 equivalent hours at the biomass plants (a figure that was reduced by 50% for 2020 under Royal Decree-Law 23/2020), the minimum nominal availability of ENCE's biomass plants being 5,500 hours. Considering the universe of facilities in this business segment, the remuneration for investment covers approximately 100% of the fixed costs of running the assets.

Throughout the pandemic, ENCE has paid particular attention to credit risk. It continued to apply its credit assessment, counterparty-specific risk limit determination and collection management policies and procedures during all of 2020, an effort that enabled it to collect it trade receivables last year without significant delays. ENCE additionally controls its exposure to credit risk by covering all of its pulp sales under credit insurance policies (note 5).

In order to cater for the growth in remote working arrangements and reinforce cybersecurity, ENCE has undertaken a number of initiatives on the IT security front: creation of a cybersecurity committee; formulation of a cybersecurity plan in collaboration with an expert consultant; the provision of awareness and educational materials to all professionals; development of cybersecurity response protocols; phising simulations and attendant awareness drives; updating of advanced device, server and e-mail protection systems; updating of back-up systems to layer in greater protection against cyberattacks; etc. In addition, ENCE has arranged cyber liability insurance to cover potential cybersecurity incidents and entered into an agreement with Spain's national cybersecurity institute (INCIBE) covering cyberattack monitoring, early alerts, training and support.

Therefore, there are no significant sources of uncertainty with respect to either the Pulp or the Renewable Energy businesses that could call the going-concern approach into question. Nor has Covid-19 given rise to indications that the pandemic may have affected the long-term outlook for either business or, by extension, the measurement of ENCE's non-financial assets (note 19), the Group's expected credit losses (note 5), or its assessment of its ability to utilise its tax assets (note 32).

7.3 Borrowings and liquidity

In the Pulp business ENCE has taken specific measures to hone its liquidity position to put the business in a position of greater strength in the event that the effects of the pandemic worsen or last for longer than expected. In 2020, the Group made temporary use of undrawn credit facilities, arranged €72 million of new financing (note 28), fine-tuned the use of its undrawn factoring and reverse factoring facilities and negotiated the deferral of €30 million of payments to fixed-asset suppliers and of €5 million of taxes and levies until 2021.

Those measures received a strong boost at the end of 2020 from the sale of a minority interest in Ence Energía, S.L. (the Renewable Energy business holdco) and the sale of Ence Energía Solar, S.L. U. (thermal solar plant in Puertollano), which enabled the Group to end 2020 with "Cash and cash equivalents" of €457 million, which is 1.4 times its payment obligations due in 2021, even assuming no additional cash generation.

In the Renewable Energy business, "Cash and cash equivalents" ended the year at €84 million, a level that covers 79% of the payment obligations due next year, against assuming no further cash generation. Lastly, the financing arranged by this business entails compliance with certain covenants related with its borrowing levels, ability to generate cash and equity position; a minimum cash sweep is also required. ENCE complied with those covenants throughout 2020 and based on its forecasts for 2021 expects to continue to do so.

7.4 Other aspects

ENCE incurred a series of extraordinary operating expenses and made certain extraordinary investments of €7,600 thousand euros and €1,274 thousand, respectively, in 2020 in relation with the following: staff costs to cover the defined safety measures; the provision of masks, disinfectants, tests and equipment to facilitate working from home; workplace cleaning; contributions to ENCE communities to help with the impacts of Covid-19; bank charges, etc.

In addition, the extraordinary liquidity arrangements made to prepare for the risk of aggravation of the pandemic have an annual impact on the Group's finance costs of approximately €1.9 million. In contrast, the measures taken by the central bank to reactivate the economy meant that ENCE benefitted from a decline in interest costs on the unhedged portion of its floating-rate borrowings.

The leases arranged by the Group, mainly over forest land, have not been affected by the pandemic.

The support received from the Spanish government has taken the form of state-guaranteed loans, which have been arranged at market rates, and the measures contemplated in Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields.

ENCE has not had to lay anyone off or avail of furlough schemes as a result of Covid-19. Nor have there been any changes in ENCE's long-term remuneration plans or its defined contribution pension commitments. Lastly, the situation brought about by Covid-19 is not currently expected to trigger any contractual breaches by ENCE with either its customers or its suppliers or to result in any hedge inefficiency.

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:

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 from renewable sources, specifically 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, Appendix III attached to these financial statements provide the consolidated statement of financial position at 31 December 2020 and 2019 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 2020 and 2019, based on the management information reviewed regularly by senior management:

2020	Thousands of euros							
	PULP business							
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	499.274	2.573	-	-	501.847	205.861	-	707.708
Inter-segment revenue	1.984	10.804	850	(11.004)	2.634	102	(2.736)	-
Total revenue	**501.258**	**13.377**	**850**	**(11.004)**	**504.481**	**205.963**	**(2.736)**	**707.708**
Earnings:								
EBITDA (*)	**4.006**	**8.998**	**856**	**-**	**13.860**	**59.749**	**-**	**73.609**
Operating profit/(loss)	**(56.125)**	**(2.206)**	**369**	**-**	**(57.962)**	**13.883**	**3.930**	**(40.149)**
Finance income	4.765	-	-	(1.369)	3.396	3	(2.750)	649
Finance costs	(15.516)	(1.375)	(3)	1.369	(15.525)	(16.147)	2.750	(28.922)
Hedging derivatives	-	-	-	-	-	-	-	-
Net exchange gains/(losses)	(1.261)	2	-	-	(1.259)	(29)	-	(1.288)
Impairment of financial instruments	(3.962)	165	-	3.962	165	32.906	-	33.071
Share of profit/(loss) of investees accounting for using equity method	-	(18)	-	-	(18)	-	-	(18)
Income tax	18.489	213	203	-	18.905	(2.963)	(4.017)	11.925
Profit/(loss) for the period	**(53.610)**	**(3.219)**	**569**	**3.962**	**(52.298)**	**27.653**	**(87)**	**(24.732)**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	1.700	-	1.700
Profit/(loss) attributable to owners of the parent	**(53.610)**	**(3.219)**	**569**	**3.962**	**(52.298)**	**25.953**	**(87)**	**(26.432)**
Capital expenditure (**)	45.657	5.649	-	-	51.306	63.893	(26.923)	88.276
Depreciation and depletion of forest reserves	(802.862)	(60.119)	(3.054)	-	(866.035)	(236.448)	(98.924)	(1.201.407)
Provision and impairment charges	(4.688)	(3.566)	(2.853)	-	(11.107)	(2.242)	(12.677)	(26.026)

(*) A measure that is not disclosed in the consolidated statement of profit or loss. 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 17).

31 December 2020	Thousands of euros							
	PULP business							
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Assets								
Non-current	842.117	176.187	3.173	(125.200)	896.277	523.680	(189.681)	1.230.276
Current	576.271	5.039	1.080	(3.011)	579.379	118.291	(27.705)	669.965
Total assets (a)	**1.418.388**	**181.226**	**4.253**	**(128.211)**	**1.475.656**	**641.971**	**(217.386)**	**1.900.241**
Liabilities								
Non-current	444.522	45.618	117	(38.945)	451.312	279.531	(38.342)	692.501
Current	326.414	3.814	426	(2.998)	327.656	107.950	(27.704)	407.902
Total liabilities (a)	**770.936**	**49.432**	**543**	**(41.943)**	**778.968**	**387.481**	**(66.046)**	**1.100.403**

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

31 December 2019	Thousands of euros							
	PULP business					ENERGY Business & Segment	Adjustments & Eliminations	Total
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp			
Revenue:								
Third parties	564.759	4.573	-	(101)	569.231	167.918	(1.798)	735.351
Inter-segment revenue	1.339	12.081	850	(11.120)	3.150	35	(3.184)	1
Total revenue	**566.098**	**16.654**	**850**	**(11.221)**	**572.381**	**167.953**	**(4.982)**	**735.352**
Earnings:								
EBITDA (*)	**66.416**	**8.738**	**966**	**(964)**	**75.156**	**51.847**	**-**	**127.003**
Operating profit/(loss)	**10.975**	**(1.260)**	**691**	**-**	**10.406**	**22.111**	**-**	**32.517**
Finance income	11.339	45	-	(8.344)	3.040	495	(2.574)	961
Finance costs	(11.827)	(2.543)	(26)	2.562	(11.834)	(14.415)	2.574	(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)	3.585	395
Profit/(loss) for the period	**4.257**	**(2.328)**	**612**	**(2.232)**	**309**	**7.604**	**3.585**	**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**	**3.585**	**9.209**
Capital expenditure (**)	170.608	4.470	-		175.078	112.219	(14.390)	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 17).

31 December 2019	Thousands of euros							
	PULP business					ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp			
Assets								
Non-current	1.077.534	182.427	3.318	(131.095)	1.132.184	659.597	(403.673)	1.388.108
Current	195.687	5.651	1.394	(1.988)	200.744	152.144	(16.922)	335.966
Total assets (a)	**1.273.221**	**188.078**	**4.712**	**(133.083)**	**1.332.928**	**811.741**	**(420.595)**	**1.724.074**
Liabilities								
Non-current	408.819	47.688	470	(40.682)	416.295	419.384	(75.177)	760.502
Current	232.689	4.549	834	(2.170)	235.902	86.126	(16.922)	305.106
Total liabilities (a)	**641.508**	**52.237**	**1.304**	**(42.852)**	**652.197**	**505.510**	**(92.099)**	**1.065.608**

(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:

	Thousands of euros						
31 December 2020	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	434.718	572.565	-	-	1.007.283	-	1.007.283
Pulp sales volume (ADt)	446.035	569.447	-	-	1.015.482	-	1.015.482
Energy sales volume (MWh)	247.883	568.561	-	1.421.446	2.237.890	-	2.237.890
Continuing operations:							
Revenue	195.537	278.082	-	237.845	711.464	(13.100)	698.363
Cost of sales and other costs	(119.959)	(161.003)	-	(79.448)	(360.409)	17.743	(342.666)
GROSS PROFIT	**75.578**	**117.079**	**-**	**158.397**	**351.054**	**4.643**	**355.697**
Employee benefits expense	(20.132)	(27.389)	(35.470)	(9.383)	(92.375)	(0)	(92.375)
Other operating expenses	(48.830)	(53.577)	(8.931)	(73.733)	(185.070)	(4.643)	(189.713)
Overhead passed on	(14.923)	(18.252)	44.401	(11.226)	-	-	-
EBITDA	**(8.307)**	**17.862**	**-**	**64.055**	**73.610**	**(0)**	**73.609**
Asset depreciation/amortisation and impairment	(14.664)	(38.129)	-	(59.894)	(112.686)	3.928	(108.758)
Other non-recurring operating expenses	(5.000)	-	-	-	(5.000)	-	(5.000)
OPERATING PROFIT/(LOSS)	**(27.971)**	**(20.267)**	**-**	**4.161**	**(44.077)**	**3.928**	**(40.149)**
Net finance cost	(3.735)	(4.565)		11.808	3.508	-	3.510
Share of profit/(loss) of equity-accounted investees	-	-		(18)	(18)		(18)
PROFIT BEFORE TAX	**(31.706)**	**(24.832)**	**-**	**15.951**	**(40.587)**	**3.928**	**(36.657)**
Income tax	7.927	6.208	-	(2.210)	11.925	-	11.925
PROFIT FOR THE YEAR	**(23.780)**	**(18.624)**	**-**	**13.742**	**(28.662)**	**3.928**	**(24.732)**
Profit/(loss) attributable to NCI	-	-	-	1.700	1.700	-	1.700
Profit/(loss) attributable to owners of the parent	**(23.780)**	**(18.624)**	**-**	**12.042**	**(30.362)**	**3.928**	**(26.432)**

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

(*) A measure that is not disclosed in the consolidated statement of profit or loss. 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.

2019	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
	Thousands of euros						
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 statement of profit or loss. 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 2020 and 2019 is as follows:

Thousands of euros	2020 Pulp	2020 Renewable Energy	2020 Consolidated Group	2019 Pulp	2019 Renewable Energy	2019 Consolidated Group
Business metrics						
Pulp sales volume (tonnes)	1.015.482	-	1.015.482	910.499	-	910.499
Energy sales volume (MWh) (**)	816.444	1.421.446	2.237.890	710.191	1.047.162	1.757.353
Income:						
Pulp	407.404	-	407.404	476.029	-	476.029
Electric energy	75.549	204.989	280.538	73.338	167.097	240.435
Timber and forestry services	18.894	872	19.766	18.067	821	18.888
Inter-segment sales	2.634	102	-	4.947	35	-
	504.481	**205.963**	**707.708**	**572.381**	**167.953**	**735.352**

(*) The difference between the figures presented under "Consolidated Group" for 2020 and 2019 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 2019 in the amounts of €2,736 thousand and €4,982 thousand, respectively.

(**) In addition, in 2020, the Group generated 53,275 MWh while testing the new biomass plants commissioned during the year: HU-46 MW and PU-50 MW. The revenue associated with that power, in the amount of €4,076 thousand, along with the associated costs incurred, has been accounted for as a reduction in the investment in those facilities.

The revenue associated with the generation of electricity includes recognition of the "Adjustment for tariff shortfall/surplus" (the "Tariff Adjustment") concept contemplated in electricity sector regulations in order to correct for the impact of deviations between the prices estimated by the regulator for the purpose of calculating remuneration for operations (Ro), and the pool price that ultimately materialises. That correction is made by the regulator at the end of each 3-year regulatory stub period and is settled, whether payable or receivable, through the remuneration for investment (Ri) concept, generally, during the remaining regulatory useful life of each facility (Appendix III).

In 2020 the Tariff Adjustment implied the recognition of €25,945 thousand of revenue (having reduced revenue by €8,552 thousand in 2019), framed by the contents of additional provision four of Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields. The Tariff Adjustment pending settlement at year-end 2020 and 2019, broken down by year of generation and year of settlement, is provided in a schedule in note 29.

Spanish Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields, took effect on 25 June 2020 and is aimed at mitigating the impact of Covid-19 on electric power producers. Additional provision four of that piece of legislation stipulates that for the purposes of calculating the remuneration for operations (Ro) exclusively in respect of the period of effectiveness of the state of emergency in Spain, the applicable remuneration parameters are those prevailing at the date of approval of the legislation, other than the pool price and carbon allowance price parameters, which are to be estimated separately for the period of effectiveness of the state of emergency.

Given the absence of the new Ro metrics applicable during the state of emergency, which will be published by the regulator in a ministerial order, ENCE has estimated the related impact, deemed highly probable for IFRS-15 purposes, as follows: it has estimated that the Ro will be supplemented by the amount of the difference between the daily pool price during the state of emergency and €54.42, the mid-point of the price range applicable to 2020, which is, by extension, the average income per megawatt sold in the electricity market in 2020 estimated by the regulator and used to determine the Ro. That estimate implied the recognition of €13,700 thousand of additional revenue in 2020. ENCE also expects that this measure will have an impact on determination of the Tariff Adjustment in 2020, reducing revenue from power generation by €17,175 thousand euros.

Elsewhere, ENCE has written contracts for the sale of 215,223 MWh of electricity under a physical bilateral contract for delivery in 2021. The price negotiated ranges between €45.22 and €49.25/MWh (note 30).

In 2020, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €182 million (2019: €221 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:

% of pulp sales	2020	2019
Germany	21,8	20,3
Spain	19,4	17,3
Poland	7,4	9,3
Italy	12,8	5,3
France	4,5	10,4
UK	10,4	4,5
Turkey	6,1	8,4
Austria	3,3	4,3
Other	14,3	20,2
	100,0	**100,0**

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

10. Cost of goods sold

Cost of sales in 2020 and 2019 breaks down as follows:

Thousands of euros	2020			2019		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	243.482	47.757	290.015	242.579	44.515	283.196
Change in raw materials and other inventories	(531)	2.210	1.679	(8.849)	(3.370)	(12.219)
Other external expenses	32.275	15.380	46.143	30.101	7.536	36.553
	275.226	**65.347**	**337.837**	**263.831**	**48.681**	**307.530**

(*) The difference between the figures presented under “Consolidated Group” for 2020 and 2019 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 2019 in the amounts of €2,736 thousand and €4,982 thousand, respectively.

This heading mainly includes the cost of timber, logging and transport contractors, 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 2020 and 2019 is provided below:

Thousands of euros	2020			2019		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Wages and salaries	58.302	10.329	68.631	59.926	9.354	69.280
Social Security	14.341	2.781	17.122	14.039	2.371	16.410
Contributions to pension plans (note 3.13)	2.050	224	2.274	1.983	195	2.178
Other benefit expense	1.322	166	1.488	1.610	125	1.735
	76.015	13.500	89.515	77.558	12.045	89.603
Long-term remuneration plans (note 3.14)	907	58	965	2.292	305	2.597
Termination benefits	1.520	375	1.895	47	7	54
	78.442	**13.933**	**92.375**	**79.897**	**12.357**	**92.254**

11.1 Headcount figures

The average Group headcount in 2020 and 2019:

	Average headcount during the period					
	2020			2019		
Job category	Men	Women	Total	Men	Women	Total
Officers	53	14	67	55	13	68
Managers	63	18	81	66	18	84
Team leaders	72	4	76	72	4	76
Skilled professionals	209	123	332	203	109	312
Clerical staff	13	44	57	13	41	54
Operators	302	18	320	285	10	295
Support and upgrade staff	49	46	95	52	44	96
Maintenance	137	2	139	137	0	137
	898	**269**	**1.167**	**883**	**239**	**1.122**

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

	Year-end headcount					
	2020			2019		
Job category	Men	Women	Total	Men	Women	Total
Officers	50	12	62	56	13	69
Managers	61	16	77	66	19	85
Team leaders	70	4	74	71	4	75
Skilled professionals	207	129	336	214	115	329
Clerical staff	11	46	57	11	43	54
Operators	290	19	309	274	11	285
Support and upgrade staff	48	45	93	50	44	94
Maintenance	141	1	142	139	1	140
	878	**272**	**1.150**	**881**	**250**	**1.131**

At year-end 2020, 14 employees had a disability of a severity of 33% or higher (year-end 2019: 13).

At 31 December 2020 and 2019, the Board of Directors was made up of 14 members: 10 men and three women in both years; three directors represent legal entities.

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).

The cost accrued under this plan in 2019 was €1,172 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 effort. 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 plan covers a total of 116 professionals from both the Pulp and Renewable Energy businesses and the maximum cost, assuming a delivery rate of 100%, is €20,003 thousand. The Company's Board of Directors resolved to early-settle the plan with respect to the Renewable Energy business beneficiaries as of 31 December 2020. As a result, 27 professionals received the maximum amount - assuming 100% delivery of the related targets - of €2,541 thousand. Meanwhile Ence Energía, S.L. is working to formulate a long-term incentive plan that is fully aligned with its business strategy for submission to the Parent's Board of Directors for approval.

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 consolidated statement of profit or loss prospectively.

The charge accrued in this respect in 2020 amounted to €965 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 (€677 thousand before the related tax effect; note 21.8); and ii) “Non-current provisions” in the consolidated statement of financial position (note 31) in respect of the portion to be settled in cash (€288 thousand). The charge accrued in 2019 was €1,425 thousand.

12. Other operating expenses

The breakdown of this consolidated statement of profit or loss heading in 2020 and 2019 for the businesses carried on by ENCE was as follows:

	2020			2019		
Thousands of euros	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	126.190	56.754	178.258	129.894	47.787	174.253
Use of emission allowances (note 31)	3.196	1.972	4.213	3.014	1.683	4.697
Taxes other than income tax	3.288	1.819	5.107	2.406	1.282	3.688
Electricity generation levy	5.307	14.374	19.681	3.771	8.837	12.608
Change in trade and other provisions	(619)	158	(461)	3.193	(53)	3.140
Other non-recurring operating expenses (note 35)	5.000	-	5.000	4.000	-	4.000
	142.362	**75.077**	**211.798**	**146.278**	**59.536**	**202.386**

(*) The difference between the figures presented under “Consolidated Group” for 2020 and 2019 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 2019 in the amounts of €5,641 thousand and €3,428 thousand, respectively.

12.1 External services

The breakdown of "External services" in 2020 and 2019 is as follows:

	2020			2019		
Thousands of euros	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	41.291	785	42.076	37.226	687	37.913
Utilities	32.337	2.301	34.638	35.886	2.286	38.172
Repairs and upkeep	13.291	25.391	38.682	13.855	19.158	33.013
Rent and fees	520	300	820	774	443	1.217
Insurance premiums	3.240	2.179	5.419	3.455	1.391	4.846
Independent professional services	6.276	147	6.393	8.565	1.718	10.253
Banking and similar services	1.795	992	2.787	847	294	1.141
Advertising, publicity and public relations	3.026	63	3.089	2.047	9	2.056
Research and development costs	200	-	200	498	-	498
Other services	24.214	24.596	44.154	26.741	21.801	45.144
	126.190	**56.754**	**178.258**	**129.894**	**47.787**	**174.253**

(*) The difference between the figures presented under “Consolidated Group” for 2020 and 2019 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 2019 in the amounts of €4,686 thousand and €3,428 thousand, respectively.

ENCE has arranged director and officer liability insurance which covers all its directors and executives against damages caused by acts or omissions in the course of discharging their duties. The cost of that insurance was €49 thousand in 2020 (2019: €46 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 2020 and 2019 are shown in the next table:

Thousands of euros	**2020**	**2019**
Audit services	203	183
Other services (*)	3	6

(*) In 2020 and 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 €6 thousand for audit services performed outside of Spain in 2020 (2019: €14 thousand) and €25 thousand for other services provided in Spain in 2020 (no such services in 2019).

13. Finance costs

The breakdown of "Finance costs" in the 2020 and 2019 consolidated statement of profit or loss was as follows:

Thousands of euros	2020 Pulp	2020 Renewable Energy	2020 Total	2019 Pulp	2019 Renewable Energy	2019 Total
Convertible bonds	4.891	-	4.891	4.800	-	4.800
Notes	-	3.262	3.262	-	3.253	3.253
Loans, credit facilities & other	6.970	4.684	11.654	3.957	4.507	8.464
Fees and other charges	2.185	3.092	5.277	1.606	3.903	5.509
Capitalised borrowing costs (notes 16 & 18)	(53)	(17)	(70)	(230)	(3.021)	(3.251)
Inter-business finance costs	-	2.750	-	-	2.574	-
Right-of-use assets (note 17)	1.407	303	1.710	1.573	289	1.862
	15.400	14.074	26.724	11.706	11.505	20.637
Costs associated with refinancing work:						
Derecognition of arrangement fees	-	-	-	-	1.375	1.375
	-	-	-	-	1.375	1.375
Hedging derivatives:						
Settlement of IR swap (note 30)	125	2.073	2.198	128	1.535	1.663
	125	2.073	2.198	128	1.535	1.663
	15.525	**16.147**	**28.922**	**11.834**	**14.415**	**23.675**

(*) The difference between the figures presented under "Consolidated Group" for 2020 and 2019 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 2019 in the amounts of €2,750 thousand and €2,574 thousand, respectively.

14. Earnings per share

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

Earnings per share	Unit	2020	2019
Consolidated profit/(loss) for the year attributable to owners of the parent	Thousands of euros	(26.432)	9.209
Weighted average ordinary shares outstanding (*)	Millions of shares	242,9	243,0
Weighted average diluted shares	Millions of shares	264,1	265,9
Basic earnings per share	**€**	**(0,11)**	**0,04**
Diluted earnings per share	**€**	**(0,11)**	**0,04**

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

The diluted earnings per share figures in 2020 and 2019 do not include the potential ordinary shares originating from the Group's convertible securities - 21.2 million shares in 2020 and 22.0 million in 2019 - as their inclusion has an anti-dilutive effect.

The potential shares related with delivery of the 2019-2023 long-term bonus plan targets (note 11), estimated at 1 million at year-end 2020, similarly have anti-dilutive effects and have therefore been ignored for 2020 diluted EPS calculation purposes. Those shares were however included in the 2019 diluted EPS calculation.

15. Goodwill and other intangible assets

The reconciliation of the carrying amounts of goodwill and the various components of intangible assets and amortisation and impairment in 2020 and 2019 is as follows:

31 December 2020	Balance at 01/01/2020	Changes in consol. scope (note 6)	Additions/ (charges)	Transfers	Balance at 31/12/2020
	Thousands of euros				
Goodwill (*)	7.104	(4.367)	-	-	2.737
Software	27.636	(231)	642	2.622	30.669
Development costs	18.452	-	-	-	18.452
Prepayments	3.617	-	3.776	(2.622)	4.771
Other intangible assets	44.641	(17.878)	399	-	27.162
Total cost	**101.450**	**(22.476)**	**4.817**	**-**	**83.791**
Software	(19.751)	231	(2.817)	-	(22.337)
Development costs	(12.417)	-	(483)	-	(12.900)
Other intangible assets	(2.743)	2.724	(2.037)	-	(2.056)
Total amortisation	**(34.911)**	**2.955**	**(5.337)**	**-**	**(37.293)**
Total impairment (note 19)	**(4.638)**	**582**	**(539)**	**-**	**(4.595)**
Total	**61.901**				**41.903**

31 December 2019	Balance at 01/01/2019	Additions/ (charges)	Transfers (note 16)	Balance at 31/12/2019
	Thousands of euros			
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)**
Total impairment (note 19)	**(4.098)**	**(540)**	**-**	**(4.638)**
Total	**60.113**			**61.901**

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

"Other intangible assets" mainly includes electric power generation rights.

15.1 Additions and other movements

The investments made during the year correspond to digitalisation-related enhancements to ENCE's business processes.

The Group did not capitalise any own work within intangible assets in 2020 or 2019.

At 31 December 2020, there were fully-amortised intangible assets still in use with an original cost of €28,766 thousand (year-end 2019: €21,704 thousand).

15.2 Goodwill

The breakdown of the Group's goodwill at 31 December 2020 and 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	(995)	1.742
		2.737	**(995)**	**1.742**

16. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2020 and 2019 is as follows:

	Thousands of euros						
31 December 2020	Balance at 01/01/2020	Changes in consol. scope (note 6)	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 31/12/2020
Forest land	83.794	-	-	-	-	-	83.794
Other land	13.352	-	128	-	4.368	(11)	17.837
Buildings	124.609	-	1.060	(1.026)	32.507	-	157.150
Plant and machinery	1.791.622	(234.312)	7.745	(28.753)	301.825	(7)	1.838.120
Other PP&E	62.508	(1.300)	414	(5.734)	6.024	(1)	61.911
Prepayments and PP&E in progress	298.176	(158)	70.724	(698)	(344.724)	-	23.320
Right-of-use - Land (note 17)	42.448	-	403	(546)	-	-	42.305
Right-of-use assets - Other assets (note 17)	12.939	(7.777)	4.927	(202)	-	-	9.887
Cost	**2.429.448**	**(243.547)**	**85.401**	**(36.959)**	**-**	**(19)**	**2.234.324**
Buildings	(66.207)	-	(2.756)	991	-	-	(67.972)
Plant and machinery	(1.059.845)	104.604	(81.585)	26.829	-	7	(1.009.990)
Other PP&E	(37.832)	1.021	(4.167)	3.910	-	1	(37.067)
Right-of-use - Land (note 17)	(1.991)	-	(1.618)	363	-	-	(3.246)
Right-of-use assets - Other assets (note 17)	(1.674)	561	(2.490)	76	-	-	(3.527)
Depreciation	**(1.167.549)**	**106.186**	**(92.616)**	**32.169**	**-**	**8**	**(1.121.802)**
Impairment (note 19)	**(23.595)**	**-**	**(1.107)**	**5.056**	**-**	**-**	**(19.646)**
Carrying amount	**1.238.304**						**1.092.876**

	Thousands of euros					
31 December 2019	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Transfers (note 15)	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 17) (*)	-	45.082	(2.634)	-	-	42.448
Right-of-use assets - Other assets (note 17) (*)	-	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 17)	-	(2.002)	11	-	-	(1.991)
Right-of-use assets - Other assets (note 17)	-	(1.766)	92	-	-	(1.674)
Depreciation	**(1.134.044)**	**(78.811)**	**45.349**	**(42)**	**(1)**	**(1.167.549)**
Impairment (note 19)	**(29.306)**	**-**	**5.711**	**-**	**-**	**(23.595)**
Carrying amount	**987.136**					**1.238.304**

(*) The additions recognised include 53,349 thousand corresponding to the first-time application of IFRS 16 - Leases (note 17)

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

16.1 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. That capital expenditure breaks down as follows:

	Thousands of euros	
	2020	2019
Pulp business:		
Pontevedra	14.454	47.422
Navia	29.355	123.336
Other	340	5.467
Renewable Energy business:		
46-MW Huelva (*)	10.718	27.046
Huelva - 41 MW	1.773	13.135
Puertollano – 50 MW (*)	10.940	35.166
Other	12.491	20.814
Total additions	**80.071**	**272.386**
Total right-of-use assets added (note 17)	5.330	58.225
	85.401	**330.611**

(*) Plants commissioned in 2020

Renewable Energy

In 2020, the Group completed the construction of two biomass power plants in Spain, specifically in Huelva (46 MW) and in Puertollano, Ciudad Real (50 MW). The 46-MW Huelva and 50-MW Puertollano plants were commissioned on 1 February 2020 and 1 April 2020, respectively.

Investment in the 46-MW Huelva and the 50-MW Puertollano plants, net of the revenue generated during the testing phases, and recognised under "Property, plant and equipment", totalled €100 million and €107 million, respectively.

Pulp

The most significant investments carried out in 2020 and 2019 related to the capacity added at both biomills: 80,000 tonnes in Navia and 20,000 tonnes in Pontevedra.

Capital commitments

At year-end 2020, the Group was contractually committed to €17.9 million of capital expenditure in its Pulp business and €5.4 million in its Renewable Energy business, amounts to be incurred in 2021.

16.2 Public-domain concession - Pontevedra biomill

The Pontevedra biomill 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 investing an estimated €61 million at the biomill related with increasing its capacity and efficiency, improving its environmental performance and blending the facility into its surroundings.

That investment undertaking was fulfilled in 2020, on schedule, and the corresponding supporting documentation is being processed with the authorities.

The concession extension has been challenged in the courts by the town council of Pontevedra and two associations (note 31.3).

16.3 Fully-depreciated assets

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	2020	2019
Buildings	23.887	34.348
Plant	49.506	49.162
Machinery & equipment	381.700	427.860
Tools	1.642	1.794
Furniture and fittings	6.289	6.547
Other	5.822	12.319
	468.846	**532.030**

16.4 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 2020 and 2019 and is included in “Valuation adjustments” in equity (note 21.7).

16.5 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.

17. Right-of-use assets

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 2020 and 2019 and the consolidated statement of profit or loss for the year then ended:

17.1 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 2020 and 2019:

		Thousands of euros				
2020	Note	Balance at 01/01/2020	Additions /(charges)	Derecognitions	Changes in consol. scope	Balance at 31/12/2020
Cost:						
Pontevedra biomill land	16	33.351	-	-	-	33.351
Forest leases	16	9.098	402	(546)	-	8.954
Other (*)	16	12.939	4.927	(202)	(7.777)	9.887
Cost		**55.388**	**5.329**	**(748)**	**(7.777)**	**52.192**
Depreciation:						
Pontevedra biomill land	16	744	744	-	-	1.488
Forest leases	16	1.247	873	(363)	-	1.757
Other (*)	16	1.674	2.491	(77)	(561)	3.527
Depreciation		**3.665**	**4.108**	**(440)**	**(561)**	**6.772**
Carrying amount		**51.723**				**45.420**

(*) Mainly includes offices and vehicles.

		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.

17.2 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 2020 and 2019:

		Thousands of euros							
2020	Note	Balance at 01/01/2020	Additions	Installments paid	Derecognitions	Transfers	Interest	Changes in consol. scope	Balance at 31/12/2020
Current debt	28.2	2.471	-	(5.804)	(54)	4.332	1.710	(178)	2.477
Non-current debt	28.2	49.792	5.545	-	(269)	(4.332)	-	(7.247)	43.489
		52.263	**5.545**	**(5.804)**	**(323)**	**-**	**1.710**	**(7.425)**	**45.966**

		Thousands of euros						
	Note	Initial recognition	Additions	Installments paid	Derecognitions	Transfers	Interest	31/12/2019
Current debt	28.2	4.333	-	(5.080)	(201)	1.556	1.862	2.471
Non-current debt	28.2	49.015	4.817	-	(2.485)	(1.556)	-	49.792
		53.349	**4.817**	**(5.080)**	**(2.685)**	**-**	**1.862**	**52.263**

Lease liabilities are recognised at the present value of outstanding lease payment obligations, less any incentives received in connection with the lease. The lease payments are discounted to present value using the estimated incremental borrowing rate. That rate has been estimated, based on available market information, within a range of 2.5%-2.7% for contacts 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.

ENCE believes it is not potentially exposed to significant future cash outflows that are not reflected in the measurement of its lease liabilities.

17.3 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 2020 and 2019:

		Thousands of euros		
2020	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	16	744	1.124	1.418
Other land	16	873	220	1.153
Other assets	16	2.491	366	3.233
		4.108	**1.710**	**5.804**

		Thousands of euros		
2019	Note	Depreciation	Finance expense	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	16	744	1.288	1.570
Other land	16	1.258	253	1.450
Other assets	16	1.766	321	2.060
		3.767	**1.862**	**5.080**

The expenses recognised in connection with short-term leases and variable lease payments not included in the measurement of the lease liability (note 12.1) amounted to €820 thousand in 2020 (2019: €1,217 thousand).

Considering the leases in place at 31 December 2020, depreciation charges and interest expense related to the Group's right-of-use assets will average €2.0 million and €1.5 million, respectively, in the next five years (at year-end 2019: €2.5 million and €1.7 million, respectively).

18. Biological assets

"Biological assets" exclusively comprise 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 2020 and 2019:

	Thousands of euros			
2020	Balance at 01/01/2020	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2020
Pulp business:				
Forest cover	133.812	3.204	(16.500)	120.516
Depletion of forest reserve	(48.192)	(9.771)	11.132	(46.831)
Impairment (note 19)	(6.888)	(672)	4.909	(2.651)
	78.732	**(7.239)**	**(459)**	**71.034**
Renewable Energy business:				
Forest cover	2.723	184	(288)	2.619
Depletion of forest reserve	(1.994)	(292)	32	(2.254)
Impairment (note 19)	(385)	-	256	(129)
	344	**(108)**	**-**	**236**
	79.076			**71.270**

	Thousands of euros			
31 December 2019	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**

In 2020, ENCE planted 139 hectares of land (2019: 784 hectares) and carried out forest preservation and protection work on 4,265 hectares (2019: 10,041 hectares), work which entailed investment totalling €3,388 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 6).

In 2020, the Group capitalised €943 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs (2019: €1,539 thousand).

In 2018, ENCE entered into several long-term agreements for the sale of timber produced at its forest plantations in southern Spain. Those agreements are effective until December 2030 and cover annual volumes ranging between 170,000 and 240,000 tonnes.

18.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2020 and 2019 is provided below:

	Spain & Portugal			
	2020		2019	
Age (years)	Hectares (*)	Carrying amount (€ 000)	Hectares (*)	Carrying amount (€ 000)
> 17	1.112	2.516	1.043	2.606
14 - 16	4.027	12.383	3.553	10.478
11 - 13	8.830	22.789	8.927	27.800
8 - 10	8.825	17.025	10.508	22.629
4 - 7	10.185	8.742	10.522	12.066
0 - 3	14.777	10.595	13.580	10.770
Impairment of biological assets	-	(2.780)	-	(7.273)
	47.756	**71.270**	**48.133**	**79.076**

(*) Owned forest area planted

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.

19. Impairment of non-financial assets

The impairment losses recognised by the Group against non-financial assets at year-end are shown in the table below:

		Thousands of euros					
	Note	01/01/2020	Additions/ (charges)	Amounts used	Amounts reversed	Changes in consol. scope	31/12/2020
Goodwill	15	1.038	539	-	-	(582)	995
Other intangible assets	15	3.599	-	-	-	-	3.599
Property, plant and equipment	16	23.595	1.107	(4.352)	(704)	-	19.646
Biological assets	18	7.273	672	(5.165)	-	-	2.780
Inventories							-
Spare parts	20	14.460	826	(5)	(12)	-	15.269
Net realisable amount & other	20	2.245	2.727	-	(3.995)	-	977
		52.210	**5.871**	**(9.522)**	**(4.711)**	**(582)**	**43.266**

		Thousands of euros				
	Note	01/01/2019	Additions/ (charges)	Amounts used	Amounts reversed	31/12/2019
Goodwill	15	498	540	-	-	1.038
Other intangible assets	15	3.599	-	-	-	3.599
Property, plant and equipment	16	29.306	-	(180)	(5.531)	23.595
Biological assets	18	9.408	384	(2.519)	-	7.273
Inventories						-
Spare parts	20	13.855	791	(3)	(183)	14.460
Net realisable amount & other	20	42	2.203	-	-	2.245
		56.708	**3.918**	**(2.702)**	**(5.714)**	**52.210**

The goodwill allocated to the renewable energy power plants is expected to be recovered on a straight-line basis over the remaining regulatory useful lives of the CGUs to which it has been allocated. The goodwill balance is written down for impairment to reflect the reduction in the corresponding plants' remaining regulatory useful lives with the passage of time.

ENCE ceased producing pulp at the Huelva industrial complex in 2014, which has meant that some of its industrial assets are no longer used for business purposes. The assets being dismantled as a result have been measured at their recoverable amount on the basis of an appraisal conducted by an independent expert in 2019; that amount is residual. As a result of that appraisal, those assets had been written down for impairment by €11 million at year-end 2020 (€16 million at year-end 2019). Those impairment allowances are being used as the dismantling work progresses.

ENCE was affected by a fire that began in the town of Almonaster la Real in Huelva during the third quarter of 2020. The forest area affected that is managed by ENCE spans 1,795 hectares of productive land and 863 hectares of protected cover.

The Group writes slow-moving parts down for impairment. Specifically, it begins to recognise impairment charges when an asset has not been turned over over in the past year, increasing the charges linearly to reach 100% by the time an asset has not been turned over for five years. ENCE also writes its finished product inventories down for impairment to align their carrying amount with their net realisable value when pulp sales prices, net of discounts and sales and logistics costs, fall below production cost.

The breakdown of “Impairment of and gains/(losses) on disposal of fixed assets” in the 2020 and 2019 consolidated statements of profit or loss is shown below:

		Thousands of euros					
		2020			2019		
	Note	Impairment losses (*)	Gains/(losses) on derecognition /sale	Total	Impairment losses	Gains/(losses) on derecognition /sale	Total
Goodwill	15	(539)	-	(539)	(540)	-	(540)
Property, plant and equipment	16	(404)	-	(404)	5.531	(2.209)	3.322
Biological assets	18	(672)	-	(672)	(384)	(562)	(946)
		(1.615)	**-**	**(1.615)**	**4.607**	**(2.771)**	**1.836**

(*) Additions to impairment net of reversals. Income/(charge)

19.1 Methodology and key assumptions

ENCE has tested its cash-generating units (CGUs) for impairment using the methodology outlined in note 3.5.

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. Its right-of-use assets are included in the CGU in which they are being used.

The projections used for impairment testing purposes rely on the best forward-looking information available and specifically contemplate the following assumptions:

Pulp

Biomill output: the projections assume production levels that are consistent with prior-year levels and the nominal installed capacity of the facilities, specifically between 1.05 and 1.10 million tonnes.

Sales prices: through 2024 the projections assume the mid-point of the projections compiled by the top three pulp sector analysts, specifically pulp prices ranging between USD766 and USD855. The exchange rate modelled is USD/EUR1.20.

Cash cost and capex. The cash cost modelled is in line with that incurred in 2020 (considering the energy produced at the mills as a deduction in cost) while recurring capex is projected at around €7 to €9 million per biomill.

Growth in perpetuity: ~1%; discount rate: 8.5%. In the case of the biological assets, the growth and discount rates are 1.5% and 7.6%, respectively.

Renewable Energy

Generation volumes. The projections assume hours in operation in line with historical output levels.

Sales price. The projections are based on the prices indicated in the futures market, of around €49/MWh, along with the supplementary mechanisms provided for in prevailing regulations.

Generation costs and capex. Costs have been modelled in line with those incurred in recent years, while recurring capex, which varies by facility, ranges from €0.3m and €2m per plant.

Growth in perpetuity: ~1 - 1.5%; discount rate: 7.4%.

19.2 Sensitivity analysis

The projections for the Pulp business were then tested by varying the sales prices by 5% and the discount rate by 100bp. In the Renewable Energy business, the projections were tested by varying the output volumes by 5% and the discount rate by 50bp.

Those sensitivity analyses, carried out independently for each key input, did not indicate the existence of impairment at any of the CGUs, i.e., any of the pulp biomills or renewable energy generation facilities.

At 31 December 2020, impairment losses stood at €2,780 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 €6.4 million of impairment losses.

20. Inventories

The breakdown of the Group's inventories at 31 December 2020 and 2019 is as follows:

Thousands of euros	31/12/2020	31/12/2019
Timber and biomass	15.281	19.388
Other raw materials	3.389	3.110
Spare parts (*)	10.736	9.854
Emission allowances	6.015	4.639
Finished goods and work in progress	17.014	21.745
Prepayments to suppliers	373	78
Impairment (note 19)	(977)	(2.262)
	51.831	**56.552**

(*) Presented net of impairment allowances of €15,269 thousand and €14,460 thousand at 31 December 2020 and 2019, respectively.

There are no restrictions on title to inventories.

At 31 December 2020, the Group had entered into agreements with suppliers for the purchase, during the next three years, of (i) 2.2 million tonnes of biomass for use at the power plants constituting the Renewable Energy business; and (ii) gas equivalent to 613 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.

20.1 Emission allowances

The reconciliation of the opening and year-end Group-owned emission allowance balances for 2020 and 2019 is provided in the next table:

	2020		2019	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	226.189	4.639	190.642	2.692
Allocations	114.695	2.754	117.073	2.925
Delivered (*)	(225.758)	(4.696)	(211.526)	(3.089)
Purchased	190.000	3.086	130.000	2.111
Changes in consol. scope (note 6)	(1.916)	(61)	-	-
Other	42.015	293	-	-
Closing balance	**345.225**	**6.015**	**226.189**	**4.639**

(*) 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 114,695 tonnes of carbon emissions, valued at €2,754 thousand, in 2020 (117,073 tonnes valued at €2,925 thousand in 2019).

"Current provisions" on the liability side of the consolidated statement of financial position includes €4,213 thousand at 31 December 2020 (€4,696 thousand at year-end 2019) corresponding to the liability derived from the consumption of 230,785 tonnes of carbon in 2020 (231,014 tonnes in 2019) (note 31).

At 31 December 2019, the Group was contractually committed to the forward purchase of allowances covering a total of 190,000 tonnes of carbon at a price of €16.24/tonne. Those contracts were executed in 2020.

21. Equity

21.1 Issued capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2020 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 2020 and 2019 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	31/12/2020	31/12/2019
Juan Luis Arregui / Retos Operativos XXI, S.L.	29,44	29,44
Víctor Urrutia / Asúa Inversiones, S.L.	7,29	6,34
Jose Ignacio Comenge / La Fuente Salada S.L.	6,38	6,38
Bestinver Gestión S.G.I.I.C. S.A.	3,12	3,12
Invesco Limited	-	1,10
Own shares	1,38	1,34
Directors with ownership interest of < 3%	0,55	0,55
Free float	51,84	51,73
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.

21.2 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.

21.3 Reserves

Below is the reconciliation of the opening and closing reserve balances for 2020 and 2019:

	Reserves of the Parent							
Thousands of euros	Legal reserve	Cancelled capital reserve	Capitalisation reserve	Voluntary reserves	Retained earnings (prior-year losses)	Reserves in fully-consolidated investees	Reserves in equity-accounted investees	**Total reservas**
Balance at 31 December 2018	45.049	10.566	4.543	101.108	(71.196)	83.208	-	173.278
Appropriation of prior-year profit/(loss)	-	-	4.691	13.140	27.528	32.462	-	77.821
Dividends distributed	-	-	-	(13.112)	-	-	-	(13.112)
Trading in own shares	-	-	-	(647)	-	-	-	(647)
Other movements	-	-	-	(1.651)	-	-	-	(1.651)
Balance at 31 December 2019	**45.049**	**10.566**	**9.234**	**98.838**	**(43.668)**	**115.670**	**-**	**235.689**
Appropriation of prior-year profit/(loss)			5.426	-	38.095	(46.797)	(8)	(3.284)
Trading in own shares	-	-	-	(41)	-	-	-	(41)
Other movements (note 6)	-	-	-	344	-	75.456	-	75.800
Balance at 31 December 2020	**45.049**	**10.566**	**14.660**	**99.141**	**(5.573)**	**144.329**	**(8)**	**308.164**

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.

21.4 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 2020 and 2019:

Thousands of euros	31/12/2020	31/12/2019
Pulp business:		
Celulosas de Asturias, S.A.U.	125.232	125.232
Norte Forestal, S.A.U.	(4.402)	(2.649)
Silvasur Agroforestal, S.A.U.	5.047	6.257
Liptoflor , S.A.	(448)	-
Ibersilva, S.A.U.	(17.863)	(17.835)
Ence Investigación y Desarrollo, S.A.U.	(4.190)	(4.713)
Maderas Aserradas del Litoral, S.A.	(5.319)	(5.311)
Sierras Calmas, S.A.	5.400	5.472
Renewable Energy business:		
Celulosa Energía, S.A.U.	30.377	30.377
ENCE Energía, S.L.U.	(29.201)	(28.773)
ENCE Energía Huelva, S.L.U.	(4.131)	(4.131)
ENCE Energía Extremadura, S.L.U.	(9.538)	(9.566)
Energía de la Loma, S.A.	667	559
Energías de la Mancha Eneman, S.A.	2.863	1.485
Bioenergía Santamaría, S.A.	(2.118)	(2.118)
Ence Energía Solar, S.L. (*)	-	(636)
Ence Energía Termollano, S.A. (*)	-	150
Ence Energía Huelva Dos, S.L.U.	1.065	(2)
Fuerzas Energéticas Sur Europa XXIX, S.L.	14.250	-
Consolidation and other adjustments	36.638	21.872
	144.329	**115.670**

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

(*) Investees deconsolidated in 2020 (note 6).

The balance of reserves in consolidated companies that is restricted stood at €19,240 thousand at year-end 2020 (year-end 2019: €21,492 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

21.5 Proposed appropriation of the Parent's profit

In 2020, the Group recorded a loss of €26,432 thousand but the Parent reported a profit of €64,773 thousand. The Parent's directors therefore propose the following appropriation of the Company’s profit, a motion that will be submitted for approval at the Annual General Meeting:

	Thousands of euros
Basis of appropriation:	
Profit/(loss) for the period	64.773
Appropriation:	
Capitalisation reserve	5.042
Retained earnings (prior-year losses)	5.573
Voluntary reserves	54.158

21.6 Own shares

The reconciliation of "Own shares" at the beginning and end of 2020 and 2019 is as follows:

	2020		2019	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	3.297.853	11.783	1.566.289	4.352
Purchases	17.342.552	48.489	16.240.986	76.443
2016-2018 LT bonus plan (note 11.2)	-	-	(1.105.436)	(3.944)
Sales	(17.246.667)	(48.416)	(13.403.986)	(65.068)
At year-end	**3.393.738**	**11.856**	**3.297.853**	**11.783**

The own shares held by the Company at 31 December 2020 represent 1.38% of its share capital (1.34% at 31 December 2019) and were carried at €3,054 thousand (€2,968 thousand at 31 December 2019). Those shares were acquired at an average price of €3.49 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2019-2023 bonus plan" (note 11.2).

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.

ENCE has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which ENCE's shares are traded, within the limits established at the Annual General Meeting and prevailing legislation, specifically, CNMV Circular 2/2019 on liquidity agreements.

21.7 Valuation adjustments

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

	31/12/2020			31/12/2019		
Thousands of euros	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve	54.102	13.509	40.593	54.102	13.509	40.593
Hedging transactions (note 30)						
IR swap	(3.584)	(896)	(2.688)	(6.822)	(1.706)	(5.116)
Energy sales hedges	(3.984)	(996)	(2.988)	-	-	-
Pulp prices	(760)	(190)	(570)	-	-	-
Foreign exchange	6.764	1.690	5.074	(4.679)	(1.171)	(3.508)
	52.538	**13.117**	**39.421**	**42.601**	**10.632**	**31.969**

There was no movement in the land revaluation reserve in 2020. The changes in the fair value of the hedging transactions recognised directly in equity are recognised in the consolidated statement of comprehensive income in 2020 and 2019.

21.8 Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" at the beginning and end of 2020 and 2019 is as follows:

Thousands of euros	Balance at 31/12/2019	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 31/12/2020
Convertible bonds (note 28)	10.913	(482)	-	-	10.431
Long-term incentive plan (note 11)	748	-	677	(169)	1.256
	11.661	**(482)**	**677**	**(169)**	**11.687**

Thousands of euros	Balance at 31/12/2018	Settlement	Reclassified to profit or loss	Tax effect	Balance at 31/12/2019
Convertible bonds (note 28)	10.913	-	-	-	10.913
Long-term incentive plan (note 11)	3.152	(3.767)	1.817	(454)	748
	14.065	(3.767)	**1.817**	**(454)**	**11.661**

21.9 Corporate credit ratings

On 10 March 2020, Moody's lowered ENCE's corporate credit rating from Ba2 to Ba3 as a result of the downtrend in pulp prices and the circumstantial uncertainty generated by the coronavirus; in tandem, it improved its outlook from negative to stable, highlighting the growing contribution by the Renewable Energy business, the decision to postpone key investments and the Company's strong liquidity position. On 24 November 2020, Standard & Poor's lowered its long-term credit rating to BB- and changed its outlook from negative to stable.

21.10 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2020 and 2019 is as follows:

Year-end 2020	Thousands of euros				
Company	Balance at 01/01/2020	Profit/(loss) attributable to NCI	Dividend payments	Changes in consol. scope (note 6)	Balance at 31/12/2020
Energía de la Loma, S.A.	4.473	295	(62)	-	4.706
Energías de la Mancha Eneman, S.A.	5.033	918	(639)	-	5.312
Bioenergía Santamaría, S.A.	398	49	(381)	-	66
Ence Energía Termollano, S.A.	8.346	438	(326)	(8.458)	-
Ence Energía, S.L.U. and subsidiaries	-	-	-	126.622	126.622
Total	**18.250**	**1.700**	**(1.408)**	**118.164**	**136.706**

Year-end 2019	Thousands of euros				
Company	Balance at 01/01/2019	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Saldo al 31/12/2019
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**

On 20 December 2020, Ence Energía y Celulosa, S.A. completed the sale of a minority interest of 49% in Ence Energía, S.L.U., ENCE's Renewable Energy holding company. That transaction gave rise to the recognition of non-controlling interests in the amount of 126,622 thousand euros (note 6).

In addition, on 15 December 2020, Ence Energía, S.L.U. sold 100% of its shares in Ence Energía Solar, S.L.U., an entity that held a 90% ownership interest in Ence Energía Termollano, S.A. (note 6).

22. 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 its shareholders for approval at the Annual General Meeting, as warranted. The 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.

ENCE did not pay any dividends in 2020. The next table itemises the dividends paid 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

23. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2020 and 2019 is as follows:

Thousands of euros	Subsidised loans (note 28.2)	Grants relating to assets	Emission allowances (note 20.1)	Total
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**
Additions, new grants (*)	-	502	-	502
Emission allowances granted	-	-	3.074	3.074
Reclassified to profit or loss	(71)	(1.176)	(3.074)	(4.321)
Other	-	(447)	-	(447)
Balance at 31/12/2020	**34**	**5.524**	**-**	**5.558**

(*) Net of expenses incurred in obtaining them

ENCE 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, it 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 statement of profit or loss over the life of the loans on a systematic financial basis (note 28).

Lastly, the Group had been granted aid totalling €1,681 thousand at year-end 2020 (year-end 2019: €2,249 thousand), earmarked mainly to support investment projects with a strong focus on energy savings; that aid is conditional upon execution and substantiation of certain investment projects.

24. 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:

2020					
Thousands of euros	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 31/12/2020
Investments accounted for using the equity method		-	-	31	31
Derivative financial instruments	30	-	6.764	-	6.764
Trade and other receivables	25	57.895	-	-	57.895
Other financial assets	27.2	19.935	-	22.512	42.447
Cash and cash equivalents	27.1	532.620	-	-	532.620
Total financial assets		**610.450**	**6.764**	**22.543**	**639.757**
Derivative financial instruments	30	-	13.699	-	13.699
Trade payables	26	258.951	-	-	258.951
Other accounts payable	29 & 34	42.790	-	-	42.790
Notes and other marketable securities	28.1	238.869	-	-	238.869
Bank borrowings	28.1	370.165	-	-	370.165
Other financial liabilities	28.2	110.390	-	-	110.390
Total financial liabilities		**1.021.165**	**13.699**	**-**	**1.034.864**

2019

Thousands of euros	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 31/12/2019
Investments accounted for using the equity method		-	-	49	49
Derivative financial instruments	30	-	1.419	-	1.419
Trade and other receivables	25	39.053	-	-	39.053
Other financial assets	27.2	11.845	-	-	11.845
Cash and cash equivalents	27.1	222.214	-	-	222.214
Total financial assets		**273.112**	**1.419**	**49**	**274.580**
Derivative financial instruments	30	-	16.361	-	16.361
Trade payables	26	226.869	-	-	226.869
Other accounts payable	29	26.105	-	-	26.105
Notes and other marketable securities	28.1	239.941	-	-	239.941
Bank borrowings	28.1	384.184	-	-	384.184
Other financial liabilities	28.2	115.245	-	-	115.245
Total financial liabilities		**992.344**	**16.361**	**-**	**1.008.705**

The derivative financial instruments are valued using level 2 inputs, i.e., different quoted price variables that are observable either directly or indirectly using valuation techniques (note 3.8). The contingent consideration recognised has been measured using level 3 inputs based on the terms of the sale agreement (note 6) and the Group's knowledge of the business and its exposure to current economic climate.

The convertible bonds issued by ENCE were trading at 94.49% of par at 31 December 2020. The fair value of the rest of the Group's financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts.

25. 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	31/12/2020	31/12/2019
Trade receivables:		
Pulp	19.204	19.653
Energy	34.117	15.669
Other items	4.382	3.963
Trade receivables, group companies and related parties (note 34)	138	-
Sundry receivables	4.214	4.050
Impairment	(4.160)	(4.282)
	57.895	**39.053**

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €20,331 thousand at 31 December 2020. A portion of that receivable has been discounted using the Group's factoring facilities.

"Trade receivables - Energy" includes €13,700 thousand derived from application of Spanish Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields (note 9).

The credit period on pulp sales averages between 49 and 53 days. The fair value of pulp receivables does not differ significantly from their carrying amount.

At year-end 2020, the Group had €6.6 million of US dollar-denominated accounts receivable (year-end 2019: €2.8 million).

25.1 Factoring facilities

The Group had drawn down €88,352 thousand under non-recourse factoring agreements with an aggregate limit of €135,000 thousand at 31 December 2020 (€100,654 thousand and €132,407 thousand, respectively, at 31 December 2019). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.10% and 1.80% on the receivables discounted under those agreements.

The trade receivables not discounted under those facilities at year-end 2020 are expected to be collected from the corresponding debtors, rather than via sale.

26. 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	31/12/2020	31/12/2019
Trade and other payables	193.402	154.578
Trade payables, group companies and related parties	632	-
Payable to fixed-asset suppliers	53.697	61.630
Employee benefits payable	10.005	9.271
Adjustments for tariff shortfall/surplus (note 29)	1.215	1.390
	258.951	**226.869**

The Group had drawn down €132,111 thousand under non-recourse reverse factoring agreements with an aggregate limit of €165,111 thousand at 31 December 2020 (€92,596 thousand and €151,000 thousand, respectively, at 31 December 2019). The balances arising from the use of reverse factoring facilities are classified as trade accounts payable. The reverse factoring facilities arranged by ENCE do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not earn interest for the banks that extend the facilities.

At 31 December 2020, the Group had €21 thousand of US dollar-denominated accounts payable (year-end 2019: €60 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 average payment period associated with the trade payables settled in 2020 and 2019 as well as the transactions outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2020	2019
Average supplier payment term (days)	72	62
Paid transactions ratio (days)	73	63
Outstanding transactions ratio (days)	46	47
	Thousands of euros	
Total payments made	625.155	633.670
Total payments outstanding by more than the legally-stipulated term	37.676	37.028

27. Financial assets

27.1 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 €532,620 thousand of cash and cash equivalents at 31 December 2020 (€448,088 thousand of which corresponding to the Pulp business and €84,532 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 of its financing (note 28), which was fully undrawn at both year-ends.

At 31 December 2020, the Group had €4,452 of cash in dollars (year-end 2019: €5,800 thousand).

27.2 Other financial assets

The breakdown of this consolidated statement of financial position heading at year-end 2020 and 2019:

	31/12/2020		31/12/2019	
Thousands of euros	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 29)	-	8.080	-	-
ENCE's share liquidity agreement (note 21.6)	3.209	-	2.571	-
Account receivable from Iberdrola - Regulator claim	-	-	-	1.288
Contingent consideration (note 34.2)	9.234	13.278	-	-
Security deposits and other accounts receivable	5.772	2.838	1.879	6.071
	18.215	**24.196**	**4.450**	**7.359**

The movement in the non-current balance of “Security deposits and other accounts receivable” is related with the deconsolidation of the Group's investment in Ence Energía Solar, S.L.U. (note 6).

28. Borrowings

28.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2020 and 2019 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

2020			Maturity					
			Current					
Thousands of euros	Limit	Drawn down	2021	2022	2023	2024	2025	Total non-current
Borrowings - Pulp business								
Notes issued	148.357	148.357	-	-	148.357	-	-	148.357
Revolving credit facility	70.000	-	-	-	-	-	-	-
Bank loans	242.981	242.981	49.110	68.176	86.055	34.985	4.655	193.871
Arrangement fees	-	(1.487)		-	-	-	-	(1.487)
Interest and coupons payable and other	-	1.353	1.353	-	-	-	-	-
	461.338	**391.204**	**50.463**	**68.176**	**234.412**	**34.985**	**4.655**	**340.741**
Borrowings - Renewable Energy business								
Notes issued	93.000	93.000	-	-	-	-	93.000	93.000
Revolving credit facility	20.000	-	-	-	-	-		-
Bank loans	129.000	127.700	28.550	29.094	26.761	33.427	9.868	99.150
Arrangement fees	-	(2.919)	-	-	-	-	-	(2.919)
Interest and coupons payable and other	-	49	49	-	-	-	-	-
	242.000	**217.830**	**28.599**	**29.094**	**26.761**	**33.427**	**102.868**	**189.231**
	703.338	**609.034**	**79.062**	**97.270**	**261.173**	**68.412**	**107.523**	**529.972**

2019			Maturity					
			Current					
Thousands of euros	Limit	Drawn down	2020	2021	2022	2023	Beyond	Total non-current
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)	-	-	-	-	-	(1.802)
Interest and coupons payable and other	-	1.131	1.131	-	-	-	-	-
	375.494	**304.823**	**1.131**	**14.543**	**46.904**	**218.780**	**25.267**	**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)	-	-	-	-	-	(6.068)
Interest and coupons payable and other	-	160	160	-	-	-	-	-
	360.208	**319.300**	**25.150**	**33.797**	**33.517**	**32.273**	**200.633**	**294.152**
	735.702	**624.123**	**26.281**	**48.340**	**80.421**	**251.053**	**225.900**	**597.844**

Each of ENCE's two core businesses finances itself independently of the other. There are no significant cross-guarantees or other recourse mechanisms.

The annual interest payments estimated for the next three years in relation to the “Bank borrowings and capital markets issues” and “Other financial liabilities - Financing granted by public organisms” in the Pulp business, assuming existing indebtedness, range between €3.8 million and €7.1 million. In the Renewable Energy business, annual interest payments during the next four years are estimated at between €4.5 million and €6.6 million.

In addition, in order to optimise its cash management, the Group has receivables factoring facilities with a limit of €135,000 thousand (note 25) and reverse factoring lines with a limit of €184,000 thousand, €165,111 thousand of which are non-recourse (note 26).

ENCE's average borrowing cost was 2.42% in 2020 (2019: 2.53%). The average borrowing cost in the Pulp business was 1.64% (2019: 1.37%), compared to 3.63% in the Renewable Energy business (2019: 3.76%).

At 31 December 2020, 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 (*):	7,5517
Conversion premium:	40%
Conversion ratio (shares / bond):	13.242
Maximum no. of shares to be issued:	21.187.282
Potential dilution (% increase in share cap	8,60%
Traded on:	Frankfurt stock exchange
ISIN	XS1783932863
Issuance costs:	2.075.000 €

(*) The conversion price changed from 7.2635 to 7.5517 on 1 July 2020

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) which entitles 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 concluded that it constituted 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. It also concluded that this financing met the requirements for recognition as new financing.

In 2020 ENCE bought back bonds with a par value of €5,300 thousand for €4,968 thousand. The purchase price was equivalent to 93.7% of par.

Under the scope of that 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 that facility may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing.

Loans

In 2020, ENCE arranged 12 new loans with a total balance outstanding at 31 December 2020 of €72 million. Of the total, €47 million are guaranteed by Spain's official credit institute, the ICO. The Group arranged the new loans to boost its liquidity in light of potential risks deriving from Covid-19 (note 7). A portion of the loans, with an aggregate face value of €11 million, accrues interest at fixed rates ranging between 1.75% and 2%. The remainder accrue interest at EURIBOR plus a spread ranging from 1.5% to 3%. The loans mature between 2021 and 2025 and are totally unsecured.

In addition, at 31 December 2020, 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 those loans, with a face value of €90 million, accrues interest at fixed rates ranging between 1.75% and 1.80%. The remainder mainly accrue interest at EURIBOR plus a spread of between 1.30% and 1.90%. Those loans are guaranteed by several Group companies belonging to the Pulp business (none of the Renewable Energy companies are guarantors).

Other financing

The Group has arranged reverse factoring lines with a limit of €18,889 thousand which it had drawn down by €15,958 thousand at 31 December 2020; in light of their characteristics, those lines have been recognised as borrowings.

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. arranged to increase the limit on that senior loan by €17 million and placed an additional €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			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	50.000	50.000	Dec. 2025 (ii)	3,45%
Tranche 1	49.000	49.000	Dec. 2024	1.75% - 3.25%
Tranche 2	6.000	6.000	Dec. 2025 (ii)	3,45%
Tranche 3 (iii)	57.000	57.000	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	15.700	Dec. 2025	1.75% - 3.25%
	242.000	**220.700**		

(i) 6-month EURIBOR plus a spread. For the bank loan tranches, the spread varies depending on the leverage ratio (net debt / EBITDA) in the Renewable Energy business (as defined in the financing agreement).

(ii) Due in a single bullet payment on the date indicated.

(iii) Provided to finance the construction of the 46-MW Huelva plant (note 16).

(iv) The notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).

(v) Provided to finance the construction of the 50-MW Puertollano plant (note 16).

The main collateral provided to secure those loans is a pledge over the shares of the Group companies encompassed by the Renewable Energy business 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 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 €30 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 1.29% (note 30).

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.

<u>Project finance facility at the Puertollano thermal solar power plant</u>

On 15 December 2020, Ence Energía, S.L.U. closed the sale to Q-ENERGY SORDINA, S.L.U., an entity controlled by Q-Energy Private Equity, S.G.E.I.C., S.A., of 100% of its shares in Ence Energía Solar, S.L.U., an entity whose core purpose is to hold a 90% ownership interest in Ence Energía Termollano, S.A., the operating company that owns a 50-MW thermal solar thermal plant in Puertollano, which ENCE acquired in November 2018.

As a result of that sale, the new owner, Q-ENERGY SORDINA, S.L.U., has become the holder of the borrowings of Ence Energía Solar, S.L.U. and Ence Energía Termollano, S.A. as of the transaction date in a combined amount of €91,560 thousand, and the associated interest rate hedges, with a notional amount equivalent to 70% of the estimated drawdowns during the life of the financing facility (notes 6 and 30). The key terms of that facility at 31 December 2019:

Thousands of euros	Drawn	Maturity	Interest rate
Tranche 1	23.203	Dec. 2026	6m Euribor + 1.95% - 2.3%
Tranche 2	78.005	Dec 2031	6m Euribor + 1.95% - 2.3%
	101.208		

28.2 Other financial liabilities

The breakdown of these liabilities at year-end:

2020		Maturity					
		Current					
Thousands of euros	Drawn down	2021	2022	2023	2024	Beyond	Total non-current
Other financial liabilities - Pulp business							
Financing granted by public organisms	64.424	3.930	5.827	8.049	9.068	37.550	60.494
Liabilities for right-of-use assets (note 17)	44.785	2.028	2.007	1.730	1.311	37.709	42.757
	109.209	**5.958**	**7.834**	**9.779**	**10.379**	**75.259**	**103.251**
Other financial liabilities - Renewable Energy business							
Liabilities for right-of-use assets (note 17)	1.181	449	178	139	139	276	732
	1.181	449	178	139	139	276	732
	110.390	**6.407**	**8.012**	**9.918**	**10.518**	**75.535**	**103.983**

2019		Maturity					
		Current	Non-current				
Thousands of euros	Drawn down	2020	2021	2022	2023	Beyond	Total non-current
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 17)	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 17)	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**

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% and 2.29%. There is a three-year grace period.

28.3 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 2020 and 2019 statement of cash flows:

		Cash flows				Changes in financial liabilities with no impact on statement of cash flows					
2020 Thousands of euros	Balance at 01/01/2020	Issues and drawdowns (net of fees)	Repayments/ installments paid	Bonds bought back	Interest paid	Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Deconsolidations (note 28.1)	Unwinding of discount and other	Balance at 31/12/2020
Borrowings - Pulp business											
Notes and bonds (note 28.1)	148.692	-	-	(4.967)	-	-	605	-	-	2.828	147.158
Bank loans	155.000	98.103	(10.433)	-	-	-	22	-	-	-	242.692
Other financial liabilities	62.437	7.230	(5.525)	-	-	-	-	-	-	282	64.424
Interest and coupons payable and other	1.680	-	-	-	(10.563)	10.236	-	-	-	-	1.353
Liabilities related with right-of-use assets	43.657	-	(4.391)	-		1.407	-	4.112	-	-	44.785
	411.464	**105.333**	**(20.349)**	**(4.967)**	**(10.563)**	**11.643**	**627**	**4.112**		**3.110**	**500.410**
Derivatives associated with financing	301	-	-	-	(124)	-	-	-	-	80	257
	411.765	**105.333**	**(20.349)**	**(4.967)**	**(10.687)**	**11.643**	**627**	**4.112**	**-**	**3.190**	**500.667**
Borrowings - Renewable Energy business											
Notes and bonds	91.249	-	-	-	-	-	462	-	-	-	91.711
Bank loans	128.683	13.700	(17.000)	-	-	-	688	-	-	-	126.071
Project finance facility - Termollano	99.208	-	(7.989)	-	-	-	324	-	(91.543)	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-
Interest and coupons payable and other	161	-	-	-	(7.994)	7.899	-	-	(17)	-	50
Liabilities related with right-of-use assets	8.606	-	(1.413)	-		303	-	1.110	(7.425)		1.181
	327.908	**13.700**	**(26.402)**	**-**	**(7.994)**	**8.202**	**1.474**	**1.110**	**(98.985)**	**-**	**219.013**
Derivatives associated with financing	9.960	-	-	-	(3.775)	-	-	-	(3.151)	8.816	11.850
	337.868	**13.700**	**(26.402)**	**-**	**(11.769)**	**8.202**	**1.474**	**1.110**	**(102.136)**	**8.816**	**230.863**
	749.633	**119.033**	**(46.751)**	**(4.967)**	**(22.456)**	**19.845**	**2.101**	**5.222**	**(102.136)**	**12.006**	**731.530**

2019 Thousands of euros	Balance at 01/01/2019	Initial application of IFRS 16	Cash flows: Issues and drawdowns (net of fees)	Cash flows: Repayments /installments paid	Cash flows: Interest paid	Changes in financial liabilities with no impact on statement of cash flows: 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
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
	298.023	**46.049**	**93.576**	**(30.288)**	**(5.239)**	**5.596**	**570**	**297**	**2.881**	**411.464**
Derivatives associated with financing	263	-	-	-	(126)	-	-	-	164	301
	298.285	**46.049**	**93.576**	**(30.288)**	**(5.365)**	**5.596**	**570**	**297**	**3.045**	**411.765**
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
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
	357.643	**7.300**	**127.335**	**(168.891)**	**(7.861)**	**7.888**	**2.659**	**1.835**	**-**	**327.909**
Derivatives associated with financing	7.536	-	-	-	(3.569)	-	-	-	5.993	9.960
	365.179	**7.300**	**127.335**	**(168.891)**	**(11.430)**	**7.888**	**2.659**	**1.835**	**5.993**	**337.869**
	663.464	**53.349**	**220.911**	**(199.178)**	**(16.795)**	**13.484**	**3.229**	**2.132**	**9.038**	**749.633**

29. Other current and non-current assets and liabilities:

The breakdown at year-end:

Thousands of euros	31/12/2020 Current	31/12/2020 Non-current	31/12/2019 Current	31/12/2019 Non-current
Adjustments for tariff shortfall/surplus	1.215	5.955	1.390	21.790
Other	-	-	-	4.315
	1.215	**5.955**	**1.390**	**26.105**

The line items "Other non-current liabilities" and "Other non-current financial assets" on the accompanying consolidated statement of financial position reflect the "Adjustment for tariff shortfall/surplus" account, which includes the Group's payment obligation/credit claim vis-a-vis 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, in respect of the Tariff Adjustments concept (notes 9 and Appendix III). The current balance due in this respect amounts to €1,215 thousand and is recognised in "Trade and other accounts payable" in the accompanying consolidated statement of financial position (note 26).

The breakdown of “Adjustment for tariff shortfall/surplus” at 31 December 2020 and 2019, classified by the year in which the balances are due settlement, is provided below:

2020 Thousands of euros	Total	Current 2021	Maturity 2022	2023	2024	Beyond	Total non-current
Balances receivable:							
Pulp business:	3.484	-	(223)	232	249	3.226	3.484
Renewable Energy business:	4.596	-	-	89	96	4.411	4.596
	8.080	-	(223)	321	345	7.637	8.080
Balances payable:							
Renewable Energy business:	(7.170)	(1.215)	(1.305)	(299)	(321)	(4.030)	(5.955)
	(7.170)	(1.215)	(1.305)	(299)	(321)	(4.030)	(5.955)
Net receivable/(payable)	**910**	**(1.215)**	**(1.528)**	**22**	**24**	**3.607**	**2.125**

2019 Thousands of euros	Total	Current 2020	Maturity 2021	2022	2023	Beyond	Total non-current
Balances payable:							
Pulp business:	(4.866)	(193)	(208)	(223)	(239)	(4.003)	(4.673)
Renewable Energy business:	(18.314)	(1.197)	(1.285)	(1.381)	(1.483)	(12.968)	(17.117)
	(23.180)	**(1.390)**	**(1.493)**	**(1.604)**	**(1.722)**	**(16.971)**	**(21.790)**

30. Derivative financial instruments

In keeping with the financial risk management policy outlined in note 5, 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 2020 and 2019 (showing the fair value of the derivatives at year-end), is provided in the next table:

Thousands of euros	Non-current assets 2020	Non-current assets 2019	Current assets 2020	Current assets 2019	Non-current liabilities 2020	Non-current liabilities 2019	Current liabilities 2020	Current liabilities 2019
Cash flow hedges:								
IR swap	-	-	-	-	6.187	7.435	3.353	3.850
IR swap arrangement fee	-	-	-	-	(585)	(1.021)	-	-
Currency hedges	-	1.419	6.764	-	-	-	-	6.097
Electricity price hedges	-	-	-	-	-	-	3.984	-
Pulp price hedges	-	-	-	-	-	-	760	-
Total	**-**	**1.419**	**6.764**	**-**	**5.602**	**6.414**	**8.097**	**9.947**

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in 2020 and 2019 are shown below:

Thousands of euros - gain/(loss)	2020	2019
Impact on operating profit:		
Currency hedges	(9.344)	(30.049)
Electricity price hedges	(1.496)	-
Impact on net finance costs:		
IR swap (note 13)	(2.198)	(1.663)
Total	**(13.038)**	**(31.712)**

In 2020 ENCE arranged swaps that matured during the year to hedge the risk of fluctuations in energy prices. Settlement of those swaps implied a charge of €1,496 thousand, which is recognised under "Other operating expenses" in the consolidated statement of profit or loss.

All of the derivatives arranged by ENCE qualify for hedge accounting.

30.1 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 2020:

Underlying	Maturity	Strike price Call	Strike price Put	otional amour (USD m)
EUR/USD	1Q21	1,094	1,173	77,0
EUR/USD	2Q21	1,121	1,185	71,0
EUR/USD	3Q21	1,162	1,220	66,0
				214,0

The contracts outstanding at 31 December 2020 cover approximately 55% and 47% of forecast pulp sales in the first half of 2021 and the third quarter of 2021, respectively.

Those instruments presented a positive market value of €6,764 thousand at 31 December 2020 (a negative market value of €4,679 thousand at year-end 2019).

The sensitivity of operating profit and equity to dollar appreciation or depreciation against the euro as a result of the impact on the derivative financial instruments arranged by ENCE at 31 December 2020 is shown below:

Thousands of euros	**Change in USD/EUR exchange rate**	**Operating profit (-)/+**	**Impact on equity (-)/+**
2020	5% depreciation	7.531	5.648
	5% appreciation	(6.550)	(4.913)
2019	5% depreciation	4.050	3.038
	5% appreciation	(14.446)	(10.835)

30.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2020 and 2019 are shown below:

Thousands of euros	Fair value	Notional amounts at reporting date: 2020	2021	2022	2023	2024	2025
2020							
Pulp business	257	20.000	12.000	4.000	-	-	-
Renewable Energy business	9.283	182.700	158.688	134.038	111.371	3.188	-
2019							
Pulp business	300	20.000	12.000	4.000	-	-	-
Renewable Energy business	10.985	247.953	218.413	188.781	160.371	46.314	37.422

The main movement in the hedges written during the year relate to the deconsolidation of the financing associated with Ence Energía Solar, S.L.U. and Ence Energía Termollano, S.A. (notes 6 and 28).

At 31 December 2020, there were interest-rate swap inefficiencies of €92 thousand.

The sensitivity of operating profit and equity to interest rate movements as a result of the impact on the derivative financial instruments arranged by the Group at 31 December 2020 is shown below:

Thousands of euros	Change in interest rates	Impact on finance cost (-)/+	Impact on equity (-)/+
2020	50bp increase	(498)	(2.026)
	50bp decrease	498	2.070
2019	50bp increase	(710)	(4.364)
	50bp decrease	710	4.506

30.3 Pulp price hedges

In 2020 ENCE arranged swaps to hedge BEKP sales prices over a sales volume of 238,200 tonnes, which is equivalent to approximately 20% of forecast 2021 sales, at prices ranging between USD770-795/tonne; those swaps settle in 2021. The Group did not arrange any pulp price swaps in 2019.

At year-end 2020, the negative fair value of those swaps was €760 thousand.

The sensitivity of earnings to pulp price changes as a result of the impact on the derivative financial instruments arranged by ENCE at 31 December 2020 is shown below:

Thousands of euros	Change in pulp prices	Impact on income (-)/+	Impact on net profit (-)/+
2020	5% price increase	(7.544)	(5.658)
	5% price decrease	7.544	5.658

30.4 Energy sale hedges

In 2020, the Group wrote commodity swaps covering the price at which it sells the power it generates to the national electricity system (OMEL), due settlement in 2021. The breakdown of the hedges outstanding at 31 December 2020:

Maturity	Amount (MWh)	Price locked in in euros
1Q21	127.381	43,44
2Q21	128.856	43,44
3Q21	130.272	43,44
4Q21	130.331	43,44
	516.840	

At year-end 2020, the negative fair value of those derivatives was €3,984 thousand.

The sensitivity of earnings to energy price changes as a result of the impact on the derivative financial instruments arranged by ENCE at 31 December 2020 is shown below:

Thousands of euros	Change in energy prices	Impact on income (-)/+	Impact on net profit (-)/+
2020	5% price increase	(1.322)	(992)
	5% price decrease	1.322	992

31. Provisions, impairment charges, guarantees and contingent liabilities

31.1 Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions in 2020 and 2019 is as follows:

	Thousands of euros				
2020	Balance at 01/01/2020	Additions/ (charges)	Derecognitions or decreases	Changes in consol. scope (note 6)	Balance at 31/12/2020
Non-current:					
Employee commitments (note 11.2)	427	288	-	-	715
Dismantling provision	9.345	194	-	(9.539)	-
Other	3.038	27	(948)	-	2.117
	12.810	**509**	**(948)**	**(9.539)**	**2.832**
Current					
Emission allowances (notes 12 & 20.1)	4.696	4.213	(4.696)	(61)	4.152
Pontevedra Environmental Pact (note 35)	9.000	5.000	-	-	14.000
Other provisions	12.012	-	(810)	-	11.202
	25.708	**9.213**	**(5.506)**	**(61)**	**29.354**

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 & 20.1)	3.089	4.696	(3.089)	4.696
Pacto ambiental Pontevedra (Nota 35)	5.000	4.000	-	9.000
Otras provisiones	12.467	356	(811)	12.012
	22.357	**9.404**	**(6.053)**	**25.708**

"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.

31.2 Guarantees extended to third parties

At 31 December 2020, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €119,084 thousand (€149,398 thousand at 31 December 2019), as broken down in the table below.

	Thousands of euros
Government permitting of renewable energy power generation plants	75.201
Subsidised loans (note 28.2)	13.366
Receivable discounting lines	8.000
Tax claims (note 32.5)	4.836
Execution of forest projects	5.589
Pontevedra concession (note 16)	3.050
Electricity market	2.101
Environment	1.603
Payments to suppliers	1.286
Puertollano works performance bond	1.241
Other	2.811
	119.084

The directors do not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group other than those recognised in these consolidated financial statements.

31.3 Contingent assets and liabilities

At year-end 2020, 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. Those new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to embark on the process of abandoning the management of its energy crop plantations in an orderly fashion, including the termination of leases, with the attendant impairment of the investments it had made, requiring the recognition of the corresponding provisions.

As a result, on 14 July 2014, ENCE and certain Group companies (hereinafter, the "ENCE Group companies"), presented a claim for damages from the Spanish state before the then Ministry of Industry, Energy and Tourism. The award sought was ultimately quantified at €63,300 thousand on the basis of reports compiled by an independent expert.

On 17 February 2021, the ENCE Group companies presented a new written deed before the now Ministry of Ecological Transition and Demographic Challenges, currently tasked with energy matters, urging the state to issue an express ruling on the claim filed, with a view to evaluating next steps.

Any decision by the Ence Group companies to initiate legal proceeding in connection with this matter would imply, as stipulated in Royal Decree-Law 17/2019, adopting urgent measures for the necessary adaptation of the remuneration parameters affecting the electricity system: (i) forgoing the possibility of applying an exceptional remuneration regime from 1 January 2020 (return of 7.398% vs. 7.09%) for the facilities entitled to the supplementary remuneration regime in place prior to 13 July 2013 during the regulatory period that began on 1 January 2020; and (ii) the obligation to repay the difference, already received, between the two above-mentioned returns.

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.

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 is now final as it has not been appealed.

In the proceedings brought by the APDR (Ordinary Proceedings 373/2016), on 16 January 2020, section 4 of the National Appellate Court similarly dismissed the appeal lodged by APDR, ordering it to bear the legal costs. That sentence is now final as it has not been appealed.

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.

In the court proceedings instigated by the town council of Pontevedra, the pre-trial proceedings have been declared complete and ready for hearing.

ENCE, 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, initially, approximately €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. ENCE presented its arguments on 29 March 2019, within the deadline granted to that end. ENCE is not aware of the status of that amendment initiative.

Elsewhere, the Climate Change and Energy Transition Bill, sent by the Spanish government to parliament on 29 May 2020, and currently in the process of incorporating amendments, includes an express stipulation, in article 18.4, regarding the maximum duration concession holders can occupy public-domain coastal land, which would imply, if it were to prosper, that, once the new Act takes effect, public-domain coastal land usage concessions could not last for more than 75 years. Article 18.4 of the above Bill would render the administrative acts issued in breach of the contents thereof ipso facto null and void.

ENCE 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, ENCE will exhaust all actions available to it in the legal system, including appeals at the highest courts of appeal.

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 of that claim was €79.5 million at 31 December 2020.

32. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2020 and 2019 are shown below:

	Thousands of euros			
	31/12/2020		31/12/2019	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	71.952	-	54.042	-
Deferred tax liabilities	-	21.661	-	37.575
Total	**71.952**	**21.661**	**54.042**	**37.575**
Current:				
VAT	-	2.195	1.493	548
Current tax on profits for the year	962	5.635	8.641	438
Electricity generation levy	101	10.174	978	4.238
Sundry other taxes	209	8.027	719	3.035
Total	**1.272**	**26.031**	**11.831**	**8.259**

32.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, since 2002, ENCE Energía y Celulosa, S.A. has been filing 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 (Tax Group 149/02), along with all the Spanish companies itemised in Appendix I in which the Parent has a shareholding of over 75%. The rest of the Spanish entities file individual tax returns.

The sale of a minority interest of 49% in ENCE Energía, S.L. means that that subsidiary and all its subsidiaries have left Tax Group 149/02 with effect from 1 January 2020, joining the other Spanish entities that file individually. Steps are being taken to form a new tax group, headed up by Ence Energía, S.L., from 2021.

Under the consolidated tax regime, taxable income is not determined on the basis of 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.

The statutory income tax rate in Spain is 25%.

Group companies resident in Uruguay and Portugal for tax purposes:

The rates of corporate income tax in Portugal and Uruguay are 21% and 25%, respectively.

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2020 and 2019 is provided below:

	Thousands of euros	
	2020	**2019**
Profit before tax (*)	(36.657)	11.103
Permanent differences:		
Arising in profit or loss	(130.276)	15.234
Arising in equity	(47)	(130)
Capitalisation reserve	-	(182)
Temporary differences:		
Arising during the current year	11.560	8.858
Arising in prior years	5.215	(9.671)
Consolidation adjustments	99.499	(16.800)
Utilisation of tax losses	(1.055)	(2.000)
Taxable income/(tax loss)	**(51.761)**	**6.412**

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

The permanent differences arising from profit or loss correspond mainly to application of the exemption provided for in Spain's Corporate Income Tax Act in relation to the gains obtained by Ence Energía y Celulosa, S.A. and Ence Energía, S.L.U. on the sale of certain shareholdings, in a combined amount of €120 million. A part of that gain, namely €83.6 million, gets eliminated upon consolidation as it is accounted for as an equity transaction (note 6).

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 32.4.

32.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2020 and 2019 is provided below:

	Thousands of euros	
	2020	2019
Profit before tax (*)	(36.657)	11.103
Permanent differences arising in profit or loss	(130.276)	15.234
Capitalisation reserve	-	(182)
Tax credits recognised	-	(2.077)
Elimination of the accounting profit of entities not resident in Spain	430	349
Consolidation adjustments and eliminations	120.577	(15.210)
Taxable income/(tax loss)	**(45.926)**	**9.217**
Tax payable before adjustments	**(11.482)**	**2.304**
Deductions and adjustments in respect of prior year	(452)	(2.706)
Tax corresponding to entities not resident in Spain	9	7
Tax expense /(income)	**(11.925)**	**(395)**

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

The breakdown of tax expense / (income) in 2020 and 2019:

	Thousands of euros	
	2020	2019
Current tax and other	(7.731)	(598)
Deferred tax	(4.194)	203
Tax expense /(income)	**(11.925)**	**(395)**

32.4 Recognised deferred tax assets and liabilities

The reconciliation of this consolidated statement of financial position heading at the beginning and end of 2020 and 2019:

Deferred tax assets

2020	Thousands of euros					
	Balance at 31/12/2019	Increases	Decreases	Transfers and other	Changes in consolidation scope (note 6)	Balance at 31/12/2020
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	4.514	-	(940)	-	(513)	3.061
Non-current asset impairment	6.232	686	(1.956)	(15)	-	4.947
Provisions	3.959	1.488	(74)	22	(8)	5.387
Employee commitments	996	242	(1)	93	-	1.330
Current-asset impairment	1.496	435	-	-	-	1.931
Limit on deductibility of interest expense and other	344	585	(792)	706	-	843
Non-resident companies and consolidation adjustments	947	149	(302)	-	-	794
Unused tax losses	25.347	20.019	(2.910)	(205)	-	42.251
Unused tax credits	6.578	5.203	(100)	519	(3.483)	8.717
	50.413	**28.807**	**(7.075)**	**1.120**	**(4.004)**	**69.261**
Deferred tax assets recognised in equity:						
Hedging derivatives (note 29)	3.629	1.296	(1.934)	-	(300)	2.691
	3.629	**1.296**	**(1.934)**	**-**	**(300)**	**2.691**
Total	**54.042**					**71.952**

2019	Thousands of euros				
	Balance at 31/12/2018	Increases	Decreases	Transfers and 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**

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.

The deferred tax assets recognised correspond mainly to asset impairment charges, provisions, interest expense that will be deductible in future years, unused tax credits and tax losses and differences between depreciation charges for accounting and tax purposes due mainly to the temporary limit on the deductibility of depreciation charges introduced in 2013 and 2014. ENCE has also recognised a deferred tax liability of €0.5 million in connection with the impact of Law 11/2020, enacting the general state budget for 2021, on the outlook for dividend distributions by Group subsidiaries.

ENCE only recognises deferred tax assets insofar as it is deemed probable that the entities (individually or on a consolidated basis) that have generated them will generate sufficient taxable profit in the future to enable their utilisation.

At each reporting date, the deferred tax assets recognised are reassessed to verify that they still qualify for recognition and appropriate adjustments are made on the basis of the outcome of the recoverability analysis performed. That analysis is based on: (i) assumptions to test for the existence of sufficient taxable income to enable the utilisation of the tax losses in question, which coincide with those used to test the Group's non-financial assets for impairment (note 19); and (ii) the prescription periods and limits stipulated in prevailing tax legislation for the utilisation of unused tax credits.

The cash flows so estimated indicate that it will be feasible to utilise the tax losses recognised as tax assets at year-end 2020 within an estimated period of 10 years. Further, they indicate that approximately 45% of those losses will be utilised within the next five years. The unused tax credits are expected to be utilised within a period of five years.

At year-end 2020, the Group had unused tax losses of €2.8 million in Spain and €0.7 million in Portugal (year-end 2019: €2.8 million in Spain and €0.5 million in Portugal) for which it had not recognised deferred tax assets based on the consideration that their utilisation is not probable.

Deferred tax liabilities

2020	Thousands of euros					
	Balance at 31/12/2019	Increases	Decreases	Transfers and other	Changes in consolidation scope (note 6)	Balance at 31/12/2020
Recognised in profit or loss:						
Accelerated depreciation (RDL 4/2004)	12.217	-	(182)	-	(11.123)	912
Finance costs	84	-	(16)	-	-	68
Consolidation and other adjustments	8.353	597	(5.074)	55	-	3.931
	20.654	**597**	**(5.272)**	**55**	**(11.123)**	**4.911**
Recognised in equity:						
Revaluation of forest land (note 15)	13.510	-	-	-	-	13.510
Convertible bonds (note 27)	2.377	-	(723)	-	-	1.654
Consolidation and other adjustments	1.034	1.867	(565)	(750)	-	1.586
	16.921	**1.867**	**(1.288)**	**(750)**	**-**	**16.750**
Total	**37.575**					**21.661**

2019	Thousands of euros				
	Balance at 31/12/2018	Increases	Decreases	Transfers and 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	(1.074)	303	1.034
	17.652	**1.604**	**(2.335)**	**-**	**16.921**
Total	**40.017**				**37.575**

32.5 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.

All of the Group's relevant decisions have been analysed internally and also by external advisors, in 2020 and in prior years, and the conclusion reached is that those decisions are lawful and based on reasonable interpretations of tax regulations. The Group also analyses the existence of contingent liabilities and the general criterion is to recognise provisions for tax-related lawsuits when the likelihood of a ruling that goes against its interests is probable; it does not recognise provisions when that risk is deemed possible or remote. ENCE had not recognised any provisions in that respect at either year-end.

Government and legal proceedings

The Spanish tax authorities concluded several tax inspections encompassing several ENCE Group companies located in Spain 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 €5.9 million and €0.7 million, respectively (in the opinion of the inspection team, the object of the assessments was not subject to fine), were signed under protest.

The main adjustments included in those settlement agreements related to the tax treatment given to an intragroup transaction in Uruguay and an equity swap written by ENCE to cover the commitments assumed under its executive incentive remuneration scheme associated with the 2007-2011 Business Plan.

The administrative and court proceedings pertaining to both cases have not admitted the defence cases presented by ENCE and its tax advisors; those proceedings concluded during the fourth quarter of 2020 with the declaration that the appeals lodged before the Supreme Court are inadmissible.

As a result, the Group has recognised the impact of those assessments in its 2020 consolidated statement of profit or loss, specifically increasing the expense recorded under "Tax expense" by €5.9 million and the expense recorded under "Finance costs" by €0.7 million. Their settlement, foreseeably in 2021, will entail a total cash outflow of €4.7 million.

33. Director and key management personnel pay and other benefits

33.1 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.

At the Annual General Meeting on 31 March 2020, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2020-2022 (retrievable from www.ence.es). The cap on annual remuneration payable to the directors as a whole in their capacity as such, as set down in that policy, is €1.9 million.

Remuneration for membership of the Board of Directors

The remuneration accrued by the members of the Board of Directors in 2020 and 2019 in their capacity as directors:

2020 - Director	Type	Thousands of euros 2020 Fixed remuneration	Attendance fees & other	Total	2019
Juan Luis Arregui Ciarsolo	Proprietary	44	47	91	149
Retos Operativos XXI, S.L.	Proprietary	44	76	120	97
Víctor de Urrutia Vallejo	Proprietary	44	33	77	76
José Ignacio Comenge Sánchez-Real	Proprietary	4	2	6	-
La Fuente Salada, S.L.	Proprietary	41	56	97	83
Turina 2000, S.L.	Proprietary	44	79	123	107
José Carlos del Álamo Jiménez	Independent	44	81	125	113
Isabel Tocino Biscarolasaga	Independent	45	81	126	117
Rosa María García Piñeiro	Independent	45	75	120	103
Irene Hernández Álvarez	Independent	45	87	132	65
Miren Amaia Gorostiza Tellería	Independent	45	49	94	62
Fernando Abril-Martorell Hernández	Other external	45	78	123	105
José Guillermo Zubía Guinea	Other external	44	105	149	135
Javier Echenique Landiribar	Other external	44	57	101	90
Ignacio de Colmenares Brunet	Executive	135	-	135	105
Pedro Barato Triguero	Other external	-	-	-	31
Luis Lada Díaz	Independent	-	-	-	28
		713	**906**	**1.619**	**1.466**

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, Juan Luis Arregui Ciarsolo.

The members of the Parent's Board of Directors did not receive any remuneration whatsoever for sitting on the boards of other Group subsidiaries or associates in either 2020 or 2019.

The disclosures regarding average director remuneration broken out by gender is provided in the "Non-financial statement - Sustainability report" included in the Management Report.

Remuneration for the performance of executive duties

Ence Energía y Celulosa, S.A.'s Director Remuneration Policy stipulates fixed remuneration for the Chairman & CEO of €664 thousand and an annual bonus of up to 120% of his fixed remuneration. ENCE also provides its Chairman & CEO with a range of in-kind compensation, including a company car, health insurance and an annual medical check-up.

The remuneration accrued by Ignacio de Colmenares Brunet for the performance of executive duties in 2020, including his fixed and variable remuneration, totalled €1,186 thousand (2019: €915 thousand). Additionally, the 2016-2018 long-term bonus plan was settled in 2019, with Ignacio de Colmenares Brunet receiving €510 thousand and 422,858 ENCE shares.

The Chairman & CEO is also the beneficiary of a mixed savings, life and accident insurance policy (note 3.13) and of a retirement insurance policy (the benefit payable under the 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 contribution to that retirement plan was €187 thousand in 2020 (2019: €182 thousand).

Lastly, the Chairman & CEO is a beneficiary under the 2019-2023 long-term bonus plan (note 11). Assuming full delivery of the targets to which that incentive scheme is tied, he stands to receive €996 thousand and 400,549 ENCE shares.

Other aspects

The Group companies have not extended ENCE's 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 2020 or 2019.

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.

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

The composition of the Board of Directors changed as follows in 2020: José Ignacio Comenge Sánchez-Real joined and La Fuente Salada, S.L. left the Board. The following changes took place in 2019: Irene Hernández Álvarez and Miren Amaia Gorostiza Tellería joined the board, while Pedro Barato Triguero and Luis Lada Díaz stepped down.

The members of the Board of Directors did not receive any termination benefits in either 2020 or 2019. The termination benefits to which the directors are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Reports for 2020 and 2019, which are available at www.ence.es.

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.

33.2 Key management personnel remuneration

Key management personnel comprise the officers who report directly to the Board of Directors or the Chairman & CEO, 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
Reyes Cerezo Rodríguez-Sedano (i)	General Secretary | Sustainability Officer
María José Zueras Saludas	Human Capital Officer
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
Fernando González-Palacios Carbajo (ii)	Planning and Control Manager
Ángel J. Mosquera López-Leyton	Internal Audit Manager

(i) Named Sustainability Officer on 19 December 2019

(ii) Appointed to the Management Committee on 24 September 2019
(iii) The following individuals are no longer deemed key management personnel: Joaquín Bohórquez Crespi de Valldaura (Director of Strategic Forest Investments, since the first half of 2019); Luis Carlos Martínez Rodríguez (Director of Communication and Institutional Relations, since the first half of 2020); Alvaro Eza Bernaola Director of Supply Chain Management, since the second half of 2020); and Faustino Martínez Rodríguez (Director of HSEQ, since the second half of 2020).

The table below provides disclosures regarding the remuneration and other benefits received by ENCE's key management personnel in 2020 and 2019:

Thousands of euros	**2020**	**2019**
Fixed remuneration	2.176	2.181
Variable remuneration	1.148	675
Mixed insurance policy	107	140
In-kind remuneration & other	187	79
	3.618	**3.075**
2016-2018 incentive plan	-	2.683
Termination benefits	844	-
	4.462	**5.758**

In addition, the 2016-2018 long-term bonus plan was settled in 2019, with the key management personnel receiving €622 thousand and 515,474 ENCE shares.

The key management personnel are the beneficiaries of a mixed savings, life and accident insurance policy (note 3.13). Elsewhere, ENCE provides its key management personnel with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up.

Lastly, the key management personnel are beneficiaries under 2019-2023 long-term bonus plans (note 11). Assuming full delivery of the targets to which that incentive scheme is tied, they stand to receive €1,894 thousand and 761,710 ENCE shares.

The termination benefits to which the key management personnel are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Report.

34. Transactions with Group companies and related parties

34.1 Transactions with investees accounted for using the equity method

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

	31/12/2020			31/12/2019
Thousands of euros	Current loans	Current receivables (note 25)	Current payables (note 26)	Current loans
Oleoenergía de Puertollano, S.L.	36	-	-	36
Capacitación de Servicios Forestales, S.L.	-	138	632	-
	36	**138**	**632**	**36**

The transactions performed with investees accounted for using the equity method of consolidation in 2020 (there were none in 2019) entailed the purchase of services from Capacitación de Servicios Forestales, S.L. in the amount of €905 thousand.

34.2 Transactions with non-controlling interests

The balances outstanding with non-controlling interests at year-end are as follows:

		Thousands of euros	
Related party	Item	2020	2019
Ancala Partners LLP (note 6)	Contingent consideration	21.439	-
Ancala Partners LLP (note 6)	Non-current debt	36.835	-

The non-current debt originates from the loan extended by Ence Energía y Celulosa, S.A. to Ence Energía, S.L.U. in prior years. As outlined in note 6, along with the sale of a minority interest in Ence Energía, S.L.U., ENCE has sold part of the loan extended, specifically €36,835 euros.

"Contingent consideration" in the table above corresponds to the fair value of the contingent price arrangement included in the agreement for the sale of a minority 49% interest in Ence Energía, S.L., the holding company for ENCE's Renewable Energy business (notes 6 y 27). Except as disclosed in note 6, there were no transactions with non-controlling interests in 2020 or 2019. It is estimated that ENCE will collect 45% of the non-current portion of that consideration between 2022 and 2024 and the remainder between 2025 and 2028.

34.3 Transactions with directors

ENCE did not perform any transactions with directors in 2020. It arranged the following transactions with directors in 2019:

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

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

35. Environment

Respect for the environment is intrinsic to ENCE's purpose and is embedded in the commitments and rules of engagement set down in its Code of Conduct and Sustainability Policy. ENCE's environmental commitments are borne out, first and foremost, in its strategic approach to its business activities:

- ✓ The production of pulp from timber sourced locally from forests managed sustainably has positive impacts on the environment by bringing to market products that are natural, renewable, recyclable and good substitutes for fossil-fuel-based products such as plastics. Moreover, ENCE's forestry activity not only helps capture carbon from the atmosphere, it also protects biodiversity and other forestry ecosystem services.

- ✓ In designing new products, ENCE strives to reduce their environmental footprint and help reduce the footprint associated with its customers' manufacturing process. A good example of that approach is the development of unbleached pulp, Naturcell, at the Pontevedra biomill, a product with a smaller environmental footprint than standard pulp.

- ✓ With its Renewable Energy activities, ENCE contributes to the decarbonisation of the national generation mix. Moreover, the recovery and reuse of agricultural biomass prevents the harmful diffuse emissions associated with uncontrolled burning of crop waste.

In addition to helping protect the environment through its business activities, ENCE is committed to framing its manufacturing processes with environmental considerations: it goes beyond strict compliance with the legal thresholds stipulated in its facilities' environmental permits and uses best available techniques and continuous improvement methodology to reduce the environmental impact of its activities in terms of material consumption, waste generation, emissions, effluents, noise and odours. That commitment translates into significant investments designed to pave the way for implementation of the best available techniques and process efficiency improvements, notably including those related with emission filtering and measurement and air quality systems that enable the ongoing reduction of environmental impacts and enhance relations with nearby communities. In short, ENCE strives to continually improve its environmental performance, an effort that is spearheaded by its senior management and shared by the entire organisation. It also urges its suppliers to embrace stringent environmental standards in their operations.

Compliance and best available techniques

Although the Company's ambition is to surpass its legal obligations, ENCE's environmental commitment first and foremost entails stringent and exhaustive compliance with applicable environmental regulations and adaptation for the best available techniques (BAT) defined in the sector BREF (Best Available Techniques Reference Document for the pulp and paper industry, 2014) approved by the European Parliament's ENVI Committee and the Best Available Techniques (BAT) Reference Document for Large Combustion Plants - Industrial Emissions Directive 2010/75/EU (2017).

In 2020, ENCE continued to execute the projects aimed at adapting its facilities for implementation of those best available techniques ahead of effectiveness of the BREF for Large Combustion Plants. That work has focused on complying with the new emissions limit values, implementing different kinds of emissions scrubbing systems depending on each facility's needs and introducing cutting-edge technology, operating and management improvements.

The integrated environmental or sector permits held by each of the biomills and energy plants establish the facility operating requirements from an environmental standpoint. They are designed to prevent, or at least minimise, and control air, water and soil emissions. To that end, those 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. ENCE's integrated permits are on public record in the corresponding regional government registers.

Environmental management systems

The key lines of initiative in environmental protection and care set down in ENCE's Code of Conduct and Sustainability Policy are crystallised in the Company's environmental management policy. 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
- Enhanced 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, Puertollano 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. That 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 systems comply with the following international standards, among others:

- UNE-EN-ISO 9001 - quality management
- UNE-EN-ISO 14001 - environmental management
- ISO 45001 - workplace health and safety management
- UNE-EN-ISO 50001 - energy management

The non-financial statement details the certification scope of the management systems with respect to these standards for each of ENCE's operations centres.

In addition, the two biomills and the Huelva operations centre were pioneers in their respective regions in obtaining certification under Regulation (EC) No. 1221/2009 Community eco-management and audit scheme (EMAS), a voluntary commitment undertaken by very few companies. To qualify and remain in that register, the centres have to have their environmental statements audited by a certified independent verifier every year; those statements provide an account of the facilities' key performance indicators, annual targets and delivery thereof.

Other environmental excellence certifications

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. 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).

The pulp made at the Navia and Pontevedra biomills has also been 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.

In addition, the two biomills and the Enemansa and La Loma biomass plants have obtained 'Zero Waste' certification from AENOR, a seal that singles out the most efficient facilities from the waste management and recovery perspective.

Lastly, in 2015 the Pontevedra biomill was distinguished with the European Commission's Gold Recognition for 15 years of EMAS certification.

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 trait 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.

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. In 2020, ENCE set specific emission reduction targets for 2025 with respect to the base year, set at 2018.

Sustainable forestry management

ENCE maintained its position and role as the leading private forest manager and a key player in the timber-based product market in Spain in 2020. By the same token it reinforced its position as a benchmark buyer of agricultural and forestry biomass for power generation purposes, supplying both its standalone energy plants and the generation facilities integrated into its biomills.

ENCE manages the forest value chain 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. As part of a project dubbed Cantabrian Loyalty, in 2020 ENCE offered management and technical assistance agreements to land owners and neighbourhood forest associations with over 2,911 hectares between them; specifically, it closed 41 agreements encompassing a total of 849 hectares.

Complementing the management of its own forest land, ENCE continued to reinforce its timber procurement policy under which it purchases standing timber (where ENCE is responsible for purchase from the owner, administrative and regulatory certification, harvesting and transport of the timber) as well as timber straight from suppliers (where ENCE purchases directly from timber traders). Both activities are managed by the Group's Forest Purchasing and Strategy Department.

In both cases - forest management and purchases from third parties - the management and sustainability requirements are identical and 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).

In relation to primary agricultural biomass, ENCE continued to work on the framework for implementing the 10-Point Declaration on the Sustainability of Biomass presented by ENCE in 2017; it is already systematically monitoring and assessing the key indicators for which there is a staggered implementation schedule, framed by the Company's Master Sustainability Plan. In addition to an outreach effort with benchmark NGOs and the compliance effort (which is far more intense for forest-derived biomass), another source of guidance is the sustainability thrust defined in the new European Renewable Energy Directive (RED II). Throughout 2020 ENCE worked on updating the 10-Point Declaration to layer in the RED II requirements, which are implemented under the scope of the integrated forest management system. The updated version of the 10-Point Declaration, which also incorporates requirements for industrial biomass (agricultural and forestry biomass that has been transformed), took effect at ENCE on 1 January 2021.

In 2020, ENCE's biomills were supplied with 3,137,432 tonnes of timber, of which 74,802 came from owned forests, 860,291 from standing timber purchases and the rest from forestry suppliers. As for biomass, supplies totalled almost 1.8 tonnes in 2020, of which 34.8% was agricultural, 44.1% was forest biomass and the remainder was industrial (including sawmill waste and olive pomace).

The Sustainability 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 has positive effects on society, one of the main ones being the generation of 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 key ways of earning a living. ENCE's contribution to the rural economy goes beyond development of its direct businesses by helping its stakeholders expand their capabilities: financing schemes for certification groups; nursery discounts; transfer of know-how to forest owners and companies; training and education, biomass collection technology 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. It is worth highlighting the fact that during the lockdown during the state of emergency declared in Spain in response to the pandemic, it was possible to maintain the Group's procurement activities (framed by stringent safety standards), reinforcing its value for society, specifically the provision of safe-haven work for the Group's suppliers and partners.

Reinforcement of the benchmark regulatory framework, specifically aspects related with compliance with the European due diligence regulation with respect to the legal origin of timber (EUTR), remains a core, value-adding sector thrust. ENCE continues to drive adoption of that framework all along its supply chain, ensuring that end products always come from traceable sources in stringent compliance with applicable legal requirements. More specifically, ENCE is working intensely not only with the sector but also the public authorities to implement best oversight techniques in this respect and to share them with its partners, with which it engages continuously with the aim of communicating the desirable and expected management requirements, including voluntary aspects (essentially social and environmental) aimed at achieving 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 that 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 the current overall level of 78.3%, 74.1% of which boasts dual certification (PEFC+FSC®), boosted by ENCE's engagement with the broader forestry community.

The forest management business, which is unlocking value at the tracts managed by ENCE, entailed total investments of over €3.4 million, encompassing forestry care, reforestation, infrastructure upgrade and fire protection work, as well as income payments. That production and investment effort, framed by environmental and social sustainability criteria, constitutes an important direct contribution by the Company to the rural economy.

ENCE's end-to-end forestry activities were audited during the first half of 2020 by the chain of custody experts, PEFC and FSC®, without incident. Exceptionally, on account of the pandemic and attendant lockdown, the sustainable forest management audits were performed during the second half of the year. Elsewhere, ENCE continued to collaborate with the research work being done by the FSC's certifier (ASI) as part of the FSC's transaction verification policy, with no incidents identified with respect to ENCE's value chain.

On the technical management front, the most noteworthy projects worked on in 2020 are summarised below:

- ENCE presented the results of its "Study of the nutrient cycle in *Eucalyptus globulus* plantations devoted to the production of biomass" carried out in collaboration with the AgroForestry Sciences Department of the University of Huelva between 2018 and 2019.
- Plant health: in 2020, under the scope of the plan to fight the *Gonipterus*, a total of 5,109 hectares of plantations received biological treatment. Of the total, 3,348 hectares corresponded to owned forests, 1,698 hectares to forest associations and 63 hectares to forests owned by individuals. Since the Group embarked on this pest control strategy in 2016, over 160,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner. Beetle damage in the treated area evaluated is estimated at between 14% and 30%.
- Participation in a pan-regional anti-*Gonipterus* taskforce (GOSSGE), whose mission is to ensure the sustainability of eucalyptus plantations in northern Spain.
- The results of the research done in collaboration with the CEQA (Agricultural Chemical Ecology Group) from Valencia's Polytechnic University to identify and isolate *Gonipterus platensis* aggregation pheromones were presented.
- Rollout of a programme for the selection of trees that are more resistant to the *Teratosphaeria nubilosa* fungus.
- ENCW worked with the AgroForestry Sciences Department of the University of Huelva to develop and fine-tune a test for identifying trees that are more resistant to the fungus.
- In 2020 ENCE installed 13 new test sites within its owned forests. Twenty-two trials were also evaluated and analysed and the partial results were communicated.
- An area was set up and devoted to innovation in the area of forestry operations development and continuous improvement. That unit's mandate includes the development of new planting, soil

preparation and weed control methods, as well as all areas of forestry care presenting room for improvement.

- Reinforcement of 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.
- Project designed to draw out oversized timber in order to attract maturer plantations, with high tonnage per hectare, onto the market.
- Agricultural biomass supply project at the energy plants in southern Spain supported by remote detection technology for early alert purposes and promoting the recovery of agricultural by-products, thereby preventing them from being burned and unlocking value.
- Improving the genetic traits of the plants grown at and/or sold by the nurseries in northern Spain:
- Reduction in the production of *E. globulus* plants grown from seed and increase in the sale of cloned plants.
- Sale of a clone, called Colunga, tolerant of the *Teratosphaeria nubilosa* fungus and increase in its production.
- Improving the genetic quality of the seeds used to grow the *E. nitens*.
- Forest operations efficiency and automation improvement project. Under the scope of this project ENCE carried out a host of activities that have been very well received by contractors.
- Satellite-enabled early fire alert systems. Developed and implemented this year, during which the daily fire risk index alert system has also been improved.
- Technology-enabled mobility. XOne - Project Tierra - For the planning, monitoring and control of forestry care operations and inspection lists, as well as the consolidation of the use of the XOne project for managing contacts with forest owners in order to bring in new land.
- Inventorying tests using drone-based LIDAR technology on 1,340 hectares of owned forest land in northern Spain.
- A forest machinery course was run to train employees in how to use the machines in order to increase the pool of sector professionals and foster job creation while striving to foster environmental awareness in parallel.
- Creation of a taskforce to boost the productivity of the *Eucalyptus globulus* in Asturias by developing and disseminating smallholding joint management models, improving fertility and developing a website for the provision of practical tips for sustainable eucalyptus management, including a tool for predicting the species' productivity in each location. That project is fully financed by European funds and is being carried out in conjunction with other key firms, research centres and institutions with a vested interest in the forestry sector in Asturias.
- The improvements embarked on last year on the logistics management front are now fully consolidated in terms of the reorganisation of work, geo-mapping of loads within the vehicle allocation process, fleet diversification and flexibility, the introduction of LNG-propelled trucks, logistics process digitalisation, etc.
- Drone pilot test. Test flights over ENCE forests for the 12 pilots trained.
- Start of the Almonaster Fire Restoration Plan. ENCE has rolled out a plan for the restoration of the tracts of proprietary forest affected by the Almonaster fire last summer. The emergency work

required to prevent soil erosion and desertification has begun, those being the most critical tasks after a fire, along with other measures needed to ensure environmental safety and conservation in the area.

The universe of R&D activities undertaken in fields related with ENCE's direct business interests constitute an important source of technical support and know-how which ENCE strives to share with the sector via forums and talks. That effort shares know-how related with aspects such as forest care, plant selection, pest control, legal compliance and forestry certification with owners, suppliers and the sector in general, feeding a continuous debate on how to improve the sector, to which end the authorities and civil society are similarly engaged.

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 regulatory and technical tools and advocates for new requirements aligned with its sustainability policies.

Pulp

Navia biomill

In 2019, the Navia biomill completed a project designed to upgrade and optimise the facility's technology. That project included (i) implementation of best available practices in a significant number of productive processes; (ii) an 80,000 ADt increase in capacity; and (iii) an improvement in the biomill's environmental performance. The results of that environmental upgrade effort were consolidated over the course of 2020, tangible in the form of higher-quality discharges and lower emissions of total particles and SO_2. The main environmental improvements introduced:

- Optimisation of the recovery boiler which has increased the production of steam and the existing electrostatic precipitators' ability to eliminate particles, adding a new field. Particles emitted have fallen by an estimated 70% (in terms of annual tonnes generated) to stand at pollution concentration levels of under 6mg/Nm^3 in normal operating conditions.
- Optimisation of the evaporation line, making better use of the condensates (thermal and direct) emanating from the line itself with the aim of achieving dry material concentration levels of 80%. That work drove an 80% year-on-year reduction in SO_2 emissions per tonne of pulp from that particular emission point in 2020.
- Also, improvements in the lime kilns to fine-tune the preparation of the white liquor have improved the ability of the existing electrostatic precipitator to reduce particles and enhanced control over the nitrogen oxides generated, which have fallen by 35% per tonne of pulp produced. The latter environmental thrust continues with plans for new modifications at the burners at one of the kilns (#1) which will cement the trend already observed in 2020.
- The improvements made at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, in addition to enhancing the ventilation and refrigeration systems at the biological treatment facility, have driven a further reduction in the organic material present in the biomill's wastewater; specifically, chemical oxygen demand (COD), expressed in terms of the ratio of organic material per tonne of pulp produced, has declined by 27%, rendering the biomill far more efficient and reducing its water footprint despite the growth in output. 2020 was also the year of stabilisation in the new primary effluent treatment system comprising a new dissolved air flotation (DAF) unit, which has replaced the existing decanter, enabling the separation of particles suspended in the effluents by injecting tiny air bubbles, whereby the suspended matter adheres to the bubbles on their way up, floating towards the upper separation system; that system has implied a significant year-on-year reduction in the ratio of total suspended matter in the biomill's wastewater of 22% per tonne of pulp produced. In addition, the improvements in operating process

controls and the introduction of automated counter-flow scrubbers in the heat exchangers located at the entrance to the biological treatment unit has meant that effluent temperatures have been kept at levels more propitious to minimising the build-up of matter, so avoiding the proliferation of filamentous bacteria and making for more robust operations and filtering efficiency.

- The reuse of condensates in a new washer, the generation of less contaminating condensates and the consumption of stripped condensates in the lime kiln is enabling the biomill to make even better internal use of water. Water consumption at the Navia biomill decreased by 12% year-on-year in 2020. In 2021 the idea is to work on the definitive implementation of the planned improvements by defining monitoring dashboards with targets for each area and providing training to the energy, recovery and pulp teams.
- 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.

Kraft pulp mills generate odorous compounds, which is why ENCE has been working for years in Navia 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 point sources have been slashed by 99%.

In 2020, the Navia biomill certified its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, making it one of the first companies in Spain to obtain this certificate, with recovery ratios of 97%. That certification adds to those already earned and renewed in external audits of the integrated management system, e.g., renewal of the environmental and quality management certification by organisations accredited to provide UNE-EN-ISO 14001:20015 certification and of the Community eco-management and audit scheme (EMAS); those reviews have not revealed any shortcomings and endorse ENCE's steady progress towards environmental excellence.

In April 2020, the biomill successfully completed the audit required to renew its environmental management system under ISO 14001/2015; to verify compliance with the requirements stipulated in Regulation (EC) No. 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), Regulation (EC) No. 1505/2017 and Regulation (EU) No. 2026/2018, which amend the former; and to verify its 2019 Environmental Statement. That audit confirmed the validity of the statement and compliance with those regulatory requirements; no areas were flagged for special attention, evidencing the organisation's strategic commitment to continuous improvement and its determination to comply with environmental regulations and adapt for best available practices (BREF). It is worth highlighting the active involvement of the entire organisation in the environmental control and performance areas, an effort that has translated into tangible results.

During the third quarter of 2020, the Navia biomill embarked on the process of certifying its energy management system under the ISO 50001 standard. That certification will endorse ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, translating into real and quantifiable savings in energy costs.

In terms of trading in emission allowances and application of the pertinent regulatory requirements, in November 2020 the Navia biomill received authorisation for the emission of greenhouse gases for 2021-2030. In December 2020 the Methodological Report was verified for the purpose of adjusting the allocation of allowances free of charge for 2013-2020 to reflect the biomill's increased nominal capacity in the wake of the various expansion projects.

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, it has 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 two-year collaboration agreement with the Navia town council, initially signed in July 2017 and renewed in July 2020 for a further three years. 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 and post-graduates and support for projects that enhance and care for nature in Navia.

Under the scope of that agreement, ENCE has spearheaded the sponsorship and patronage of multiple community, cultural and sports events and helped with the donation of gear to local residents.

It is also collaborating with the town council of Coaña, which has close ties with the Navia biomill, by contributing to works to upgrade public infrastructure and to social and cultural causes and events in the community.

Pontevedra biomill

ENCE prioritises respect for the communities surrounding its biomill in its bid to earn its social license to operate. As a responsible corporate citizen, ENCE sets targets for controlling and reducing any impacts that could cause unpleasantness in the community, such as odour.

To avoid those impacts, the biomill is working on process management and facility upgrades so as to advance towards its zero odour target. 2020 marked 10 years from the rollout of the Zero Odour Plan, thanks to which odour emissions from stationary sources have been slashed by over 99%. Despite those advances, reduction of the biomill's odour impact remains a core sustainability target for ENCE and new reduction targets are set annually.

Responsible management of water resources at the Pontevedra biomill is another cornerstone of the sustainability strategy, to which end ENCE has been working for years to rationalise consumption and improve the quality of its wastewater. In 2020 it therefore continued to implement improvement measures and fine-tune its processes, so boosting efficiency and maximising the reuse of water. Indeed, water consumption per tonne of pulp produced was reduced by 5% compared to 2019.

In terms of its wastewater, the Pontevedra biomill etched out further improvements in 2020, consolidating the trend of 2019. 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 63%, coming in at 2.60 kg/ADt, compared to the stipulated cap of 7 kg/ADt. The trend in that metric confirms the progress the biomill has made on improving the quality of its end wastewater. Note, additionally, that COD in Pontevedra is 87% better than the upper end of the reference range set for this parameter in the pulp sector BREF.

ENCE also applies circular economy principles in its productive processes, prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. Against that backdrop, one of the targets set in ENCE's Sustainability Master Plan is to obtain AENOR's Zero Waste certification, which distinguishes organisations that reuse the various waste fractions they generate, avoiding the use of landfills. The Pontevedra biomill was the first of ENCE's facilities to obtain that seal in 2019.

By the same token, ENCE's circular economy approach towards its productive model encompasses the reduction of emissions into the air. To that end, the monitoring and improvement of emissions metrics is another of ENCE's environmental management targets across all its facilities.

The Pontevedra has been equipped with continuous measurement systems to monitor the main emissions parameters and ensure not only that they not do breach the limits set in the integrated permit but actually come down steadily over time, framed by the integrated management system predicated on continuous improvement.

The biomill's other key environmental management priority is energy efficiency, to which end it designs measures articulated around reducing the consumption of fuels and enhancing the self-generation of electricity. As part of those measures, during the first half of 2020, the Pontevedra biomill certified its energy management system under the ISO 50001 standard. That certification endorses ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, translating into real and quantifiable savings in energy costs.

Lastly, and once again framed by the effort to apply circular economy principles to its productive processes, the Pontevedra biomill is taking a circular economy approach to product design, creating pulp products whose production requires more rational use of chemicals. The best exponent of that design strategy so far is ENCE's unbleached pulp, called Naturcell, which, by doing away with the need for bleaching agents, consumes far fewer chemicals per tonne produced.

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 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.
- 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 currently being processed.

The Pact was modified via addenda signed on 16 January 2017, 5 March 2018 and 16 September 2019, as a result of which, exceptionally and with effect solely in 2017, 2018 and 2019, 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 last addendum signed in 2019 includes an agreement to negotiate a new one-year addendum in which ENCE may assume new commitments, which would no longer include the rehabilitation of the Pazo de Lourizán (or an equivalent building) or the construction of a football pitch. The liability associated with the above commitments is estimated at a maximum amount of €14 million (note 31).

Renewable Energy

In 2020, ENCE consolidated the implementation of the projects executed in 2019 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 to introduce all the required technological, operational and managerial improvements were concentrated in 2020 and, while not associated with specific new thresholds, enable ENCE not only to guarantee compliance with the various regulatory requirements but also to achieve sustained environmental excellence. The last milestone will be the revision of the integrated environmental permits planned for 2020-2021.

In 2020, ENCE continued to execute the so-called Reliability of Environmental Indicator Measurements project, planning and implementing the improvements to be made to the continuous emissions measurement equipment at the Huelva, Merida and Lucena plants. 2020 marked the consolidation of the redundant continuous emissions measurement equipment at the new plants in Huelva (HU46) and Puertollano (PU50) and specific training was provided by in-house staff and external experts on its usage.

Classification of ash and slag was as a sub-product.

One of the chief sources of waste at ENCE's energy plants is the ash generated in the biomass combustion facilities. That ash is high in water-soluble potassium, which makes it a compelling substitute for commercial potassium. ENCE, aware of that ash's value, has pioneered the effort to have it reused and monetised in the market.

In light of the requirements for having the ash classified as a sub-product, as laid out in the EU's Waste Framework Directive (as transposed into Spanish law), ENCE submitted the required paperwork to the Ministry of Ecological Transition in Spain for applying to have the ash categorised as a sub-product. It has so far obtained authorisation for the ash produced at the La Loma and Lucena plants and, most recently, the 46-MW Huelva plant. Thanks to that effort, that ash is now being incorporated into fertiliser manufacturing processes. ENCE has since applied for similar authorisations for the ash generated at the rest of its energy plants and is awaiting the corresponding ministerial rulings.

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 of the most important plants (HU41 and HU50), along with the new build (HU46). 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. Studies began during the second half of 2020 into plans for improving the centre's water readings to make further progress on the targets for rationalising its consumption and for separating the effluents and treating them onsite.

Projects to improve the air quality and noise levels also remained 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.

2020 was also marked by the commissioning of 858 kWp of photovoltaic solar panels to supply the plant onsite.

Lastly, in terms of the dismantling of the pulp-making facilities, in 2020, the work continued as scheduled, paying particular attention to workplace safety and environmental performance, particularly in relation to diffuse emissions, noise and waste management.

Merida operations centre

In 2020 Merida continued to comply with its wastewater and emissions requirements.

The investments made in 2019 to install selective non-catalytic reduction (SNCR) technology to reduce NOx emissions in combustion gases were fine-tuned in 2020. 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 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 goal of continuing to champion the circular economy model at this centre, meetings have taken place with the Extremadura regional government's sustainability team addressing the possibility of emulating the degraded mine land recovery project in Salamanca into the region. The authorities have expressed interest in this initiative and work is underway to speed up the permitting process.

Meanwhile, 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 is operating continuously at the Lobón (Badajoz) urban waste treatment plant.

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 plant's noise impact in the surrounding areas: phase two, involving a number of interventions at the furnace area, is close to completion.

Enemansa operations centre

The improvements made to this plant's environmental performance in 2019 were cemented in 2020, specifically enhanced management of the discharges by connecting the plant 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. 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 management front, work continued on the projects planned and follow-up targets set for 2021.

La Loma operations centre

In 2020, ENCE fine-tuned the implementation of a forced evaporation system for the plant's discharges and continued to diversify the evaporation systems, modifying the discharge point and separating the discharges.

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.

Lucena operations centre

Rollout of the projects executed in 2019, most notably the fitting of a bag filter at the biomass furnace emissions point, was completed in 2020. The atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

Biollano operations centre (Puertollano)

This plant was commissioned in June 2020 and combustion adjustments were made to the biomass furnace during the second half of the year. The environmental surveillance plan is being monitored continuously, using redundant continuous emissions measurement equipment onsite. In its first year in operation, this plant managed to certify its environmental management system under the UNE-14001 standard.

36. Events after the reporting date

No significant events have taken place since 31 December 2020, other than those already disclosed herein, that would imply modifying the accompanying 2020 consolidated financial statements.

Appendix I - Consolidation scope

The table below provides a list of Ence Energía y Celulosa, S.A.'s direct and indirect investees, indicating its ownership interests in each at year-end 2020 and 2019 and each of their core businesses:

	Company	Registered office	Business activity	Interest held directly or indirectly		Consolidation method (b)
				2020	2019	
	Pulp business:					
	Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	100	Full
	Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	100	Full
	Ibersilva, S.A.U.	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	100	Full
	Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	100	Full
	Ence Investigación y Desarrollo, S.A.U.	Marisma de Lourizán s/n (Pontevedra)	Research into and development of new materials, products and processes	100	100	Full
	Liptoflor, S.A. (a)	Lisbon (Portugal)	Purchase-sale of timber	100	100	Full
	Sierras Calmas, S.A.	Montevideo (Uruguay)	Dormant	100	100	Full
	Maderas Aserradas del Litoral, S.A.	Montevideo (Uruguay)	Dormant	100	100	Full
	Las Pléyades Uruguay, S.A. – Sucursal en Argentina	Montevideo (Uruguay)	Dormant	100	100	Full
	Las Pléyades Uruguay, S.A.	Montevideo (Uruguay)	Dormant	100	100	Full
	Ence Servicios Corporativos, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	100	Full
	Capacitación de Servicios Forestales, S.L.	Curtis (La Coruña)	Forestry work	25	25	EM
	Renewable Energy business:					
	Ence Energía, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	51	100	Full
	Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	100	Full
	Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	100	Full
	Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	100	Full
	Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	100	Full
	Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	32,67	64,07	Full
	Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	34,89	68,42	Full
	Ence Energía Puertollano, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	100	Full
	Fuerzas Energéticas Sur Europa XXIX, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	51	100	Full
	Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Cordoba)	Generation and sale of electric energy	35,7	70	Full
(*)	Ence Energía Solar, S.L. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	-	100	Full
(*)	Ence Energía Termollano, S.A. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	-	90	Full
	Ence Energía Solar, 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía la Loma 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Este, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Extremadura 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Sostenibilidad y Economía Circular, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Celta, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Castilla y León, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Castilla y León Dos, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Energía Pami, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Biomasa Córdoba, S.L.U	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Lepe Solar S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Ence Huelva Solar 10, S.L.U	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Andújar I Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Andújar II, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Jaén III, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Sevilla Solar I, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Sevilla II, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Sevilla Solar III, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
(*)	Ence Energía Puertollano 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	100	Full
	Oleoenergía de Puertollano, S.L.	Arruzafa, 21 (Cordoba)	Generation and sale of electric energy	15,30	30	EM

(a) Annual financial statements audited

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

(*) Changes in consolidation scope in 2020 (note 6).

(**) New renewable energy plants in the midst of the permitting process

Appendix II – Financial statements: Pulp & Renewable Energy

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2020 AND 2019

	Year-end 2020				Year-end 2019			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	1.742	-	1.742	-	6.066	-	6.066
Other intangible assets	15.813	38.210	(13.862)	40.161	14.925	55.300	(14.390)	55.835
Property, plant and equipment	627.716	476.849	(11.689)	1.092.876	647.322	592.710	(1.728)	1.238.304
Biological assets	71.033	237	-	71.270	78.731	345	-	79.076
Non-current financial assets:								
Securities portfolio	125.788	-	(125.788)	-	312.378	-	(312.378)	-
Investments accounted for using the equity method	30	1	-	31	48	1	-	49
Loans to group companies and associates	38.342	-	(38.342)	-	75.177	-	(75.177)	-
Hedging derivatives	-	-	-	-	1.419	-	-	1.419
Other financial assets	17.555	6.641	-	24.196	2.184	5.175	-	7.359
Deferred tax assets	56.159	15.793	-	71.952	38.622	15.420	-	54.042
	952.436	**539.473**	**(189.681)**	**1.302.228**	**1.170.806**	**675.017**	**(403.673)**	**1.442.150**
CURRENT ASSETS:								
Inventories	43.310	9.478	(957)	51.831	44.850	11.702	-	56.552
Trade and other receivables								
Trade receivables, third parties	53.619	(73)	-	53.546	29.209	5.789	-	34.998
Trade receivables, related parties	5.154	21.732	(26.748)	138	6.744	10.178	(16.922)	-
Other receivables	3.024	1.187	-	4.211	3.506	549	-	4.055
Tax receivables	(78)	388	-	310	2.116	1.074	-	3.190
Income tax receivable	25	937	-	962	6.900	1.741	-	8.641
Current financial assets:								
Loans to group companies and associates	-	36	-	36	-	36	-	36
Hedging derivatives	6.764	-	-	6.764	-	-	-	-
Other financial assets	18.207	8	-	18.215	4.441	9	-	4.450
Cash and cash equivalents	448.089	84.531	-	532.620	101.311	120.903	-	222.214
Other current assets	1.265	67	-	1.332	1.667	163	-	1.830
	579.379	**118.291**	**(27.705)**	**669.965**	**200.744**	**152.144**	**(16.922)**	**335.966**
TOTAL ASSETS	**1.531.815**	**657.764**	**(217.386)**	**1.972.193**	**1.371.550**	**827.161**	**(420.595)**	**1.778.116**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 December 2020 AND 2019

	Year-end 2020				Year-end 2019			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Issued capital	221.645	22.604	(22.604)	221.645	221.645	22.604	(22.604)	221.645
Share premium	170.776	74.955	(74.955)	170.776	170.776	74.955	(74.955)	170.776
Parent company reserves	169.416	2.649	(2.649)	169.416	163.687	2.649	(2.649)	163.687
Parent company retained earnings (prior-year losses)	(5.573)	(30.423)	30.423	(5.573)	(43.666)	(28.634)	28.632	(43.668)
Reserves in fully-consolidated companies	187.393	(3.623)	(39.441)	144.329	159.469	(10.201)	(33.598)	115.670
Reserves in equity-accounted investees	(8)	-	-	(8)				
Interim dividend	-	-	-	-	(12.493)	-	-	(12.493)
Translation differences	18	-	-	18	10	-	-	10
Own shares - parent company shares	(11.856)	-	-	(11.856)	(11.783)	-	-	(11.783)
Valuation adjustments	41.916	(4.892)	2.397	39.421	36.860	(4.891)	-	31.969
Other equity instruments	11.539	148	-	11.687	11.545	116	-	11.661
Other shareholder contributions	-	170.517	(170.517)	-	-	222.890	(222.890)	-
Profit/(loss) for the year	(52.298)	25.953	(87)	(26.432)	309	5.315	3.585	9.209
Equity attributable to owners of the parent	**732.968**	**257.888**	**(277.433)**	**713.423**	**696.359**	**284.803**	**(324.479)**	**656.683**
Non-controlling interests	-	10.613	126.093	136.706	-	**18.250**	-	**18.250**
TOTAL EQUITY	**732.968**	**268.501**	**(151.340)**	**850.129**	**696.359**	**303.053**	**(324.479)**	**674.933**
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	147.159	91.710	-	238.869	148.692	91.249	-	239.941
Bank borrowings	193.582	97.521	-	291.103	155.000	202.903	-	357.903
Other financial liabilities	103.250	733	-	103.983	98.944	8.259	-	107.203
Derivative financial instruments	93	5.509	-	5.602	157	6.257	-	6.414
Grants	4.509	1.049	-	5.558	5.446	1.304	-	6.750
Deferred tax liabilities	19.879	1.782	-	21.661	22.994	18.598	(4.017)	37.575
Non-current provisions	2.716	116	-	2.832	3.381	9.429	-	12.810
Non-current accruals and deferred income	3	1.761	-	1.764	2	3.374	-	3.376
Other non-current liabilities	-	5.955	-	5.955	4.673	21.432	-	26.105
Borrowings from group companies and associates	-	75.177	(38.342)	36.835	-	75.177	(75.177)	-
	471.191	**281.313**	**(38.342)**	**714.162**	**439.289**	**437.982**	**(79.194)**	**798.077**
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	50.463	28.599	-	79.062	1.131	25.150	-	26.281
Other financial liabilities	5.958	449	-	6.407	7.695	347	-	8.042
Derivative financial instruments	4.912	3.185	-	8.097	6.244	3.703	-	9.947
Current borrowings from related parties	12	-	(12)	-	-	-	-	-
Trade and other payables								
Trade payables, third parties	203.934	54.378	-	258.312	181.416	45.453	-	226.869
Trade payables, related parties	22.362	5.012	(26.735)	639	10.588	6.334	(16.922)	-
Income tax payable	16	5.619	-	5.635	438	-	-	438
Taxes payable	11.602	8.794	-	20.396	4.365	3.456	-	7.821
Current provisions	28.397	1.914	(957)	29.354	24.025	1.683	-	25.708
	327.656	**107.950**	**(27.704)**	**407.902**	**235.902**	**86.126**	**(16.922)**	**305.106**
TOTAL EQUITY AND LIABILITIES	**1.531.815**	**657.764**	**(217.386)**	**1.972.193**	**1.371.550**	**827.161**	**(420.595)**	**1.778.116**

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 PROFIT OR LOSS BY BUSINESS FOR 2020 AND 2019

Thousands of euros	2020 Pulp	2020 Renewable Energy	2020 Adjustments & Eliminations	2020 CONSOLIDATED TOTAL	2019 Pulp	2019 Renewable Energy	2019 Adjustments & Eliminations	2019 CONSOLIDATED TOTAL
Continuing operations:								
Revenue	504.481	205.963	(2.736)	707.708	572.381	167.953	(4.982)	735.352
Gains/(losses) on hedging transactions	(9.344)	-	-	(9.344)	(30.049)	-	-	(30.049)
Changes in inventories of finished goods and work in progress	(4.829)	-	-	(4.829)	3.024	-	-	3.024
Own work capitalised	2.825	(851)	-	1.974	10.853	2.083	-	12.936
Other operating income	8.603	8.196	(5.641)	11.158	4.002	1.355	(3.428)	1.929
Grants taken to income	3.329	992	-	4.321	3.264	1.030	-	4.294
Operating income subtotal	505.065	214.300	(8.377)	710.988	563.475	172.421	(8.410)	727.486
Cost of goods sold	(275.226)	(65.347)	2.736	(337.837)	(263.831)	(48.681)	4.982	(307.530)
Employee benefits expense	(78.442)	(13.933)	-	(92.375)	(79.897)	(12.357)	-	(92.254)
Depreciation and amortisation charges	(57.274)	(43.734)	3.928	(97.080)	(53.819)	(29.166)	-	(82.985)
Depletion of forest reserve	(9.771)	(292)	-	(10.063)	(9.271)	(66)	-	(9.337)
Impairment of and gains/(losses) on disposal of fixed assets	225	(1.840)	-	(1.615)	2.340	(504)	-	1.836
Impairment of financial assets	(175)	(194)	-	(369)	(2.313)	-	-	(2.313)
Other operating expenses	(142.362)	(75.077)	5.641	(211.798)	(146.278)	(59.536)	3.428	(202.386)
Operating expenses subtotal	(563.025)	(200.417)	12.305	(751.137)	(553.069)	(150.310)	8.410	(694.969)
OPERATING PROFIT/(LOSS)	**(57.960)**	**13.883**	**3.928**	**(40.149)**	**10.406**	**22.111**	**-**	**32.517**
Finance income								
From marketable securities & other financial instruments:								
Related parties	2.750	-	(2.750)	-	2.574	-	(2.574)	-
Third parties	646	3	-	649	437	495	-	932
Finance costs								
Borrowings from related parties	-	(2.750)	2.750	-	-	(2.574)	2.574	-
Third-party borrowings	(15.525)	(13.397)	-	(28.922)	(11.834)	(11.841)	-	(23.675)
Net exchange gains/(losses)	(1.259)	(29)	-	(1.288)	1.512	(22)	-	1.490
Impairment of and gains/(losses) on disposal of financial assets	165	32.906	-	33.071	(188)	-	-	(188)
NET FINANCE COST	**(13.223)**	**16.733**	**-**	**3.510**	**(7.470)**	**(13.942)**	**-**	**(21.412)**
Share of profit/(loss) of entities accounted for using the equity method	(18)	-	-	(18)	(2)	-	-	(2)
PROFIT/(LOSS) BEFORE TAX	**(71.201)**	**30.616**	**3.928**	**(36.657)**	**2.934**	**8.169**	**-**	**11.103**
Income tax	18.903	(2.963)	(4.015)	11.925	(2.625)	(565)	3.585	395
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(52.298)**	**27.653**	**(87)**	**(24.732)**	**309**	**7.604**	**3.585**	**11.498**
Profit/(loss) for the the year from continuing operations attributable to non-controlling interests	-	1.700	-	1.700	-	2.289	-	2.289
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	**(52.298)**	**25.953**	**(87)**	**(26.432)**	**309**	**5.315**	**3.585**	**9.209**

(*) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR 2020 AND 2019

	2020				2019			
Thousands of euros	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	(71.201)	30.616	3.928	(36.657)	2.934	8.169	-	11.103
Adjustment for:								
Depreciation and amortisation	67.045	44.026	(3.928)	107.143	64.055	28.267	-	92.322
Changes in provisions and other deferred expense (net)	8.389	(3.215)	-	5.174	18.587	1.286	-	19.873
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	(391)	(31.065)	-	(31.456)	(2.371)	503	-	(1.868)
Adjustments for tariff shortfall/surplus (electricity market)	(10.611)	(25.559)	-	(36.170)	1.834	6.743	-	8.577
Finance income and costs (net)	13.037	16.145	-	29.182	7.377	13.919	-	21.296
Grants taken to profit and loss	(994)	(254)	-	(1.248)	(1.116)	(254)	-	(1.370)
	76.475	**78**	**(3.928)**	**72.625**	**88.366**	**50.464**	**-**	**138.830**
Changes in working capital:								
Inventories	2.438	1.080	-	3.518	(12.267)	(4.045)	-	(16.312)
Trade and other receivables	(8.049)	(2.778)	-	(10.827)	68.460	14.389	-	82.849
Financial and other current assets	(4.532)	-	-	(4.532)	(2.226)	-	-	(2.226)
Trade payables, other payables and other liabilities	28.935	25.375	-	54.310	(4.206)	5.393	-	1.187
	18.792	**23.677**	**-**	**42.469**	**49.761**	**15.737**	**-**	**65.498**
Other cash flows from operating activities:								
Interest paid, net (including right-of-use assets)	(6.451)	(15.557)	-	(22.008)	(4.770)	(11.050)	-	(15.820)
Income tax paid	6.292	(364)	-	5.928	(7.505)	(2.143)	-	(9.648)
Other amounts received/(paid)	-	-	-	-	(4.724)	(159)	-	(4.883)
	(159)	(15.921)	-	(16.080)	(16.999)	(13.352)	-	(30.351)
Net cash from operating activities	23.907	38.450	-	62.357	**124.062**	**61.018**	**-**	**185.080**
CASH FLOWS FROM INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment	(52.220)	(66.919)	26.923	(92.216)	(155.683)	(129.920)	-	(285.603)
Intangible assets	(4.022)	(796)	-	(4.818)	(6.416)	(14.728)	14.390	(6.754)
Business combinations	-	-	-	-	-	(6.300)	-	(6.300)
Financial assets	(3.204)	-	3.204	-	(35.210)	(123)	35.000	(333)
	(59.446)	**(67.715)**	**30.127**	**(97.034)**	**(197.309)**	**(151.071)**	**49.390**	**(298.990)**
Proceeds from disposals:								
Property, plant and equipment	749	-	-	749	705	133	-	838
Financial assets	82.705	58.294	(82.500)	58.499	4.302	-	-	4.302
	83.454	**58.294**	**(82.500)**	**59.248**	**5.007**	**133**	**0**	**5.140**
Net cash used in investing activities	**24.008**	**(9.421)**	**(52.373)**	**(37.786)**	**(192.302)**	**(150.938)**	**49.390**	**(293.850)**
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Proceeds from issuance of own equity instruments	-	(52.373)	52.373	-	-	49.390	(49.390)	-
Transactions with non-controlling interests	219.872	-	-	219.872	-	-	-	-
Buyback of own equity instruments	(48.489)	-	-	(48.489)	(76.443)	-	-	(76.443)
Disposal of own equity instruments	48.376	-	-	48.376	64.419	-	-	64.419
	219.759	**(52.373)**	**52.373**	**219.759**	**(12.024)**	**49.390**	**(49.390)**	**(12.024)**
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	(1.080)	1.080	-	-	(4.547)	4.547	-	-
Proceeds from issuance of notes, net of arrangement fees	(4.967)	-	-	(4.967)	(118)	(4)	-	(122)
Increase/(decrease) in bank borrowings, net of issuance costs	87.668	(11.287)	-	76.381	45.003	(34.029)	-	10.974
Increase/(decrease) in other borrowings	1.705	-	-	1.705	21.066	(7.003)	-	14.063
Payments for right-of-use assets	(4.391)	(1.413)	-	(5.804)	(2.689)	(529)	-	(3.218)
Grants received, net	169	-	-	169	304	(25)	-	279
	79.104	**(11.620)**	**-**	**67.484**	**59.019**	**(37.043)**	**-**	**21.976**
Dividends and payments on other equity instruments								
Dividends paid to ENCE shareholders	-	-	-	-	(25.605)	-	-	(25.605)
Dividends paid to non-controlling interests	-	(1.408)	-	(1.408)	-	(1.986)	-	(1.986)
	-	**(1.408)**	**-**	**(1.408)**	**(25.605)**	**(1.986)**	**-**	**(27.591)**
Net cash from /(used in) financing activities	**298.863**	**(65.401)**	**52.373**	**285.835**	**21.390**	**10.361**	**(49.390)**	**(17.639)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**346.778**	**(36.372)**	**-**	**310.406**	**(46.850)**	**(79.559)**	**-**	**(126.409)**
Cash and cash equivalents - opening balance	101.311	120.903	-	222.214	148.161	200.462	-	348.623
Cash and cash equivalents - closing balance	448.089	84.531	-	532.620	101.311	120.903	-	222.214

Appendix III - Energy sector regulatory framework

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

European Union

Towards the end of 2019, the European Commission published Communication COM (2019) 640, out its so-called 'European Green Deal', a new 5-year growth strategy that aims to transform the EU into a resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050; it includes measures designed to ensure a just and inclusive transition.

Spain

Spain's energy sector watchdog, the CNMC for its acronym in Spanish, is independent of the government but is subject to parliamentary control. It is vested with market regulation and oversight powers and, by virtue of Royal Decree-Law 1/2019, also has the power, from 2020 on, to set remuneration methodology and electricity and gas transmission and distribution network access terms and conditions, including tolls.

The agents tasked with ensuring that Spain's electricity market operates as intended are: i) the transmission system operator (TSO): Red Eléctrica de España, S.A., which manages transmission and operates the system. The TSO is responsible for market balancing management so as to guarantee continuous equilibrium between the generation and consumption of electricity; and ii) the market operator: OMIE is the nominated electricity market operator (NEMO) for the Iberian Peninsula (MIBEL) and as such it manages the day-ahead and intraday markets for electricity in Spain and Portugal.

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 for investment", or "Ri", 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 for operation", or "Ro", 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 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 7.398%).

In relation to the remuneration for operation parameter (Ro), as prescribed in Royal Decree 413/2014, in order to establish the specific remuneration to be received by each class of facility in each year of the regulatory period or stub period, it is necessary to estimate future electricity prices, the pool price. Those estimates are reviewed three years into the regulatory period, i.e., at the end of the regulatory stub period, quantifying what the Ro would have been in each year in the stub period had the actual pool prices been used.

Article 22 of Royal Decree 413/2014 establishes an adjustment mechanism for use at the end of each regulatory stub period, the purpose of which, by defining certain ceilings and floors with respect to the pool price estimate, is to generate, annually, a balance receivable to the system or payable by it, known as "Adjustment for tariff shortfall/surplus" (hereinafter, "Tariff Adjustment"), which then gets settled over the various facilities' remaining useful lives (for regulatory remuneration purposes).

More specifically, it establishes, for each year in the regulatory stub period, two annual upper limits (LS1 and LS2) and two annual lower limits (LI1 and LI2) with respect to the pool price estimated for the purpose of calculating the Ro. Those limits define a minimum deviation range (between LI1 and LS1) and a maximum range (between the minimum deviation range and the outer LI2 and LS2 limits). The Tariff Adjustment is calculated as function of where actual pool prices end up lying with respect to those deviation ranges, using the formulae established in Royal Decree 413/2014.

If the actual annual pool price ends up falling within the minimum deviation range, the Tariff Adjustment is zero. If the final pool price ends up outside the minimum deviation range but falls between those minimum limits and the outer limits, the Tariff Adjustment is equivalent to half of the difference between the minimum range limits and the actual price. Lastly, if the actual pool price ends up outside the outer limits defined by the maximum range, the Tariff Adjustment is equivalent to the entire difference between the maximum range limits and the actual price, plus one half of the sum of the maximum deviation range outer limits.

The amount of the Tariff Adjustment so calculated is settled by modifying, upwards or downwards, as warranted, the amount of remuneration for investment (Ri) applicable to each facility over the remainder of its regulatory useful life.

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. That exceptional return of 7.398% applies to all of ENCE's facilities.

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 updated the remuneration parameters for 2017-2019 and published the Tariff Adjustment for 2014-2016.

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: (i) exoneration from the electricity generation levy for a period of six months (October 2018 - March 2019); and (ii) 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.

Ministerial Order TED/171/2020 updated the remuneration parameters for estimating the regulated remuneration for power generated using using renewable sources and CHP technology for the 2020-2022 regulatory period and published the Tariff Adjustment for 2017-2019.

Royal Decree-Law 23/2020 recognises the role of electrification and the need to support the sector's financial equilibrium, establishing a broad package of measures. Specifically in relation to renewable generation, it: (i) takes measures against the large quantity of requests for access; (ii) simplifies red tape; (iii) permits the revision of transmission planning for the connection of facilities deemed critical to the energy transition effort; (iv) creates a space for hybrid technologies; and (v) creates a new remuneration regime for renewable energy capacity auctions.

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

The table below sets out the remuneration applicable to the facilities managed by ENCE at 31 December 2020:

Facility	Ro (€/MWh) (**)					Ri (€/MW)
	b.1.2	b.6	b.8	Gas	c.2	
Renewable Energy business:	-					
50-MW Huelva	-	49,56	30,86	-	-	255.660
41-MW Huelva	-	56,77	-	-	-	226.938
20-MW Merida	-	47,80		-	-	282.617
16-MW Jaen	-	56,54	35,27	-	-	242.096
16-MW Ciudad Real	-	56,54	35,27	-	-	242.096
14-MW Cordoba - Biomass	-	52,89	32,65	-	-	215.703
13-MW Cordoba - Gas	-	-	-	38,00	-	0
50-MW Puertollano - Solar thermal	40,42	-	-	-	-	447.402
50-MW Puertollano - Biomass	-	44,49	-	-	-	-
46-MW Huelva	-	44,49	-	-	-	-
Pulp business:						
37-MW Navia	-	51,40	31,91	-	-	218.256
40-MW Navia	-	-	-	-	25,94	0
35-MW Pontevedra (*)	-	51,28	31,63	-	25,94	52.105

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

(**) Data estimated for 2020 using the real figures included in the ministerial order setting the remuneration parameters applicable during the first half of 2020 (Order TED 171/2020) and the calculation methodology published in Order 1345/2015 for estimating the remuneration applicable in the second half of 2020.

Elsewhere, the Pulp Business facilities occasionally sign up 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.

Appendix IV - ESED: Basic data for ENCE Group

Name of reporting entity or other means of identification:

Ence Energía y Celulosa, S.A.

Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period:

Ence Energía y Celulosa, S.A. formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Domicile of entity

Calle Beatriz de Bobadilla, 14, Madrid

Legal form of entity:

Public limited company (*sociedad anónima*).

Country of incorporation:

Spain.

Address of entity's registered office:

Calle Beatriz de Bobadilla, 14, Madrid

Principal place of business:

Calle Beatriz de Bobadilla, 14, Madrid

Description of nature of entity's operations and principal activities:

Ence Energía y Celulosa, S.A. and its group of companies (hereinafter, the "Group") have articulated its activities around two businesses:

Pulp business: Encompasses the production from eucalyptus timber of bleached eucalyptus kraft pulp (BEKP), by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences, and of unbleached eucalyptus kraft pulp (UEKP).

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.

That 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).

Renewable Energy business: The Group has developed and acquired several power generation facilities that are fuelled by biomass obtained from agricultural and forestry sub-products; those plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 266 MW:

Name of parent entity:

Ence Energía y Celulosa, S.A.

Name of ultimate parent of group:

Ence Energía y Celulosa, S.A.

ENCE Energía y Celulosa, S.A. and subsidiaries

2020 Group Management Report

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

2020 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:

- The Non-Financial Statement - Sustainability Report, 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 non-financial statement forms part of the Group Management Report and is subject to the same approval, filing and publication criteria as the latter. It is submitted separately to the CNMV and can be retrieved from that entity's website (www.cnmv.es), within the "Other relevant information" filings, and from ENCE's website (www.ence.es).
- The report about the Group's activities in 2020, 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 statement of profit or loss, cash flow and capital structure indicators. That report also includes information about ENCE's share price performance.
- The Annual Corporate Governance Report. As stipulated in article 538 of the Corporate Enterprises Act, the Annual Corporate Governance Report is part of the Management Report. It is also sent separately to the CNMV and is similarly available on that entity's website (www.cnmv.es) and on ENCE's website (www.ence.es).

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 "Innovation and digitalisation") 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 2020 gives 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 36 of the consolidated financial statements), own share transactions (note 21) and the average supplier payment term (note 26).

2. Governance structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of Ence Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. 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 observation of ENCE's sustainability principles, defence of its stakeholders' legitimate interests and surveillance of the impacts its activities have on the community and environment.

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 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 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 CEO is responsible for the Company's everyday management. He is supported in this work by the Management Committee, made up of the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the the Financial, Corporate Development & Forest Assets Officer, the Human Capital Officer, the Pulp Sales and Logistics Manager, the Financial Controller, the Sustainability Officer and the General Secretary. Those officers report directly to the CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

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. That committee is tasked with continuously controlling, supervising, evaluating and reviewing compliance with the standards and procedures described in ENCE's Corporate Crime Prevention Protocol. It 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. Its job is also to analyse and duly record the risks and controls that could affect the Company's departments.

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 the Sustainability Officer and the heads of the corporate Human Capital, Pulp, Independent Energy Plant Operations and Finance, Corporate Development and Forest Assets 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 renewable 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 this respect, the Company singly manages all of the companies within its Group, with the exception of Ence Energía S.L.U.

On 20 December 2020, Ence Energía y Celulosa, S.A. welcomed a new shareholder at Ence Energía S.L.U. by selling shares representing a 49% ownership interest in Ence Energía, S.L.U. to Woodpecker Acquisitions S.à r.l., an entity controlled by Ancala Partners LLP.

The Company has retained a 51% ownership interest - and control - in that subsidiary.

Ence Energía S.L.U. is governed by a board made up of five directors; the non-controlling shareholder appoints two of those members. Ence Energía S.L.U. is in turn the sole director if its group companies, with the exception of Energía la Loma, S.A, Energías de la Mancha ENEMAN, S.A and Bioenergía Santamaría, S.A., in which it has ownership interests of 60.07%, 68.42% and 70%, respectively. Those entities are governed by boards on which their respective non-controlling shareholders are represented.

3. Group information

ENCE is a leading player in the sustainable use of natural resources for the eco-efficient production of pulp and renewable energy.

With installed capacity of 1,200,000 tonnes, ENCE is one of Europe's largest hardwood pulp (BHKP) producers, as well as the leading generator of biomass-fuelled renewable energy in Spain, with installed capacity of 112 MW integrated within the pulp biomills and another 266 MW distributed between eight standalone plants. Moreover, ENCE is a benchmark player in the end-to-end and responsible management of forest land and crops in Spain.

The production of pulp represented 19% of Group EBITDA in 2020, while the generation of energy from renewable sources at standalone power plants accounted for the remaining 81%.

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.

Both use eucalyptus timber procured locally from sources that can certify sustainable forest management. 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.

As an integral part of its pulp production process, ENCE uses the lignin and forest sub-products derived from its manufacturing to generate the renewable energy needed for the process. Specifically, it operates a 34.6-MW lignin-fired CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP lignin-fired plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biomill. The renewable 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 forests managed by the Company under certified sustainability standards.

ENCE is an international benchmark in the eco-efficient production of pulp, framed by the strictest environmental standards. Its products are endorsed by the EU Ecolabel and the prestigious Scandinavian ecolabel, Nordic Swan.

3.2. Renewable power generation

In its Renewable Energy business, at year-end 2020, ENCE had 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).

Two new agricultural and forestry biomass plants - a 46-MW plant in Huelva and a 50-MW facility in Ciudad Real - were commissioned during the first quarter of 2020. In December 2020, ENCE sold its 50-MW solar thermal plant in Puertollano, Ciudad Real.

ENCE has an advanced pipeline of 405 MW that will be ready for starting construction by the end of 2021: 240 MW of photovoltaic solar power, 140 MW of biomass and 25 MW of hybrid solar thermal power. ENCE has also secured permits to connect an additional 100 MW of photovoltaic solar power up to the national grid.

Those projects are dependent on the outcome of the tenders to be organised by the Ministry of Ecological Transition and Demographic Challenges and/or the arrangement of long-term power purchase agreements.

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 sets decarbonisation objectives for the energy sector, marking an even greater thrust for the renewable electricity generation industry.

2019-2023 Business Plan

At the end of 2018, ENCE presented its Business Plan for 2019 - 2023, articulated around four key lines of initiative:

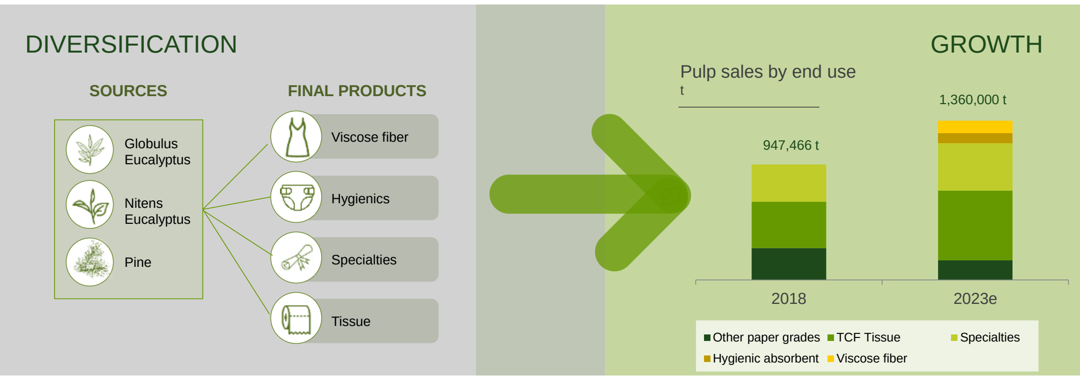
1) Growth

By executing its new Business Plan, ENCE's objective is to virtually double Group EBITDA (assuming constant pulp prices) and mitigate earnings cyclicality. To that end it is planning to increase special pulp production capacity by 40% and triple operating profit in the Renewable Energy business, achieving a minimum run rate of €150 million.

2) Diversification

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.

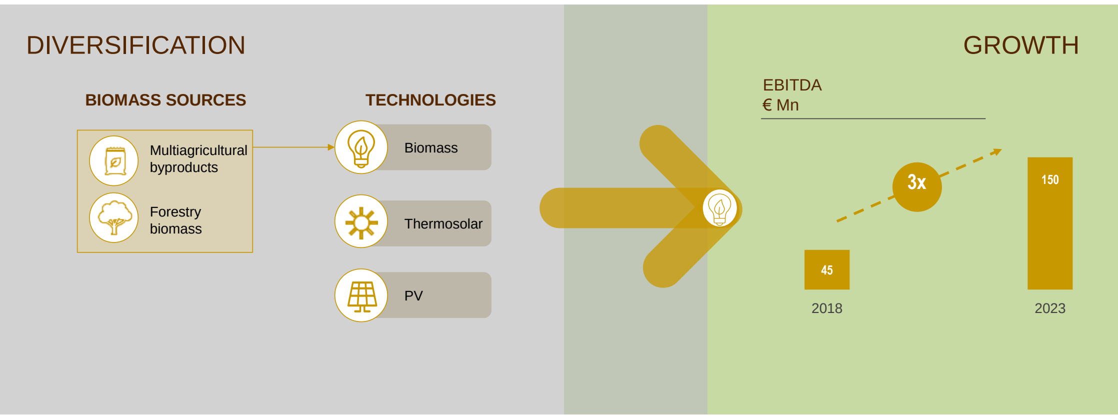
PULP



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 goals are to increase the availability of timber in the vicinity of its biomills, reduce the Group's environmental footprint and offer customers higher value-added products.

RENEWABLE ENERGY



In the Renewable Energy business, ENCE similarly wants to reap the benefits of diversification. It intends 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.

3) Excellence in sustainability

Sustainability is intrinsic to ENCE's business activities as a leading player in the sustainable use of natural resources for the eco-efficient production of differentiated pulp and renewable energy. ENCE's priorities and targets in the sustainability arena are set down in its 2019-2023 Sustainability Master Plan.

In that plan, the Company has formulated 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.

4) Financial discipline

The investment plan designed by ENCE to enable delivery of the business plan is articulated around various independent projects to be executed in stages in response to prevailing market circumstances in order to guarantee ongoing financial discipline.

The launch of each project has to be authorised by the Board to ensure compliance with the profitability and leverage hurdles set for each business (net debt/EBITDA based on mid-cycle pulp prices of 2.5x in Pulp and net debt/EBITDA of 4.5x in Renewable Energy), after distribution of 50% of net profit in dividends.

Change in the state's criteria regarding the extension of the biomill concession in Pontevedra

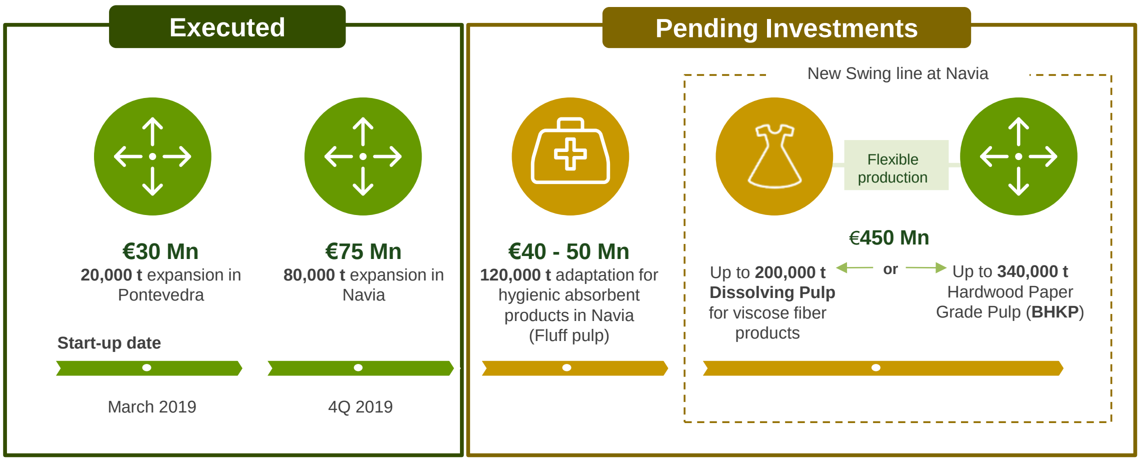
Following the change in criteria regarding the extension of ENCE's concession in Pontevedra, in March 2019, the Board of Directors decided to concentrate the Business Plan investments for the Pulp business at the Navia biomill, reiterating in the interim the approved targets for growth, diversification, sustainability and financial discipline.

As of the end of 2020, ENCE continues to defend the legality of the extension of its concession in Pontevedra until 2073 in the courts.

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.

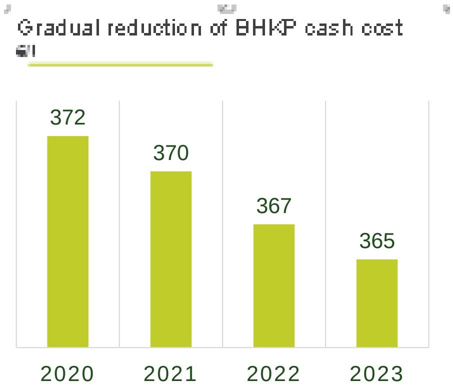


The first two projects, the addition of 20,000 tonnes of capacity at the Pontevedra biomill and 80,000 tonnes at the Navia biomill, were executed in 2019 and have increased pulp production capacity by 9%.

Progress was made in parallel that same 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.

Investment in both those projects is currently on hold, in the wake of the correction in pulp prices sustained in 2019 and the global spread of COVID-19 in 2020, consistent with ENCE's pledge that it would realign its investment plans for its Pulp business in response to market developments to ensure ongoing financial discipline. Those investment plans will be revisited once the pandemic is definitively under control, framed by the outlook for pulp price recovery in 2021.

By executing those 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 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 of two new biomass plants with combined capacity of 96 MW, which were commissioned in early 2020.

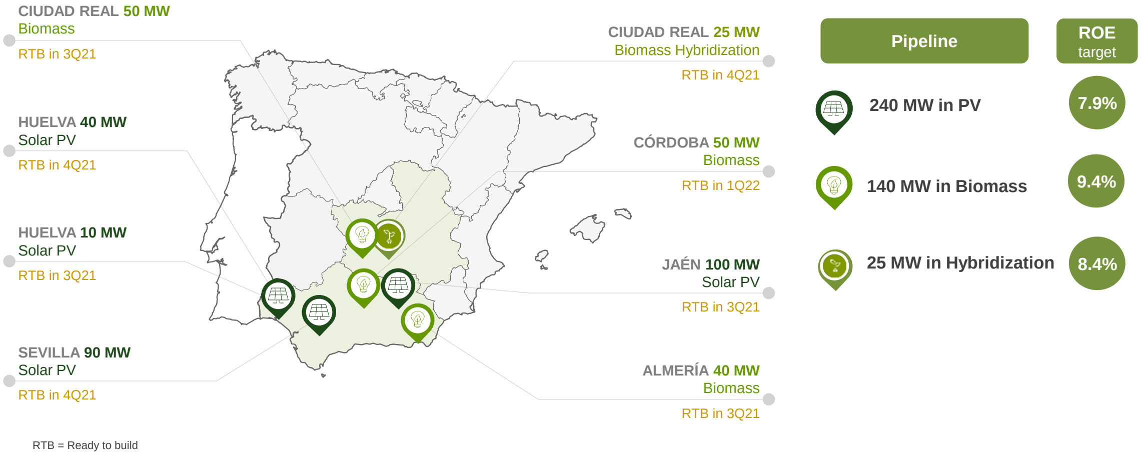
Those two new plants have increased installed capacity in the Renewable Energy business by 56% to 266 MW.

To continue to grow in renewables, ENCE has an advanced pipeline of 405 MW that will be ready for starting construction by the end of 2021 and will ultimately multiply its current installed capacity by a factor of 2.5: 240 MW of photovoltaic solar power, 140 MW of biomass and 25 MW of hybrid solar thermal power. ENCE has also secured permits to connect an additional 100 MW of photovoltaic solar power up to the national grid.

Those projects are dependent on the outcome of the tenders to be organised by the Ministry of Ecological Transition and Demographic Challenges and/or the arrangement of long-term power purchase agreements.

Execution of the projects is pending the calls to tender for the various technologies under the scope of implementation of the Spain's National Renewable Energy Plan. Their execution will also be staggered in order to guarantee financial discipline.

The Spanish government has announced plans to auction off 20,000 MW of renewable capacity in annual tenders to be held between this year and 2025. Most of that capacity will be earmarked to photovoltaic and wind power developments, but 380 MW has been set aside for biomass, 140 MW of which is due to be put to tender in 2021. In addition, Ence has secured permits to connect a further 100 MW of photovoltaic solar power up to the national grid.



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, manage and monitor situations that pose a threat to the Company's activities and objectives. That process actively involves all of the areas of the organisation with specific responsibilities for each phase thereof.

The ERM encompasses the Parent and all of its Group companies, all of its businesses - pulp, renewable energy and forest management - and the activities of its corporate departments. It is governed by the Risk Management and Control Policy and the Risk Management Procedure, approved at the Board level.

ENCE's ERM follows the guidelines provided in benchmark international risk frameworks, specifically the Internal Control Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). It is reviewed periodically in order to incorporate best practices in risk management.

ENCE's Board of Directors, with the help of the senior management team, defines the organisation's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the impact and probability of occurrence of the risk events within the risk appetite thresholds accepted and defined by ENCE.

Meanwhile, the Internal Audit Department verifies that the risk management and control principles and policies defined and approved by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

ENCE identifies and evaluates emerging risks continuously and systematically. It also monitors developments with respect to risks previously identified and those that have dissipated or materialised in prior years. The purpose of that monitoring and control process is to ensure execution and effectiveness of the agreed-upon action plans and guarantee continuous supervision of the Company's key risk factors.

The result of this process is the Risk Register and Map, which are presented to the Management Committee for joint debate and review. Subsequently, the Risk Register and Map are 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 executives and managers in charge of ENCE's various areas and departments are risk owners: their job is to continuously manage the various risks, implementing action plans and establishing controls in response to the risks identified within their areas of responsibility.
2. ENCE's Internal Audit Department is responsible for supervising everyday risk management, to which end it draws up the Group's risk management criteria and procedures and presents them to the Board of Directors through the Audit Committee periodically.
3. The Compliance Committee, which reports to the Board's Audit Committee, is responsible for defining and updating ENCE's corporate crime risk map, which identifies the organisation's activities that are susceptible to criminal conduct.
4. The Audit Committee assists the Board in supervising effectiveness of the organisation's internal controls and the internal control and risk management systems, including the internal control over financial and non-financial reporting systems and the systems controlling environmental and health and safety risks.
5. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE’s ERM system, monitoring to that 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.

That 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 and Non-Financial Information
4. Reporting
5. Regulatory 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
8. Climate Change Related 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. ENCE similarly takes a zero-tolerance stance towards any situation in which the performance of any of activity could cause damage to its surroundings, the environment, the continuity of the business or the Group's reputation vis-a-vis third parties.
3. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to the Company.
4. 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.
5. 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.
6. In addition, aware of the 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.
7. 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:

Objective: 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, in the short and medium term.

In 2020 ENCE arranged swaps to hedge BEKP sales prices over a sales volume of 238,200 tonnes, which is equivalent to approximately 20% of forecast 2021 sales, at prices ranging between USD770-795/tonne; those swaps settle in 2021. The Group did not arrange any pulp price swaps in 2019.

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, from the short-, medium- and long-term perspective, with the aim of arranging financial hedges to mitigate currency exposure if necessary.

In 2020, ENCE hedged approximately 82% of its pulp sales under various currency contracts. In addition, the contracts arranged at year-end 2020 hedge approximately 44% of forecast pulp sales for 2021.

c) TRADE CREDIT RISK - PULP BUSINESS

In the pulp market is it 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 2022, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. That 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, articulated around various short-, medium- and long-term scenarios:

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. ENCE makes sure that all of its activities and operations are carried out in compliance with prevailing applicable tax law.

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. In addition, the Audit Committee continually and meticulously monitors the Company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy. 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.

Objective: Enhancing the Company’s Productive Capacity

ENCE embeds the best available techniques (BATs) set down in the sector Best Available Techniques Reference Document (BREF) in respect of environmental performance, into all its processes, framed by its total quality management (TQM) methodology, designed 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, ENCE 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.

Objective: 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 2020, 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.

Objective: 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 respective buying areas periodically monitor the performance of its main suppliers (industrial, forestry and biomass suppliers) and consulting external experts for advice 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.

Objective: 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 2021 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.

Objective: 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, quality defects, 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. Such events can also trigger the cancellation of orders by 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.

Objective: Minimising the Impact of our Operations on the Environment

Generally speaking, the activities performed by ENCE in both its Pulp and Renewable 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 providing 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 2020, the Group also continued to invest to make its facilities more environmentally-friendly.

Objective: 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 three cases taken by Greenpeace, the APDR and the town council of Pontevedra are pending sentencing.

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 statement of profit or loss of around €185 million. Of that sum, initially, approximately €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. ENCE is not aware of the status of that amendment initiative.

Elsewhere, the Climate Change and Energy Transition Bill, sent by the Spanish government to the parliament on 29 May 2020, and currently in the process of incorporating amendments, includes an express stipulation, in article 18.4, regarding the maximum duration concession holders can occupy public-domain coastal land, which would imply, if it were to prosper, that, once the new Act takes effect, public-domain coastal land usage concessions could not last for more than 75 years. Article 18.4 of the above Bill would render the administrative acts issued in breach of the contents thereof ipso facto null and void.

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.

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.

Objective: 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 over different time horizons for specific situations to ensure safety compliance in the field.

Note in this regard that since the onset of the Covid-19 pandemic in Spain, framed by the universe of regulations and recommendations issued by the authorities, ENCE has been working to establish, by means of protocols, measures for the prevention of transmission of the coronavirus across its workplaces and the various activities comprising its value chain, an effort it has been coordinating continuously with its employees' representatives with the overriding goal of ensuring the safety of the entire *ENCE FAMILY*.

The main purpose of the protocols is to set down the measures for safeguarding ENCE and partner firm employees vis-a-vis Covid-19, i.e., preventing contagion so as to avoid spreading of the virus and enable the workplaces to continue to function to the extent possible.

Since ENCE issued its first benchmark protocol for the prevention of Covid-19 transmission on 24 February 2020, it has updated it continuously, rounding out its contents in respect of all of ENCE's business areas and value chain and fine-tuning the contents as required to reflect unfolding developments and the attendant regulations and recommendations issued by the authorities.

In order to reinforce protection of all of the people who work for ENCE, directly and indirectly, and their families, ENCE has set up a system for auditing implementation of the Covid-19 controls to ensure stringent compliance with every aspect thereof. The results of those audits are reviewed by the Company's governing bodies.

The key risks intrinsic to social and employee matters at ENCE include: potential harm to its employees' health; workplace accidents; the organisation of strike action; employee dissatisfaction; and talent management and retention. Those risks are analysed from the perspective of their probability of occurrence in the short, medium and long term.

Objective: 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 2020.

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 2020, 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.

Objective: 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.

APPENDIX I – 2020 GROUP ACTIVITY REPORT

APPENDIX II –NON-FINANCIAL STATEMENT

The non-financial statement forms part of the Group Management Report and is subject to the same approval, filing and publication criteria as the latter. It is submitted separately to the CNMV and can be retrieved from that entity's website (www.cnmv.es), within the "Other relevant information" filings, and from ENCE's website (www.ence.es).

APPENDIX III - ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report. As stipulated in article 538 of the Corporate Enterprises Act, the Annual Corporate Governance Report is part of the Management Report. The Annual Corporate Governance Report is sent separately to the CNMV and is available on that entity's website (www.cnmv.es) and on ENCE's website (www.ence.es).