Auditor's Report on Ence Energía y Celulosa, S.A. and Subsidiaries

(Together with the consolidated annual accounts and consolidated directors' report of Ence Energía y Celulosa, S.A. and subsidiaries for the year ended 31 December 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Ence Energía y Celulosa, S.A.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Ence Energía y Celulosa, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Key Audit Matters

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

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

<table>
<tr><th colspan="2">Litigation relating to the public land concession in Pontevedra
See notes 4 and 7 to the consolidated annual accounts</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The biofactory that the Group operates in the province of Pontevedra is located on public land, the concession of which was extended by a decision of the then Ministry of Agriculture, Food and Environment, through the Directorate-General for Coastal and Marine Sustainability, dated 20 January 2016, for a total period of 60 years, ten years of which were conditional on certain investments being made. This decision was challenged in court by Pontevedra City Council and two environmental associations, resulting in three lawsuits. In 2021, the Judicial Review Chamber of the Spanish High Court issued rulings on the three lawsuits, rendering the decision of 20 January 2016 null and void and therefore cancelling the extension.

During 2021, the Group filed applications for leave to appeal with the Spanish Supreme Court against the rulings handed down. At the date of authorisation for issue of the consolidated annual accounts, these applications for leave to appeal are being processed by the Spanish Supreme Court. In the event that the Supreme Court refuses to grant leave to appeal or upholds the rulings of the Spanish High Court, the extension will be rendered null and void and the Group will have to cease operations at the Pontevedra biofactory, which would result in the closure of the facility. In these circumstances, based on the estimates of the Group's management and its legal advisors regarding the probability of success of the appeals and the expected time frames of the final court rulings, the Group has recognised a net impairment loss on assets and other items of Euros 198 million, which assumes a closure scenario estimated to be in 2023-2024.

Due to the uncertainty and high degree of judgement associated with these estimates, the expected time frames of the appeal rulings, as well as the significance of the assets and liabilities affected, this has been considered a key audit matter.</td><td>Our audit procedures included the following:

- Understanding the facts of the case, the rulings handed down and the appeals lodged by the Group, as well as the time frames of the appeal rulings expected by the Group's management and its advisors.

- Involving our own legal specialists to complete our assessment of the arguments put forward by the Group and its advisers.

- Obtaining the report of the independent expert engaged by the Group to estimate the decommissioning provision and analysing the reasonableness of the key assumptions considered in that estimate.

- Evaluating the reasonableness of the methodology used to calculate the recoverable amount of the assets of the Pontevedra biofactory, and the main assumptions considered, in the forced cessation of activity scenario, with the involvement of our valuation specialists.

- Assessing the key assumptions used by management to estimate future taxable profits against which the deferred tax assets recognised in the estimated periods for the final decision of the Spanish Supreme Court on the rulings of the Spanish High Court can be utilised.

- Evaluating other provisions arising from the rulings, to determine, with the involvement of our specialists, whether a liability exists and, if so, the assumptions made and the significant judgements used to calculate them.

We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.</td></tr>
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Measurement of biological assets
See notes 3.4 and 19 to the consolidated annual accounts

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2021, the Group has recognised biological assets of Euros 60 million under biological assets in the consolidated statement of financial position. These consist of forest species, mainly eucalyptus, which is used as raw material for pulp production and for its sale to third parties. As mentioned in note 3.4 to the notes to the accompanying consolidated annual accounts, the Group measures its biological assets at purchase price or cost of production, less depletion of forest areas and impairment losses. The Group has developed a valuation model for its forestry assets based on discounted expected future cash flows. The key assumptions are detailed in note 21 to the notes to the consolidated annual accounts and the consistent application of this model over time enables value ranges and trends to be identified, which are considered when assessing the existence of potential impairment of biological assets. Due to the high degree of judgement associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: - We have assessed the design and implementation of key controls related to the process of estimating the value of biological assets. - In connection with the valuation model, we have considered the reasonableness of the methodology and variables used by management and assessed whether future cash flow projections are consistent with the cutting periods of the biological assets based on their age and expected growth. - We have assessed the key assumptions related to the projected cash flows, in particular the timber price and the discount rate. - We have checked that the valuation model is consistent with the model used in prior years. We have also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2021 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement, certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

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

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

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As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Ence Energía y Celulosa, S.A. and subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

The Directors of Ence Energía y Celulosa, S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the “ESEF Regulation”).

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 28 February 2022.

KPMG

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 26 March 2021 for a period of three years, beginning the year ended 31 December 2021.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

This report corresponds to stamp number 01/22/00046 issued by the Spanish Institute of Registered Auditors (ICJCE).

On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated annual financial statements for 2021 and Group management report, along with the independent auditor's report

Consolidated financial statements for 2021

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2021

Thousands of euros	Note	Year-end 2021	Year-end 2020 (*)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	16	1,493	1,742
Other intangible assets	16	36,445	40,161
Property, plant and equipment	17	883,561	1,092,876
Biological assets	19	59,722	71,270
Investments accounted for using the equity method	26	26	31
Non-current financial assets			
Other financial assets	26 & 29.2	26,480	34,196
Deferred tax assets	34	45,563	71,952
		1,053,290	**1,312,228**
CURRENT ASSETS:			
Non-current assets held for sale	20	-	-
Inventories	22	65,693	51,831
Trade and other receivables	26 & 27	78,958	57,895
Tax receivables	34	15,895	310
Income tax receivable	34	1,842	962
Current financial assets			
Loans to group companies and related parties	26 & 36	36	36
Hedging derivatives	26 & 32	-	6,764
Other financial assets	26 & 29.2	15,115	18,215
Cash and cash equivalents	26 & 29.1	379,964	522,620
Other current assets		2,177	1,332
		559,680	**659,965**
TOTAL ASSETS		**1,612,970**	**1,972,193**
EQUITY:			
Issued capital	23.1	221,645	221,645
Share premium	23.2	170,776	170,776
Parent company reserves	23.3	225,596	169,416
Parent company retained earnings (prior-period losses)	23.3	-	(5,573)
Reserves in fully-consolidated companies	23.4	53,646	144,329
Reserves in equity-accounted investees	23.3	(79)	(8)
Translation differences		9	18
Own shares - parent company shares	23.5	(12,296)	(11,856)
Valuation adjustments	23.6	33,875	39,421
Other equity instruments	23.7	9,897	11,687
Profit/(loss) for the year attributable to owners of the parent	24	(190,409)	(26,432)
Equity attributable to owners of the parent		**512,660**	**713,423**
Non-controlling interests	23.9	**112,858**	**136,706**
TOTAL EQUITY		**625,518**	**850,129**
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	26 & 30	217,674	238,869
Bank borrowings	26 & 30	169,352	291,103
Other financial liabilities	26 & 30	65,243	103,983
Derivative financial instruments	26 & 32	2,161	5,602
Grants	25	4,879	5,558
Deferred tax liabilities	34	-	21,661
Non-current provisions	33	51,225	2,832
Non-current accruals and deferred income		2,256	1,764
Other non-current liabilities	31	84,619	5,955
Non-current borrowings from group companies and related parties	26 & 36	36,835	36,835
		634,244	**714,162**
CURRENT LIABILITIES:			
Borrowings			
Bank borrowings	26 & 30	35,614	79,062
Other financial liabilities	26 & 30	10,366	6,407
Derivative financial instruments	26 & 32	9,592	8,097
Current borrowings from group companies and related parties	26 & 36	1,261	-
Trade and other payables	26 & 28	261,897	258,951
Income tax payable	34	78	5,635
Taxes payable	34	15,578	20,396
Current provisions	33	18,822	29,354
		353,208	**407,902**
TOTAL EQUITY AND LIABILITIES		**1,612,970**	**1,972,193**

The accompanying notes 1 to 38 and Appendices are an integral part of the consolidated statement of financial position at 31 December 2021.

(*) The consolidated statement of financial position at 31 December 2020 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 2021

Thousands of euros	Note	2021	2020 (*)
Continuing operations:			
Revenue	10	819,675	707,708
Gains/(losses) on hedging transactions	32	(88,166)	(9,344)
Changes in inventories of finished goods and work in progress	22	9,048	(4,829)
Own work capitalised	17 & 19	4,704	1,974
Other operating income	10	21,566	11,158
Grants reclassified to profit and loss	25	6,367	4,321
Gain on the sale of subsidiaries	2 & 6	-	32,855
Operating income		773,194	743,843
Cost of goods sold	11	(365,901)	(337,837)
Employee benefits expense	12	(84,171)	(92,375)
Depreciation and amortisation charges	16 & 17	(81,897)	(97,080)
Depletion of forest reserve	19	(11,560)	(10,063)
Impairment of and gains/(losses) on disposal of fixed assets	17 & 20	(193,499)	(1,615)
Impairment of financial assets	27	(335)	(369)
Other operating expenses	13	(211,717)	(211,798)
Operating expenses		(949,080)	(751,137)
OPERATING LOSS		**(175,886)**	**(7,294)**
Finance income	14	6,633	649
Finance costs	14	(28,104)	(28,922)
Change in fair value of financial instruments	32	1,158	-
Net exchange gains/(losses)		3,667	(1,288)
Impairment of and gains/(losses) on disposal of financial assets		-	216
NET FINANCE INCOME/(LOSS)		**(16,646)**	**(29,345)**
Share of profit/(loss) of entities accounted for using the equity method		(7)	(18)
LOSS BEFORE TAX		**(192,539)**	**(36,657)**
Income tax	34	(9,420)	11,925
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(201,959)**	**(24,732)**
Profit/(loss) for the the year from continuing operations attributable to non-controlling interests	23.9	11,550	(1,700)
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (**)		**(190,409)**	**(26,432)**
Loss per share attributable to owners of the parent		**€/share**	
Basic	15	**(0.78)**	**(0.11)**
Diluted	15	**(0.78)**	**(0.11)**

The accompanying notes 1 to 38 and Appendices are an integral part of the 2021 consolidated statement of profit or loss.

(*) The consolidated statement of profit or loss for the year ended 31 December 2020 is presented exclusively for comparative purposes.

(**) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

Thousands of euros	Note	2021	2020 (*)
GROUP PROFIT/ (LOSS) FOR THE YEAR (***)		**(201,959)**	**(24,732)**
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (**)		(96,161)	(9,448)
- Translation differences (**)		(9)	8
- Tax effect		24,040	2,362
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	**23**	**(72,130)**	**(7,078)**
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (**)		90,467	13,038
- Tax effect		(22,617)	(3,260)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	**23**	**67,850**	**9,778**
TOTAL COMPREHENSIVE INCOME		**(206,239)**	**(22,032)**
Attributable to:			
Owners of the parent		**(194,689)**	**(23,732)**
Non-controlling interests		**(11,550)**	**1,700**

The accompanying notes 1 to 38 and Appendices are an integral part of the 2021 consolidated statement of comprehensive income.

(*) The consolidated statement of comprehensive income for the year ended 31 December 2020 is presented exclusively for comparative purposes.

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

(***) Corresponds to "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 2021

Thousands of euros	Issued capital	Own shares	Share premium	Reserves	Interim dividend	Profit/(loss) for the year	Translation differences	Valuation adjustments	Other equity instruments	**Total equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
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	-	-	-	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**
Total recognised income/(expense)	-	-	-	-	-	(190,409)	(9)	(4,271)	-	**(194,689)**	(11,550)	**(206,239)**
Appropriation of prior-year profit/(loss)	-	-	-	(26,432)	-	26,432	-	-	-	**-**	-	**-**
Dividends distributed	-	-	-	-	-	-	-	-	-	**-**	(13,365)	**(13,365)**
Trading in own shares	-	(440)	-	(1,465)	-	-	-	-	-	**(1,905)**	-	**(1,905)**
Non-controlling interests and other movements	-	-	-	(1,104)	-	-	-	(1,275)	(1,790)	**(4,169)**	1,067	**(3,102)**
Balance at 31 December 2021	**221,645**	**(12,296)**	**170,776**	**279,163**	**-**	**(190,409)**	**9**	**33,875**	**9,897**	**512,660**	**112,858**	**625,518**

The accompanying notes 1 to 38 and Appendices are an integral part of the 2021 consolidated statement of changes in equity

(*) The consolidated statement of changes in equity for the year ended 31 December 2020 is presented exclusively for comparative purposes.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

Thousands of euros	Note	2021	2020 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		(192,539)	(36,657)
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	16 & 17	81,897	97,080
Depletion of forest reserve	19	11,560	10,063
Changes in provisions and other deferred expense (net)		1,570	5,174
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	21	193,499	(31,456)
Adjustments for tariff shortfall/surplus and sector regulations	10	89,118	(36,170)
Finance income and costs (net)	14	18,001	29,182
Grants taken to profit and loss	25	(898)	(1,248)
		394,747	**72,625**
Change in working capital			
Inventories	22	(13,522)	3,518
Trade and other receivables	27	(49,407)	(10,827)
Financial and other current assets	29	2,377	(4,532)
Trade payables, other payables and other liabilities	28	26,998	54,310
		(33,554)	**42,469**
Other cash flows from operating activities			
Interest paid, net (including right-of-use assets)		(19,201)	(22,008)
Dividends received		40	-
Income tax received/(paid)	34	(8,159)	5,928
Long-term remuneration and other plans	12.2	(41)	-
		(27,361)	**(16,080)**
Net cash from operating activities		**141,293**	**62,357**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	17 & 19	(68,275)	(92,216)
Intangible assets	16	(2,709)	(4,818)
Financial assets		(328)	-
		(71,312)	**(97,034)**
Proceeds from disposals:			
Property, plant and equipment	17	409	749
Financial assets	6	5,549	58,499
		5,958	**59,248**
Net cash used in investing activities		**(65,354)**	**(37,786)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests	6 & 29	(242)	219,872
Buyback of own equity instruments	23.5	(54,926)	(48,489)
Disposal of own equity instruments	23.5	52,989	48,376
		(2,179)	**219,759**
Proceeds from/(repayments of) financial liabilities:			
Notes (net of arrangement fees)	30	(25,749)	(4,967)
Increase/(decrease) in bank borrowings, net of issuance costs	30	(165,891)	76,381
Increase/(decrease) in other borrowings	30	(6,517)	1,705
Payments for right-of-use assets	18	(5,114)	(5,804)
Grants received, net	25	220	169
		(203,051)	**67,484**
Dividend payments			
Dividends paid to non-controlling interests	23.9	(13,365)	(1,408)
		(13,365)	**(1,408)**
Net cash (used in)/from financing activities		**(218,595)**	**285,835**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(142,656)**	**310,406**
Cash and cash equivalents - opening balance	29.1	522,620	212,214
Cash and cash equivalents - closing balance	29.1	379,964	522,620

The accompanying notes 1 to 38 and Appendices are an integral part of the 2021 consolidated statement of cash flows.

(*) The consolidated statement of cash flows for the year ended 31 December 2020 is presented exclusively for comparative purposes.

Notes to the 2021 consolidated financial statements

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

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2021 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. 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.

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 pulp biomills) is 111 megawatts (MW).

The Group also manages 61,631 hectares of forest in Spain, 43,256 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. Operational renewable 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

The Group is also in the process of permitting three biomass power generation developments with aggregate capacity of 140 MW, for which it has already secured sites and locked in grid connection rights. The permitting process is expected to finalise during the first half of 2022. ENCE also plans to continue to develop new photovoltaic solar power projects in order to increase its diversification in renewable energy technologies.

In December 2021, Ence Energía, S.L., the Renewable Energy business' holding company, agreed the sale to third parties of five photovoltaic developments with total capacity of an estimated 373 MW; those developments are currently at the permitting phase. The sales will close as each development reaches "ready-to-build" status (note 6).

Other:

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.

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 2021 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 2021 and its financial performance and cash flows for the year then ended.

The Group's consolidated financial statements for 2021, 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 2020 were approved at the Annual General Meeting held by the Parent on 26 March 2021.

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

The Parent's functional and presentation currency is the euro. 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 universe of fully-consolidated and equity-accounted entities in 2021 and 2020. 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 2020 is presented for comparison purposes only.

The following changes in classification criteria have been made to the 2020 figures: for a better presentation of the gain recognised in 2020 on the sale of the Parent's interest in Ence Energía Solar, S.L.U. of 32,855 thousand euros, that gain has been presented in these annual consolidated financial statements under "Gain on the sale of subsidiaries" in the consolidated statement of profit or loss. In the 2020 financial statements, that gain had originally been classified within "Impairment of and gains/(losses) on disposal of financial assets" in the consolidated statement of profit or loss. In addition, the sum of 10 million euros has been classified under "Non-current financial assets - Other financial assets" on the statement of financial position at 31 December 2020, which in the 2020 consolidated financial statements had been presented under "Cash and cash equivalents". That sum corresponds to the minimum cash reserve required under the Renewable Energy business' loan agreements.

When comparing the two years, the reader should also note the changes in the scope of consolidation disclosed in note 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.

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 2021 or 2020, 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 2020, except for the application 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 2021:

Standard	Contents
Standard amendments:	
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform - Phase 2 (published in August 2020)	Amendments related with benchmark interest rate reform (second phase).
Amendments to IFRS 4 - Deferral of the effective date of IFRS 9 (published in June 2020)	Extension of the temporary exemption from applying IFRS 9 until 2023.
Amendments to IFRS 16 Leases. Rent concessions (published in March 2021)	Amendment introduced to extend the term of application of the IFRS 16 practical expedient for rent concessions related with COVID-19.

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 beginning on or after
Standard amendments:		
Amendments to IFRS 3 - Reference to the Conceptual Framework (published in May 2020)	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. In addition, it introduces certain clarifications with respect to the recognition of contingent liabilities and assets.	1 January 2022
Amendment to IAS 16 - Proceeds before intended use (published in May 2020)	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. Revenue from the sale of such items, along with the associated production costs, must be recognised in profit and loss.	1 January 2022
Amendment to IAS 37 Onerous contracts – Cost of fulfilling a contract (published in May 2020)	This amendment specifies that the costs of fulfilling a contract include both incremental costs and an allocation of other costs directly related to the contract.	1 January 2022
Annual improvements to IFRSs, 2018-2020 cycle (published in May 2020)	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 (published in January 2020)	Clarifications with respect to the presentation of liabilities as current or non-current	1 January 2023
Amendments to IAS 1 Disclosure of accounting policies (published in February 2021)	Amendments designed to provide guidance on the application of materiality judgements to accounting policy disclosures.	1 January 2023
Amendments to IAS 8 Definition of accounting estimates (published in February 2021)	Modification and clarifications as to what constitutes a change in accounting estimate.	1 January 2023

Standard	Contents	Applicable beginning on or after
Standard amendments:		
Amendments to IAS 12 - Deferred taxes related to assets and liabilities arising from a single transaction (published in May 2021)	Clarification as to when entities should recognise the deferred tax arising from certain transactions such as leases and dismantling obligations.	1 January 2023
Amendments to IFRS 17 Insurance contracts - Initial application of IFRS 17 and IFRS 9. Comparative information (published in December 2021)	Amendment of the IFRS 17 transition requirements for insurers that apply IFRS 18 and IFRS 9 for the first time simultaneously.	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 for the interest acquired and the net assets acquired, including any contingent liabilities, 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 acquirer revises the initial accounting to correct any errors.

If the business combination is achieved in stages, the difference between the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree and its carrying amount is taken to profit or loss. Once control over an investee has been obtained and for as long as that control is maintained, the difference between the amount of the purchase or sale of any additional interest and its carrying amount is recognised in equity.

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 for impairment 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

The intangible assets recognised on the consolidated statement of financial position mainly include software, development costs and electric power generation rights and 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 (note 3.5).

The Group's intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over those estimated useful lives, based on the length of time they are expected to generate income.

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 the longer of five years or the period of time 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:

The power generation rights that allow an energy generation facility to operate under the special remuneration regime regulated in Royal Decree 413/2014 (of 6 June 2014), on the generation of electricity by means of renewable energy sources, co-generation and waste, that are acquired from third parties are recognised at their acquisition cost or the costs incurred to obtain them and are amortised over the years of regulatory useful life 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 (note 3.5). Cost can include 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 30).
- 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 2021 the Group capitalised €474 thousand of own work (2020: €634 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 estimated amount of such costs is added to the carrying amount of those assets, discounted using a risk-free rate for the estimated period in which the obligating event will occur, 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.

  The Group only expects to incur dismantling costs in relation to its biomill in Pontevedra, which is built on public-domain land used under a concession arrangement (note 7).
- The cost of an asset is reduced by the amount of any revenue earned during the asset testing phase prior to commissioning. The Group did not recognise any revenue in that respect in 2021 (2020: €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 17.3); 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 2021, 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:

	2021		2020	
	Percentage rate	Estimated years of useful life	Percentage rate	Estimated years of useful life
Buildings	2%-3%	33-50	2%-3%	33-50
Plant				
Biomass generation plants	4%	25	4%	25
Other plant	5%-8.3%	12-20	6.6%-8.3%	12-15
Machinery & equipment	5%-12.5%	8-20	6.6%-12.5%	8-15
Tools and furniture	8.3%-12.5%	8-12	8.3%-12.5%	8-12
Computer equipment	20%	5	20%	5
Vehicles	10%	10	10%	10
Other items of PP&E	10%	10	10%	10

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.

The Group has re-estimated the useful lives of the assets used to produce pulp in the wake of the investments made and the capacity added, based on input from qualified ENCE staff with the help of an independent expert. As a result of that revision, the estimated useful life of the assets recognised under "Plant - Other facilities" ranges between 12 and 20 years and that of those recognised under "Machinery" ranges between 8 and 20 years (note 4).

In addition, the Group has re-estimated the period of time over which it reasonably expects to be able to consume the economic benefits embodied in the Pontevedra biomill in light of the legal case concerning the concession arrangement for the use of the land on which it is built (note 7). The Group currently expects to start the process of dismantling the biomill in 2023 or 2024.

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.

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 if they are not expected to generate economic benefits beyond that period.

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 amounts 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 and generating renewable energy 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 its biological assets at purchase or production cost, net of forest depletion charges and any impairment losses.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site clearing and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. In addition, because these assets take more than one year to ready for use, borrowing costs accrued until the time the trees are felled are capitalised in respect of the portion of the investment funded with external borrowings (currently not very material). The interest rate used is the Group's average borrowing cost (note 30).

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 times after harvest). 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 harvested/felled. For the *Nitens* species, the cycle and harvest periods coincide at around 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 estimated on the basis of the number of harvests expected 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 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 2021 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 reviews the value of its non-financial assets, including its fixed assets, right-of-use assets, goodwill and other intangible assets and biological 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.

ENCE uses internal and external sources of information to tests its assets for impairment. The external sources used include declines in market value based on comparable transactions, the outlook for pulp and renewable energy prices and 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.

If it detects indications of impairment, the recoverable amount of the asset in question is estimated to determine the amount of the related impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the case of goodwill, ENCE tests its recoverable amount systematically at least once a year.

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 (assets with stable production, market data series that go back far in time and stable operating costs), 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.

When an impairment loss subsequently reverts, the carrying amount of the corresponding CGU is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised against the CGU in prior years.

3.6 Leases

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

Leases are recognised at the inception of the lease term 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 receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option that the lessee is reasonably certain to exercise and payments for terminating the lease if the lease term reflects early termination. 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. The Group uses different discount rates depending on the terms of its leases. The rates used range between 1.8% and 3.9%.

After initial recognition, the Group measures its lease liabilities by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications and revised in-substance fixed lease payments.

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, any initial direct costs incurred by the lessee and, if applicable, an estimation of the costs to be incurred to dismantle the asset (initial cost), less any incentive received. 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.

Lease liabilities are remeasured whenever subsequent modifications of the agreement change the term or scope of the lease and include, for example, changes in the lease term, changes in future payments due to changes in the underlying index/rate, changes in future instalments and reassessment of the likelihood that the purchase option will be exercised, among others. Any remeasurement of the lease liability results in a corresponding adjustment of the right-of-use asset. After the carrying amount of the right-of-use asset has been reduced to zero, the remaining remeasurement is recognised in profit or loss.

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 measured 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 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", "Finance income" or “Change in the fair value of financial instruments”, 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. Changes in the value of these assets are recognised in equity (consolidated statement of other comprehensive income) until the asset is sold, at which time the previously accumulated gains or losses are reclassified to profit or loss for the year.

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 2021 or 2020.

Regular way purchases or sales of financial assets are recognised using trade date accounting.

Impairment losses -

ENCE tests its financial assets at amortised cost for impairment on an expected credit loss basis. More specifically, ENCE uses the general approach to calculate expected losses on its non-current financial assets, except for its trade and other accounts receivable without a significant financing component, for which it uses the simplified approach.

Under the general approach, ENCE considers the credit losses expected to materialise in the next 12 months, unless credit risk has increased significantly since initial recognition of the asset, in which case lifetime expected losses are factored in. To assess whether there has been a significant change in credit risk, ENCE considers changes in the credit ratings awarded by external experts.

Under the simplified approach, lifetime expected credit losses are factored in. That approach is based on the Group’s historical loss rates and requires expected losses on trade receivables to be recognised upfront when the credit claim is recognised. To implement that approach, the Group has developed a solution that permits it to calculate expected credit losses collectively using a provision matrix based on historical loss rates, adjusted for available forward-looking information. The provision matrix factors in the credit ratings awarded by ENCE’s credit insurance underwriter and uses a threshold of 180 days of default for write-off purposes. 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 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. All those liabilities are subsequently measured at amortised cost using the effective interest rate method. Finance costs and arrangement fees are recognised on an accrual basis in the 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, fall due in the short term and 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 (non-recourse 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 fair value of derivatives includes adjustments for credit risk so that changes in their fair value attributable to changes in creditworthiness are included in the effectiveness assessment.

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 of derivative financial instruments

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. They are discounted on the basis of long-term swap curves.
- The fair value of exchange rate futures contracts is determined using spot prices and forward yield curves for the currencies in question, additionally factoring in implied volatility until maturity.
- The fair value of contracts for the purchase-sale of non-financial assets and liabilities to which IFRS 9 applies (mainly pulp and energy price contracts) 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 using the above-listed techniques 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). Note additionally that credit risk adjustments rely on level 3 inputs; however, having quantified those adjustments, ENCE has concluded that their impact on the measurement of its derivatives is not significant.

3.9 Distinction between current and non-current

The Group distinguishes between current and non-current financial assets and liabilities on its consolidated statement of financial position. Current assets and current liabilities are those that meet the following criteria:

Assets are classified as current when it is expected or intended that they will be realised, sold or consumed within the Group's normal operating cycle; if they are held primarily for the purpose of trading; they are expected to be realised within twelve months of the reporting period; or are cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Liabilities are classified as current when it is expected that they will be settled in the Group's normal operating cycle; if they are held primarily for the purpose of trading; they are due to be settled within twelve months of the reporting period; or if Group does not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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 their acquisition cost, calculated using the weighted average cost method. The Group writes its emission allowance inventories down for impairment, with a charge against operating profit, to align their carrying amount with their recoverable amount when the latter is lower.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2021-2025 are recognised at their deemed cost, recognising a grant in the same amount as the balancing entry. That grant is reclassified to profit or loss as the allowances received are used.

The consumption of allowances during the year is recognised as an expense under "Other operating expenses" in the consolidated statement of profit or loss by means of a provision whose amount is calculated as a function of the allowances used, valued at their acquisition cost, which is their carrying amount in the case of allowances held at year-end, the purchase price stipulated in any forward contracts in effect and year-end market value for the remaining allowances.

When the emission allowances used are delivered to the authorities, 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 under "Grants reclassified to 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 within "Grants reclassified to profit or 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.

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.

Termination benefits

In keeping 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 there is a detailed formal plan for the restructuring and Group has raised a valid expectation among those affected that the plan will be implemented. The Group has not recognised any provisions for termination benefits at either year-end.

Legal proceedings and/or claims underway

At both year-ends ENCE was party to a number of legal proceedings and claims arising in the ordinary course of its business activities. The Parent's directors, based on the opinion of their legal counsel, believe that resolution of those proceedings and claims will not have any significant effects beyond those already recognised in these financial statements.

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 using the fair value of the equity instruments on the grant date. 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 normally 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.

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.

Under the scope of the regulatory framework applicable to renewable energy generation facilities in Spain, the latter receive certain incentives (the so-called specific remuneration regime) following the methodology prescribed in Royal Decree 413/2014 (of 6 June 2014), regulating the generation of electricity by means of renewable energy sources, co-generation and waste (the Royal Decree). That Royal Decree stipulates the update, every three-year regulatory stub period, of certain remuneration parameters, via ministerial order. Against that backdrop, Ministerial Order TED/171/2020 established the remuneration parameters to be used to estimate those incentives for the regulatory stub period spanning from 2020 to 2022.

One of the matters regulated in that Royal Decree is the treatment of any differences arising in a given year between the revenue earned from the sale of energy at the estimated price (as determined by the regulator at the start of each three-year regulatory stub period) and the revenue obtained from the sale of energy at actual pool prices each year: any such differences are corrected in the remuneration obtained in future years by means of an adjustment to the "remuneration for investment" parameter. Those adjustments for tariff shortfalls/surpluses ("Tariff Adjustment") are regulated in article 22 of the Royal Decree (note 10 and Appendix III).

ENCE generally accounts for its Tariff Adjustments as follows:

- Tariff Adjustments generated by positive net pool price deviations over the course of a given regulatory stub period that will imply an increase in remuneration receivable from the sector watchdog in the future are recognised as an asset within "Other financial assets" and as incremental revenue from the sale of electricity. That net asset is reversed at the end of the regulatory stub period by reducing the revenue associated with the sale of electricity over the facility's remaining regulatory useful life.

- Tariff Adjustments generated by negative net pool price deviations over the course of a given regulatory stub period that will imply a decrease in remuneration receivable from the sector watchdog in the future are recognised, depending on their maturity, as a liability within "Other non-current liabilities" or "Trade and other payables" and deducted from revenue from the sale of electricity. That net liability is reversed at the end of the regulatory stub period by increasing the revenue associated with the sale of electricity over the facility's remaining regulatory useful life.

- The remuneration regime is designed to guarantee a minimum return but does not set a cap on the return obtainable in the market, so that adjustments for negative pool price deviations are limited, in the case of each facility, to the amount derived from a future "remuneration from investment" parameter of zero.

- At the end of an asset's regulatory useful life, the positive tariff adjustments, net of the negative adjustments, arising in the last regulatory stub period are recognised, depending on their sign, as an asset or liability with a balancing entry in revenue from electricity sales.

- For statement of financial position purposes, the balances originating in the ongoing stub period are presented for each facility as a net asset, if the positive deviations in the stub period exceed the negative deviations, or as a net liability, if the negative deviations exceed the positive deviations. With respect to previous stub periods, they are similarly presented for each facility as a net asset if the amounts accumulated in respect of positive deviations corresponding to all previous stub periods exceed the amounts accumulated in respect of negative deviations likewise corresponding to all previous stub periods, or as a net liability if the situation is the other way around

Notwithstanding the foregoing, if, over the course of the assets' residual regulatory useful lives, it is deemed highly probable, based on best estimates of the outlook for pool prices, that the facilities will earn higher returns in the market than those established in the Royal Decree and that, therefore, abandoning the remuneration regime would not have significantly more adverse financial consequences than remaining under the regime, only the asset associated with positive pool price deviations is recognised.

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.

Income tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate.

ENCE has two tax consolidation groups for corporate income tax purposes (i.e., they file their taxes under the consolidated tax regime provided for in Chapter VIII of Title VII of the consolidated text of Spain's Corporate Income Tax Act); the parent companies of those two groups are Ence Energía y Celulosa, S.A. and Ence Energía, S.L and the groups include the subsidiaries with tax domicile in Spain in which the tax group parent holds an equity interest of 75% or more.

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.

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, the Group recognises deferred tax liabilities in respect of all taxable temporary differences.

However, it does not recognise deferred tax assets or liabilities if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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.

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. The Group offsets deferred tax assets and deferred tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

If the Group believes it is not probable that the tax authorities will accept an uncertain tax treatment or group of uncertain tax treatments, it factors that uncertainty into determination of its taxable profit, tax bases, unused tax losses, unused tax credits and tax rates. The Group determines the effect of the uncertainty in its income tax return using the expected value method when the range of possible outcomes is very wide; it uses the most likely amount method when the possible outcomes are binary or are concentrated on one value. In the event that the tax asset or liability calculated using the above criteria exceeds the amount presented in the Group's tax returns, the balance is presented on the consolidated statement of financial position as current or non-current depending on the expected realisation or settlement date.

3.17 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".

3.18 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 this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential shares are issued in the event of issuance during the year.

3.19 Related-party transactions

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

3.20 Foreign currency transactions and balances

The consolidated financial statements are presented in euros, which is the Parent's 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. Non-monetary assets denominated in foreign currency, which are scantly material for ENCE, are translated using the exchange rate prevailing on the date on which the asset was recognised by the Group.

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.

3.21 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.

3.22 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.

3.23 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.

These assumptions and estimates are made considering historical experience, the advice of expert consultants, forecasts, existing circumstances and expectations as of year-end with respect to future events and developments. It is possible, however, that events or circumstances arising after issuance of this financial report could oblige ENCE to revise its assumptions and estimates (in either direction), the impact of which would be recognised prospectively.

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., 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% in respect of the budget items deemed essential and within ENCE's control (that do not, therefore, depend on external variables). Given the fact that the Group's power generation plants subject to the shareholder agreement carry on their activities in a regulated and stable business, budgeting variations in excess of 15% are considered exceptional.
- 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).

For further assurance, renowned independent firms with expertise in accounting and legal matters have reviewed the transaction and agreements and concluded that ENCE maintains control over Ence Energía, S.L. and, by extension, 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 (note 3).

The Group has estimated that fair value by modelling the cash flows contemplated in the various scenarios, which it weighted by the estimated probability of occurrence of each scenario. 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).

Useful lives of property, plant and equipment and intangible assets and dismantling costs

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).

In 2021, the Group re-estimated the useful lives of the productive assets comprising its Pulp business as a result of the investments made and capacity added. That review was conducted by ENCE professionals with expertise in operations and maintenance and was complemented by work done by an outside expert. The analysis was based on an assessment of the durability of the main structural components of the facilities, analysing their wear and tear, the possibility of using them at other sites and equipment obsolescence.

That reassessment indicated that some of the assets recognised under "Plant" and "Equipment" have longer technical useful lives than initially allocated. Those assets' useful lives have been updated accordingly. Following the change, the estimated useful lives of the assets recognised under "Plant - Other facilities" range between 12 and 20 years and of those recognised under "Machinery", between 8 and 20 years. The impact of this change in accounting estimate, with effect from 1 April 2021, was to reduce depreciation and amortisation charges by €4,706 thousand in 2021. The estimated impact in 2022, assuming that the impairment losses recognised at year-end 2021 continue to be recognised a year later, is approximately €4,043 thousand.

In addition, ENCE periodically reviews whether it will have to dismantle its business facilities and restore the surrounding land, estimating, as required, the costs it would incur.

Right-of-use assets

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). It also estimates the incremental borrowing cost used to measure its lease agreements.

Recoverable amount of non-financial instruments

ENCE tests the cash-generating units to which goodwill has been allocated for impairment annually (note 3.5). 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 (note 21).

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 10 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 financial statements for issue, as well as the probability of having to uphold certain contractual commitments and their impact (notes 3.12 and 33). To perform that assessment, ENCE relies on its in-house counsel and independent experts.

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 34).

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 (notes 3.16 and 34).

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 Management Committee and its various businesses and subsidiaries.
- Ensuring the existence of internal risk management and control systems that allow the Group to keep the probability of occurrence and impact of materialisation of key risk events within the established tolerance thresholds and provide it with reasonable assurance that it will be able to achieve its strategic targets.

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 and renewable energy 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 and renewable energy 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.

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

€ 000	Change in pulp prices	Impact on operating profit (-)/+	Impact on equity (-)/+
2021	5% increase	27,228	27,228
	5% decrease	(27,228)	(27,228)
2020	5% increase	20,370	20,370
	5% decrease	(20,370)	(20,370)

As for price risk in respect of the renewable energy sold by ENCE on the Spanish electricity market, Royal Decree 413/2014, on the generation of electricity by means of renewable energy sources, co-generation and waste, guarantees the facilities included within the so-called specific remuneration scheme provided for in that same piece of legislation a minimum return of 7.398% over their regulatory useful lives, until 2031.

All of ENCE's productive capacity in the electricity market earns regulated remuneration under that scheme and approximately 51% of its capacity also earns remuneration for investment (Appendix III).

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:

€ 000	Change in timber prices	Impact on operating profit (-)/+	Impact on equity (-)/+
2021	5% increase	(11,355)	(11,355)
	5% decrease	11,355	11,355
2020	5% increase	(10,427)	(10,427)
	5% decrease	10,427	10,427

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 Group had the following assets and liabilities denominated in foreign currency, mainly US dollars, at year-end 2021 and 2020:

€ 000	2021	2020
Cash	17,769	4,452
Accounts receivable	26,656	23,844
Accounts payable	(8,062)	(21)
	36,363	**28,275**

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:

€ 000	Change in USD/EUR exchange rate	Impact on operating profit (-)/+	Impact on equity (-)/+
2021	5% appreciation	27,228	27,228
	5% depreciation	(27,228)	(27,228)
2020	5% appreciation	20,370	20,370
	5% depreciation	(20,370)	(20,370)

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 mitigates this risk by writing interest derivatives that swap floating rates for fixed rates.

The Group's financial structure at year-end 2021 and 2020, factoring in the hedges arranged through the derivatives written, is as follows:

	Pulp		Renewable Energy	
€ 000	2021	2020	2021	2020
Fixed-rate	196,066	269,358	158,687	182,700
Floating-rate	35,000	121,980	34,763	38,000
Fees and interest	15	(134)	(1,890)	(2,870)
Total borrowings (note 30)	**231,081**	**391,204**	**191,560**	**217,830**

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 €2.1 million in 2021 (2020 : €2.1 million).

Reform of the interbank offered rates (IBOR)

A new methodology was developed to calculate EURIBOR, the benchmark rate used to determine interest rates on ENCE's floating-rate borrowings, 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.

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.

Trade and other receivables

Trade receivables are presented on the consolidated statement of financial position net of impairment. Receivables impairment amounted to €4,485 thousand at year-end 2021 (year-end 2020: €4,160 thousand). The table below provides a breakdown of the age of ENCE's trade debt net of impairment provisions (including expected credit losses):

	31/12/2021		31/12/2020	
€ 000	**Receivable**	**Impairment**	**Receivable**	**Impairment**
Not past due	72,169	-	50,693	-
Past due by 0 - 30 days	4,058	-	6,374	-
Past due by 30 - 180 days	2,980	247	828	-
Past due by > 180 days	4,238	4,238	4,160	4,160
	83,445	**4,485**	**62,055**	**4,160**

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 business

Credit risk is spread across 200-300 customers and other counterparties. ENCE's biggest single exposure was 10% of pulp sales in 2021 and 2020.

To mitigate credit risk, ENCE does business with creditworthy customers with no history of default; 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 periodic specific financial solvency assessments of the Group's biggest customers and the addition of certain contractual clauses designed to guarantee the collection of receivables.

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:

	2021	2020
Risk level:		
Low	30%	37%
Medium	50%	47%
Medium-high	18%	15%
High	2%	1%

Renewable Energy

Under the regulatory framework in effect, in 2021 and 2020, 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.

Cash management

The average ratings of the counterparties with which the Group holds the balances recognised under “Cash and cash equivalents” on the consolidated statement of financial position, as provided by Standard & Poor’s, are shown below:

	2021
Rating-	
A	37%
BBB	45%
BB	18%
B	0%

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 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 current credit ratings.

In keeping with this prudent financial policy, at year-end 2021, 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 2021 Management Report - Fourth-quarter 2021 earnings report, where a reconciliation with the financial statement amounts is also provided. The two businesses' net debt/EBITDA ratios at 31 December 2021 and 2020 are shown in the table below:

€ m	**Pulp**		**Renewable Energy**	
	2021	**2020**	**2021**	**2020**
Net debt	(19.5)	43.4	121.2	134.5
EBITDA	89.0	13.9	17.8	59.8
Net debt/EBITDA	(0.2)	3.1	6.8	2.3

In calculating the Renewable Energy business' EBITDA in 2021 it is important to consider two "non-recurring" events that had a significant impact on the unit's operations and earnings: i) on 2 March 2021, the 50-MW Huelva power plant broke down and wasn't repaired until 10 October 2021 (note 10); and ii) the electricity sales price hedges arranged exceptionally in 2020, in a context of record-low prices and heightened uncertainty on account of the COVID-19 pandemic (note 32). The Net Debt/EBITDA ratio in the Renewable Energy business in 2021 excluding both effects would have been 1.48x.

The M&A transactions completed in 2020 and momentum in the business in 2021 enabled a drastic reduction in leverage in the Pulp business.

The contractual maturity analysis in respect of the financial liabilities referred to in IFRS 7 is provided in note 30.

6. Main acquisitions and disposals

2021

Agreement to sell five photovoltaic developments

On 10 December 2021, Ence Energía, S.L., the holding company for ENCE's Renewable Energy business, entered into an agreement with Naturgy Renovables, S.L.U. under which it has committed to selling the latter its shares in five photovoltaic asset holding companies, located in Huelva, Seville, Jaen and Granada, with aggregate capacity of approximately 373 MW, once the various facilities attain ready-to-build (RTB) permitting status and construction has begun.

The agreed purchase price is €62 million, subject to certain potential adjustments, contemplated in the agreement, mainly as a function of the cash at the companies on the transaction close dates and certain costs that need to be incurred to attain RTB status.

The proceeds will be collected as follows: €6.2 million, equivalent to 10% of the initial price, was collected when the agreement was executed (that sum has been recognised as an advance payment on the consolidated statement of financial position); the remainder will be collected when the sale of each of the five companies is completed. The sale of the various companies is expected to close between the second half of 2022 and the first half of 2024. The carrying amount of the development costs incurred so far in respect of the assets sold is recognised under "Inventories – Projects under development" (note 22).

2020

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

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., ENCE's Renewable Energy business holding company.

The shareholding was sold for a price of €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. 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 is conditional upon the following milestones: 1) up to €8 million will be collected when Spain calls the tender for the auction of up to 140 MW of biomass capacity; 2) up to €42 million depends on the price fetched at those auctions; 3) up to €18 million depends on the level of investment required to commission the facilities; and 4) up to €63 million depends on the returns earned by the new facilities between their commissioning and year-end 2028. 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) were presented under "Transactions with non-controlling interests" in the 2020 consolidated statement of cash flows.

ENCE has retained control over Ence Energía, S.L., 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, was recognised as an equity transaction, increasing ENCE's reserves by that amount (note 23.3).

That gain includes the recognition of the contingent consideration, to be collected between 2021 and 2028. The fair value of that consideration, discounted back to year-end 2021 using a discount rate equivalent to the Renewable Energy business' cost of capital of 8.4%, has been estimated at €21 million (year-end 2020: €21.4 million) (note 29). The sensitivity analysis run with respect to that estimate, varying the discount rate by 50bp and the price obtained in the capacity auctions by €5 per megawatt-hour, indicated that those changes in the key assumption inputs would reduce the fair value of the contingent consideration by €0.3 million and €6.8 million, respectively.

Sale of the shareholding in Ence Energía Solar, S.L.U.

On 15 December 2020, Ence Energía, S.L. 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 was to hold a 90% ownership interest in Ence Energía Termollano, S.A., the operating company that owned a 50-MW thermal solar thermal plant in Puertollano, which ENCE had acquired in November 2018.

The price collected by ENCE at the transaction close was €82.5 million with the buyer assuming 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 had to recognise a liability.

The gain obtained by Ence Energía, S.L. on the sale amounted to €32.9 million and was recognised under “Gain on the sale of subsidiaries” 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 both year-end 2021 and 2020 was 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) was 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:

	Note	€ 000
Goodwill	16	3,785
Intangible assets	16	17,704
Property, plant and equipment	17 & 18	137,361
Non-current financial investments	29	4,194
Deferred tax assets	34	3,205
Cash and cash equivalents	29	24,216
Other current assets		5,559
Total assets		**196,024**
Borrowings:		
Bank borrowings	30	91,560
Other financial liabilities	30	7,425
Derivative financial instruments	32	3,151
Deferred tax liabilities	34	15,403
Non-current provisions	33	9,539
Other non-current liabilities		8,935
Other current liabilities		3,194
Total liabilities		**139,207**
NET ASSETS		**56,817**

Other transactions

In 2021 The Group liquidated Maderas Aserradas del Litoral, S.A., its subsidiary domiciled in Uruguay which had been inactive in recent years.

In 2020 Ence Energía, S.L. 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.

7. Public-domain concession - The ENCE biomill in Pontevedra

ENCE's biomill in Pontevedra is located on public-domain coastal land under a domain concession, which 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).

The 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 was conditional upon ENCE investing an estimated €61 million at the biomill related with increasing its capacity and energy efficiency, reducing its water consumption, improving its environmental performance and blending the facility into its surroundings. That investment undertaking had been honoured in full by 2020, within the stipulated timeframe.

Appeals against the resolution, annulling the extension of the concession

As noted earlier, the Ministry of Agriculture, Food and the Environment, specifically its Directorate General of Coastal and Marine Sustainability, issued a resolution on 20 January 2016, granting an extension of the public-domain concession over the land on which ENCE's biomill in Pontevedra is located for a total of 60 years. That resolution was challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two associations: Greenpeace Spain and *Asociación Pola Defensa da Ría de Pontevedra* or the APDR.

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

In all three lawsuits, the Directorate General of Coastal and Marine Sustainability later acquiesced to the claimants' claims by means of written deeds submitted during the pertinent proceedings on 6 March 2019, despite having maintained strenuously and unanimously throughout the proceedings that the ministerial resolution of 20 January 2016 was entirely lawful. ENCE contested the acquiescence vehemently. At the time of acquiescence by the Directorate General of Coastal and Marine Sustainability , the cases brought by the APDR and Greenpeace Spain had been declared ready for sentencing (on 3 September 2019 and 26 April 2019, respectively).

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.

The National Appellate Court's Chamber for Contentious Administrative Proceedings issued three rulings, two on 15 July 2021 and the third on 21 September 2021, upholding the appeals lodged by Greenpeace Spain, the town council of Pontevedra and ADPR, annulling the ministerial resolution of 16 January 2016 extending the concession, based on the Court's understanding that the resolution had failed to substantiate the fact that ENCE's biomill in Pontevedra necessarily has to be located on the public-domain coastal land or to provide reasons of public interest in defence of the biomill's current location.

ENCE lodged appeals against the rulings before the Supreme Court on 28 September 2021 and 29 November 2021. ENCE has legitimate grounds for appealing the rulings as it was a defendant in the proceedings heard before the National Appellate Court and because it has an obvious legitimate interest in the outcome.

If the Supreme Court does not agree to allow the appeal preparation to go ahead or dismisses the appeals, the Appellate Court rulings would become final (notwithstanding the scope for lodging a complaint), triggering the start of the deliberations about when to execute the ruling. ENCE estimates that, in that event, execution of the sentences would imply the start of dismantling work at the biomill in 2023 or 2024.

Although ENCE believes there are legal grounds in defence of the lawfulness of the concession extension, which is why it has decided to appeal the Appellate Court sentences, because of the restrictive nature of the appeal proceedings and the specific circumstances surrounding the matter in dispute, in keeping with applicable accounting rules, the Group has recognised a range of impacts in these consolidated financial statements, as detailed further on in this note.

If, having exhausted all appeal options, the courts of justice uphold the annulment of the resolution of 20 January 2016, ENCE will seek damages from the state in respect of all the losses caused by the annulment, based on the grounds that it has no legal obligation to bear them.

On the one hand, in the wake of the concession extension resolution, ENCE, in its capacity as concessionaire, has executed all of the investment requirements upon which the extension of the concession for an additional 10 years was made conditional, along with other investments needed to keep the facility working properly and in a state of good repair throughout the anticipated term of the extension.

On the other hand, ENCE will additionally seek from the state, if the recent rulings are not overturned, all additional damages caused to it as a result of the early termination of the concession agreement.

Impacts recognised in ENCE's annual consolidated financial statements

In light of the National Appellate Court rulings, the specific circumstances surrounding this matter and the restrictive nature of the appeals process, ENCE has recognised the following impacts in its consolidated financial statements for the year ended 31 December 2021:

€ 000	Note	Statement of financial position: Assets	Statement of financial position: Liabilities	Charge / (Income) statement of profit or loss (*)
Provision for decommissioning costs	17 & 33	42,267	(42,267)	-
Impairment of other intangible assets	16 & 21	(2,470)		2,470
Impairment of property, plant and equipment	17 & 21	(144,298)	-	144,298
Impairment of property, plant and equipment - Provision for dismantling	17 & 21	(42,267)	-	42,267
Impairment of biological assets	19 & 21	(2,479)	-	2,479
Impairment of inventories	21 & 22	(2,929)	-	2,929
Derecognition of deferred tax assets	34	(13,426)	-	13,426
Derecognition of right-of-use assets	18, 21 & 30.2	(27,701)	28,835	(1,134)
Provision for contractual obligations	33	-	(6,025)	6,025
Reversal of Environmental Pact provisions	33	(2,304)	16,750	(14,446)
		(195,607)	**(2,707)**	**198,314**

(*) Before layering in the impact of the unwinding of the non-current provisions. In addition, the impact recognised in the consolidated statement of profit or loss includes an amount of €1,884 thousand associated with the full tax effect of "Reversal of the Environmental Pact provision".

Moreover, if the Supreme Court does not agree to hear the appeal or upholds the National Appellate Court rulings, ENCE would lose the concession and could therefore no longer continue to operate at the biomill, forcing it to close the facility. If that happens, ENCE would be obliged to initiate a redundancy programme for the employees no longer needed, a measure that would affect most of the biomill's employees and some of the corporate services staff located in Pontevedra and certain other ENCE workplaces. That obligation has not been provided for in these consolidated financial statements because the related recognition requirements, specifically including that of raising a valid expectation in those affected by the restructuring, have not been met.

Provision for decommissioning costs

ENCE, with the assistance of a renowned independent expert, has re-estimated the present value of the obligations assumed in connection with the dismantling of the pulp manufacturing plant located in Pontevedra and the remediation of the land on which it is located, assuming that that work would begin, in the event its appeals are declared inadmissible or are dismissed by the Supreme Court, in 2023 or 2024.

As a result, the Group has recognised an increase in assets under "Property, plant and equipment" and a provision for dismantling in the amount of €42,267 thousand (based on an estimated cost of €43 million and discount rates in the range of 1%-2%). Subsequently, the entirety of that balance was written down for impairment (refer to the next section).

Impairment of "Property, plant and equipment" and "Other intangible assets"

As a result of the above-mentioned rulings and the assessment of their potential consequences, ENCE has re-evaluated the recoverable amount of the Pontevedra biomill, which constitutes a standalone cash-generating unit (CGU).

The recoverable amount was calculated assuming the cessation of activity at the facility and was determined using the present value of the cash inflows and outflows estimated during the operation and dismantling periods, underpinned by the following assumptions: 1) sales prices in line with consensus sector forecasts and an exchange rate of around US$/€1.20; 2) pulp production and energy generation volumes in line with the facility's installed capacity, adjusted for potential instability in the run-up to execution of the sentence; 3) cash costs in line with those observed in recent years; 4) a growth rate of 8.5%-10%; and 4) a pre-tax discount rate of 8.5%-10%; and 5) extraordinary cash outflows associated with the cession of activity at the facility.

The recoverable amount so calculated yields a negative value, prompting the Group to write down the facility's intangible assets in full, in the amount of €2,470 thousand, and the productive assets associated with the Pontevedra biomill, including the estimated dismantling and land restoration costs, in an aggregate amount of €186,565 thousand, all with a charge against "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss for the year ended 31 December 2021.

The allocation of the Pontevedra biomill CGU impairment charges by asset class at 31 December 2021 is as follows:

	€ 000
Software	1,219
Other intangible assets	1,251
Right-of-use assets - Land (note 18.1)	3,790
Buildings	12,923
Plant and machinery	115,508
Plant - Provision for dismantling	42,267
Work in progress	1,746
Other items of PP&E	10,331
	189,035

The Group has conducted independent sensitivity analysis with respect to the key inputs. An increase in production or sales prices of 5% or a reduction in the cash cost of 5%, or indeed any other similar changes to the key inputs, would not have any impact whatsoever on the impairment losses recognised.

Impairment losses on other assets

The potential discontinuation of business in Pontevedra would imply earmarking 100% of the biological assets available in northern Spain to the Navia biomill, an option that would entail higher transport costs in respect of certain tracts of forest.

The Group has tested those assets for impairment using the methodology and assumptions outlined in note 3.5; it estimated those assets' realisable value to be below their carrying amount by €2,479 thousand and accordingly recognised an impairment loss in that amount under "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss for the year ended 31 December 2021.

The Group has also recognised an impairment loss of €2,929 thousand to cover the potential reduction in the value of biomill spare parts that cannot be used in other facilities under "Other operating costs - Change in trade and other provisions" in the consolidated statement of profit or loss for the year ended 31 December 2021.

Deferred tax assets

As a result of the above-mentioned sentences, ENCE has also re-assessed the deferred tax assets recognised on its statement of financial position, mainly unused tax losses and unused tax credits, to check its ability to utilise them within the allowed timeframes.

The taxable income projections for the tax consolidation group made up of all the Pulp business assets, modelled assuming the possible discontinuation of pulp production in Pontevedra within the timeframe already indicated, and, for the rest of the business's CGUs using the assumptions outlined in note 21, are not sufficient to permit the utilisation in full of the Group's recognised deferred tax assets within a period of 10 years. As a result, the Group has derecognised previously recognised deferred tax assets in the amount of €13,426 thousand with a charge against "Income tax expense" in the consolidated statement of profit or loss for the year ended 31 December 2021.

Right-of-use assets

The term of the concession, a right-of-use asset allocated to this same CGU, has been re-estimated to reflect the length of time for which the biomill is expected to continue to operate. As a result, the Group has derecognised the asset and the associated lease liability in the amounts of €27,701 thousand and €28,835 thousand, respectively. The remaining right-of-use asset, in the amount of €3,790 thousand, was also fully written down for impairment, with a charge against "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss for the year ended 31 December 2021 (note 18).

Provision for contractual obligations

The Group has recognised provisions totalling €6,025 thousand with a charge against "Other operating expenses" in the consolidated statement of profit or loss for the year ended 31 December 2021 to cover costs deriving under contractual obligations and onerous contracts that would arise from discontinuation of business at the Pontevedra biomill.

Provision for environmental and community work agreements

In 2016, the Group entered into an Environmental Pact and Collaboration Agreement with the Environmental Department of the regional government of Galicia, under which it committed, among other things, 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, specifically assuming commitments that implied investments and contributions of up to €176 million (environmental upgrade and job creation investment projects at the Pontevedra biomill in the amount of €61 million; the creation of three new bioenergy centres and the construction of a power generation plant fuelled by biomass in Galicia with estimated investments of €20 million and €74 million, respectively; and contributions designed to improve the quality of living of the residents of Galicia totalling €21 million) and the rollout of a framework agreement for engaging the population in the vicinity of the Bay area in the benefits of ENCE's corporate social responsibility policy with an annual stipend of up to €3 million during the 60-year life of the concession (Community Plan).

Effectiveness of those commitments was contingent upon the effectiveness, subsistence and non-contentious enjoyment of ENCE's concession in Pontevedra, so that the sentences issued by the National Appellate Court void the commitments contemplated in the Environmental Pact and Collaboration Agreement.

The Group has accordingly re-estimated its obligations under the Environmental Pact and reversed the provisions recognised to date to cover those commitments in the amounts of €15,250 thousand and €1,500 thousand, respectively (before the related tax effect of €4,187 thousand), as those obligations have been suspended by virtue of the National Appellate Court rulings. The reversals have been recognised in the consolidated statement of profit or loss for the year ended 31 December 2021 under "Other operating expenses".

8. Impact of Covid-19

At the date of issuing these consolidated financial statements for the year ended 31 December 2021, there are no indications that the COVID-19 pandemic has affected ENCE's business performance.

Personal health and safety against the backdrop of the pandemic has been consistently and remains the number-one priority guiding ENCE's management team in managing the Group's operations.

The initiatives implemented have proven effective, preventing the spread of the virus in our workplaces and enabling business continuity throughout the health crisis. Those initiatives have notably included the performance of frequent tests to detect the presence of the virus, a specific COVID Protocol which is applicable across all of ENCE's workplaces and activities and is binding upon everyone who forms part of the "ENCE family" and the creation and implementation of a COVID Passport app to ensure safe and automated access to our places of work. The Group has also prioritised cybersecurity in the wake of the increase in remote working, paving the way for safe and incident-free operations.

ENCE has been able to maintain all its jobs throughout the pandemic and has not had to avail of the various furlough schemes at any time.

The pulp market has been fully operational throughout the COVID-19 pandemic, registering very significant increases in benchmark BHKP prices in Europe, which have risen from approximately USD680/tonne (a 10-year low) during the first nine months of 2020 to USD1,140/tonne as of year-end 2021.

Throughout the health emergency, ENCE has continued to apply its credit assessment, counterparty-specific risk limit determination and collection management policies and procedures, thanks to which it has not sustained any significant increase in non-performance or major delays in collections.

Nor has the pandemic affected ENCE's Renewable Energy business. Sales prices, however, particularly during the early stages of the pandemic when demand contracted sharply, were lower than initially expected, although the situation throughout 2021 can be described as normal.

Therefore, there are no significant sources of uncertainty derived from COVID-19 with respect to either the Pulp or the Renewable Energy businesses that could call the going-concern approach into question. Nor has the pandemic given rise to indications that the pandemic may have affected or may affect significantly the long-term outlook for either business or, by extension, the measurement or classification of ENCE's non-financial assets, expected credit losses, or the recoverability of its tax assets.

As for the Group's financial situation, in 2020, ENCE's Pulp business took 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 worsened or lasted for longer than expected. Elsewhere, the financing arranged by the Renewable Energy business entails compliance with certain covenants related with the Group's borrowing levels, ability to generate cash and equity position; a minimum cash sweep is also required. The Group has complied with all those covenants to date.

ENCE incurred extraordinary operating costs and capital expenditure in relation to the pandemic in the amounts of €1,667 thousand and €122 thousand, respectively, in 2021 (2020: €7,600 thousand and €1,274 thousand, respectively).

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

The main form of support received from the Spanish government has consisted of state-guaranteed financing extended by the ICO, Spain's official credit institute, which was arranged at market rates of interest. The ICO borrowings were repaid in full during the first half of 2021 (note 30).

Lastly, COVID-19 has not caused and is not currently expected to cause ENCE to breach any contractual obligations with either its customers or its suppliers. Nor has it resulted in any hedge inefficiency.

9. Operating segments

The Group has defined the following reporting segments for which detailed and discrete financial information is available and reviewed regularly by senior management, along with the operating results, 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 timber parts that cannot be transformed into pulp, essentially lignin and biomass, as inputs.
- Forest Assets & Other. 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), as well as residual forest activities.

  Until 31 December 2020, the Group reported "Forest Assets" and "Forest Services & Other" separately. Given the scant materiality for the latter segment, the two have been rolled into one segment called "Forest Assets & Other", with effect from 1 January 2021.

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; they are developed and operated independently.

In order to expand on the disclosures provided in this note, Appendix II attached to these financial statements provides the consolidated statement of financial position at 31 December 2021 and 2020 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.

9.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2021 and 2020, based on the management information reviewed regularly by senior management:

	€ 000						
	PULP business						
2021	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:							
Third parties	661,788	3,102	-	664,890	154,785	-	819,675
Inter-segment revenue	2,445	12,592	(12,316)	2,721	99	(2,820)	-
Total revenue	**664,233**	**15,694**	**(12,316)**	**667,611**	**154,884**	**(2,820)**	**819,675**
Earnings:							
EBITDA (*)	**77,810**	**11,230**	**-**	**89,040**	**17,793**	**-**	**106,833**
Operating profit/(loss)	**(153,035)**	**(5,391)**	**-**	**(158,426)**	**(20,133)**	**2,673**	**(175,886)**
Finance income	7,349	32	(1,260)	6,121	1,758	(1,246)	6,633
Finance costs	(15,703)	(1,235)	1,260	(15,678)	(13,672)	1,246	(28,104)
Hedging derivatives	-	-	-	-	1,158	-	1,158
Net exchange gains/(losses)	3,697	-	-	3,697	(30)	-	3,667
Impairment of financial instruments	(3,787)	-	3,787	-	-	-	-
Share of profit/(loss) of investees accounting for using equity method	-	(7)	-	(7)	-	-	(7)
Income tax	(18,986)	(108)	-	(19,094)	6,341	3,333	(9,420)
Profit/(loss) for the period	**(180,465)**	**(6,709)**	**3,787**	**(183,387)**	**(24,578)**	**6,006**	**(201,959)**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	(968)	12,518	11,550
Profit/(loss) attributable to owners of the parent	**(180,465)**	**(6,709)**	**3,787**	**(183,387)**	**(25,546)**	**18,524**	**(190,409)**
Capital expenditure (**)	67,566	5,284	-	72,850	15,488	-	88,338
Accumulated depreciation and depletion of forest reserves (**)	(851,282)	(65,576)	-	(916,858)	(272,172)	(67,448)	(1,256,478)
Impairment (**)	(192,591)	(5,333)	-	(197,924)	(2,222)	(10,392)	(210,538)

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the "Fourth-quarter 2021 earnings report" appended to the Group's 2021 Management Report.

(**) Acquisitions during the year, accumulated depreciation and depletion of forest reserves and impairment of the assets included under "Property, plant and equipment", "Intangible assets" and "Biological assets". Does not include the balances corresponding to "Right-of-use assets" (note 18) or "Goodwill" (note 16).

	€ 000						
	PULP business						
31 December 2021	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Assets							
Non-current	621,105	167,775	(113,826)	675,054	496,422	(173,749)	997,727
Current	458,657	5,402	(2,979)	461,080	126,083	(17,483)	569,680
Total assets (a)	**1,079,762**	**173,177**	**(116,805)**	**1,136,134**	**622,505**	**(191,232)**	**1,567,407**
Liabilities							
Non-current	356,902	41,984	(34,652)	364,234	307,247	(38,342)	633,139
Current	249,937	6,074	(3,031)	252,980	118,816	(17,483)	354,313
Total liabilities (a)	**606,839**	**48,058**	**(37,683)**	**617,214**	**426,063**	**(55,825)**	**987,452**

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

The table below details the earnings performance by operating segment in 2020 adapted to integrate “Forest Assets” and “Forestry Services & Other” into a single segment called “Forest Assets & Other”:

	€ 000						
	PULP business						
2020	Pulp	Forest Assets & 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	2,834	10,804	(11,004)	2,634	102	(2,736)	-
Total revenue	**502,108**	**13,377**	**(11,004)**	**504,481**	**205,963**	**(2,736)**	**707,708**
Earnings:							
EBITDA (*)	**4,881**	**8,979**	**-**	**13,860**	**59,749**	**-**	**73,609**
Operating profit/(loss)	**(55,737)**	**(2,225)**	**-**	**(57,962)**	**46,738**	**3,930**	**(7,294)**
Finance income	4,765	-	(1,369)	3,396	3	(2,750)	649
Finance costs	(15,519)	(1,375)	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	51	-	216
Share of profit/(loss) of investees accounting for using equity method	-	(18)	-	(18)	-	-	(18)
Income tax	18,692	213	-	18,905	(2,963)	(4,017)	11,925
Profit/(loss) for the period	**(53,022)**	**(3,238)**	**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	**(53,022)**	**(3,238)**	**3,962**	**(52,298)**	**25,953**	**(87)**	**(26,432)**
Capital expenditure (**)	45,657	5,649	-	51,306	63,893	(26,923)	88,276
Accumulated depreciation and depletion of forest reserves (**)	(805,744)	(60,291)	-	(866,035)	(236,448)	(98,924)	(1,201,407)
Impairment (**)	(7,541)	(3,566)	-	(11,107)	(2,242)	(12,677)	(26,026)

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the “Fourth-quarter 2021 earnings report" appended to the Group’s 2021 Management Report.

(**) Acquisitions during the year, accumulated depreciation and depletion of forest reserves and impairment of the assets included under “Property, plant and equipment”, “Intangible assets” and “Biological assets”. Does not include the balances corresponding to “Right-of-use assets” (note 18) or “Goodwill” (note 16).

	€ 000						
	PULP business						
31 December 2020	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Assets							
Non-current	845,131	176,346	(125,200)	896,277	523,680	(189,681)	1,230,276
Current	576,798	5,592	(3,011)	579,379	118,291	(27,705)	669,965
Total assets (a)	**1,421,929**	**181,938**	**(128,211)**	**1,475,656**	**641,971**	**(217,386)**	**1,900,241**
Liabilities							
Non-current	444,522	45,735	(38,945)	451,312	279,531	(38,342)	692,501
Current	326,518	4,136	(2,998)	327,656	107,950	(27,704)	407,902
Total liabilities (a)	**771,040**	**49,871**	**(41,943)**	**778,968**	**387,481**	**(66,046)**	**1,100,403**

(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.

9.2 Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures for the Pontevedra and Navia biomills reconciled with the Group's consolidated statement of profit or loss:

	€ 000						
2021	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	431,257	577,435	-	-	1,008,692	-	1,008,692
Pulp sales volume (ADt)	424,386	571,671	-	-	996,057	-	996,057
Energy sales volume (MWh)	266,608	565,576	-	1,430,199	2,262,383	-	2,262,383
Continuing operations:							
Revenue	229,254	333,892	-	171,183	734,328	(2,819)	731,509
Cost of sales and other costs	(118,420)	(165,666)	-	(75,573)	(359,659)	2,806	(356,853)
GROSS PROFIT	**110,834**	**168,226**	**-**	**95,609**	**374,670**	**(13)**	**374,656**
Employee benefits expense	(19,196)	(25,480)	(30,840)	(8,656)	(84,171)	-	(84,171)
Other operating expenses	(49,149)	(67,238)	(9,467)	(57,834)	(183,688)	36	(183,652)
Overhead passed on	(13,199)	(17,197)	40,307	(9,911)	-	-	-
EBITDA (*)	**29,290**	**58,311**	**-**	**19,209**	**106,810**	**22**	**106,833**
Asset depreciation/amortisation and impairment	(194,137)	(37,030)	-	(55,789)	(286,956)	-	(286,956)
Other non-recurring operating expenses	4,258	-	-	(21)	4,237	-	4,237
OPERATING PROFIT/(LOSS)	**(160,589)**	**21,281**	**-**	**(36,601)**	**(175,908)**	**22**	**(175,886)**
Net finance cost	(4,192)	(3,986)	-	(8,468)	(16,646)	-	(16,646)
Share of profit/(loss) of equity-accounted investees	-	-	-	(7)	(7)	-	(7)
PROFIT/(LOSS) BEFORE TAX	**(164,781)**	**17,295**	**-**	**(45,075)**	**(192,562)**	**22**	**(192,539)**
Income tax	1,417	(2,568)	-	(8,269)	(9,420)	-	(9,420)
PROFIT/(LOSS) FOR THE PERIOD	**(163,364)**	**14,727**	**-**	**(53,345)**	**(201,982)**	**22**	**(201,959)**
Profit/(loss) attributable to non-controlling interests	-	-	-	11,550	11,550	-	11,550
Profit/(loss) attributable to owners of the parent	**(163,364)**	**14,727**	**-**	**(41,795)**	**(190,432)**	**22**	**(190,409)**

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

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the "Fourth-quarter 2021 earnings report" appended to the Group's 2021 Management Report.

2020	€ 000 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)	698,364
Cost of sales and other costs	(119,959)	(161,003)	-	(79,448)	(360,410)	17,743	(342,667)
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 (*)	**(8,308)**	**17,861**	**-**	**64,056**	**73,609**	**(0)**	**73,609**
Asset depreciation/amortisation and impairment	(14,664)	(38,129)	-	(59,894)	(112,686)	3,928	(108,758)
Other non-recurring operating income	(5,000)	-	-	32,855	27,855	-	27,855
OPERATING PROFIT/(LOSS)	**(27,971)**	**(20,267)**	**-**	**4,161**	**(11,222)**	**3,928**	**(7,294)**
Net finance cost	(3,735)	(4,565)		(21,045)	(29,345)	-	(29,345)
Share of profit/(loss) of equity-accounted investees	-	-		(18)	(18)		(18)
PROFIT/(LOSS) BEFORE TAX	**(31,706)**	**(24,832)**	**-**	**(16,902)**	**(40,585)**	**3,928**	**(36,657)**
Income tax	7,927	6,208	-	(2,210)	11,925	-	11,925
PROFIT/(LOSS) FOR THE PERIOD	**(23,780)**	**(18,624)**	**-**	**(19,111)**	**(28,660)**	**3,928**	**(24,732)**
Profit/(loss) attributable to non-controlling interests	-	-	-	(1,700)	(1,700)	-	(1,700)
Profit/(loss) attributable to owners of the parent	**(23,780)**	**(18,624)**	**-**	**(20,811)**	**(30,360)**	**3,928**	**(26,432)**

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

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the "Fourth-quarter 2021 earnings report" appended to the Group's 2021 Management Report.

10. Revenue and other operating income

Revenue corresponds to revenue from contracts with customers. The breakdown of Group revenue by segment in 2021 and 2020 is as follows:

	2021			2020		
€ 000	Pulp	Renewable Energy	Consol. Group	Pulp	Renewable Energy	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	996,057	-	996,057	1,015,482	-	1,015,482
Energy sales volume (MWh) (**)	832,184	1,430,199	2,262,383	816,444	1,421,446	2,237,890
Revenue						
Pulp	544,568	-	544,568	407,404	-	407,404
Electric energy	106,700	154,051	260,751	75,549	204,989	280,538
Timber and forestry services	13,622	734	14,356	18,894	872	19,766
Inter-segment sales	2,721	99	-	2,634	102	-
	667,611	**154,884**	**819,675**	**504,481**	**205,963**	**707,708**

(*) The difference between the figures presented under "Consolidated Group" for 2021 and 2020 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 2021 and 2020 in the amounts of €2,820 thousand and €2,736 thousand, respectively.

(**) In addition, in 2020, the Group generated 53,275 MWh while testing the two new biomass plants commissioned that 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, were accounted for as a reduction in the investment in those facilities.

The accounting treatment of the Tariff Adjustments (note 3.15 and Appendix III) for 2021 implied a reduction in revenue from the sale of renewable energy of €89,118 thousand (2020: an increase in revenue of €39,645 thousand) with a balancing entry under "Other non-current liabilities" in the consolidated statement of financial position (note 31).

In 2021, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €218 million (2020: €182 million).

10.1 Other operating income

This heading of the consolidated statement of profit or loss includes income of €14,233 thousand in 2021 (2020: €2,476 thousand) related to claims settlements agreed with the insurance companies that cover the Group's assets as a result of the equipment incidents at the 50-MW Huelva plant in 2021 (and at the 41-MW Huelva plant in 2020).

10.2 Geographic revenue split

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

Percentage of pulp sales	2021	2020
Germany	24.3	21.8
Spain	14.3	19.4
Poland	13.6	7.4
Italy	9.7	12.8
France	6.9	4.5
UK	6.4	10.4
Turkey	3.6	6.1
Sweden	3.6	1.2
Romania	2.5	2.0
Netherlands	2.3	1.3
Austria	2.0	3.3
Other	10.8	9.8
	100.0	**100.0**

(*) Breakdown considering place of delivery

11. Cost of sales

Cost of sales in 2021 and 2020 breaks down as follows:

€ 000	2021 Pulp	2021 Renewable Energy	2021 Consolidated Group	2020 Pulp	2020 Renewable Energy	2020 Consolidated Group
Purchases	258,955	57,694	315,683	243,482	47,757	290,015
Change in raw materials and other inventories	(2,022)	(2,366)	(4,388)	(531)	2,210	1,679
Other external expenses	38,316	18,144	54,606	32,275	15,380	46,143
	295,249	**73,472**	**365,901**	**275,226**	**65,347**	**337,837**

(*) The difference between the figures presented under "Consolidated Group" for 2021 and 2020 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 2021 and 2020 in the amounts of €2,820 thousand and €2,736 thousand, respectively.

This heading mainly includes the cost of acquiring timber, chemical products, fuel and other variable costs, as well as timber harvesting and transport services.

12. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in 2021 and 2020 is provided below:

€ 000	2021 Pulp	2021 Renewable Energy	2021 Consolidated Group	2020 Pulp	2020 Renewable Energy	2020 Consolidated Group
Salaries and wages	52,645	10,059	62,704	58,302	10,329	68,631
Social Security	14,144	2,957	17,101	14,341	2,781	17,122
Contributions to pension plans (note 3.13)	2,038	262	2,300	2,050	224	2,274
Other benefit expense	1,285	178	1,463	1,322	166	1,488
	70,112	13,456	83,568	76,015	13,500	89,515
Long-term remuneration plans (note 3.14)	21	(98)	(77)	907	58	965
Termination benefits	452	228	680	1,520	375	1,895
	70,585	**13,586**	**84,171**	**78,442**	**13,933**	**92,375**

12.1 Headcount figures

The average Group headcount in 2021 and 2020:

	Average headcount during the period					
	2021			2020		
Job category	Men	Women	Total	Men	Women	Total
Officers	48	13	61	53	14	67
Managers	60	19	79	63	18	81
Team leaders	69	4	73	72	4	76
Skilled professionals	196	123	319	209	123	332
Clerical staff	14	43	57	13	44	57
Operators	306	30	336	302	18	320
Support and upgrade staff	49	50	99	49	46	95
Maintenance	135	2	137	137	2	139
	877	**284**	**1,161**	**898**	**269**	**1,167**

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

	Year-end headcount					
	2021			2020		
Job category	Men	Women	Total	Men	Women	Total
Officers	48	14	62	50	12	62
Managers	60	21	81	61	16	77
Team leaders	68	4	72	70	4	74
Skilled professionals	197	119	316	207	129	336
Clerical staff	16	45	61	11	46	57
Operators	284	27	311	290	19	309
Support and upgrade staff	45	47	92	48	45	93
Maintenance	135	3	138	141	1	142
	853	**280**	**1,133**	**878**	**272**	**1,150**

At year-end 2021, 12 employees had a disability of a severity of 33% or higher (year-end 2020: 14).

The Board of Directors was made up of 13 directors at 31 December 2021, eight men and five women. At year-end 2020, it was made up of 14 directors, 10 men and four women; three of the directors represented legal entities.

12.2 Long-term remuneration plans

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 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 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 certain 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, that is below the sector average by no more than 3 points (the average being rebased to 100).

At 31 December 2021, the plan covered a total of 85 professionals from the Pulp business and the maximum expected cost, assuming delivery levels of 100%, amounts to €16,421 thousand.

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 hold 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.

The expense / (income) accrued in this respect in 2021 and 2020, broken down by their counterbalancing entries, is shown in the table below:

	Pulp		Renewable Energy	
€ 000	**YE 2021**	**YE 2020**	**YE 2021**	**YE 2020**
Other equity instruments (note 23.7)	15	635	(101)	42
Current and non-current provisions (note 33)	6	273	2	16
	21	**907**	**(98)**	**58**

The Company's Board of Directors agreed in December 2020 to early-settle the plan with respect to a group of 27 beneficiaries belonging to the Renewable Energy business as of 31 December 2020. The corresponding settlements were made on 15 July 2021 and entailed the outlay of €41 thousand of cash and €53 thousand-worth of ENCE shares.

2021-2025 long-term bonus plan

At a meeting held on 17 March 2021, the Board of Directors of Ence Energía, S.L., the holding company for the universe of companies devoted to the generation of electricity from renewable sources at standalone power plants (the "Renewable Energy" business) approved a multi-year Bonus Plan for 2021 to 2025, with the aim of providing the management team with a performance incentive, foster Group sustainability, reinforce management orientation towards delivery of the objectives set down in the 2019-2023 business plan and help retain talent.

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

In order to determine the final amount of the bonus payments, the criteria associated with the various targets and their respective weightings are the following:

i. 50% of the bonus pool is tied to the level of delivery of the synthetic accumulated EBITDA targets for the Renewable Energy business between 2021 and 2025.

ii. 25% of the bonus pool is tied to the development of the new power generation plants contemplated in the unit's business plan, specifically based on an assessment of their commissioning dates and the amount of capex incurred.

iii. 15% of the bonus pool is tied to delivery of EBITDA not contemplated in the current scope of the Renewable Energy business or the new plants contemplated in the business plan.

iv. 10% is tied to the level of delivery of certain targets related with the Renewable Energy business's sustainability effort and performance.

The plan covers a total of 34 professionals from the Renewable Energy business and the maximum cost, assuming a delivery rate of 100%, is €4,690 thousand.

The Group accrued €45 thousand of expense in respect of this plan in 2021, which was recognised under "Non-current provisions" in the accompanying consolidated statement of financial position (note 33).

To determine the amount accrued in respect of these undertakings, 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.

13. Other operating expenses

The breakdown of this consolidated statement of profit or loss heading in 2021 and 2020 for the businesses carried on by ENCE was as follows:

€ 000	2021 Pulp	2021 Renewable Energy	2021 Consolidated Group	2020 Pulp	2020 Renewable Energy	2020 Consolidated Group
External services	143,828	58,205	200,589	126,190	56,754	178,258
Use of emission allowances (note 33)	4,862	2,717	7,579	3,196	1,972	4,213
Taxes other than income tax	3,026	1,756	4,782	3,288	1,819	5,107
Electricity generation levy (Appendix III)	3,098	6,290	9,388	5,307	14,374	19,681
Change in trade and other provisions	2,467	103	2,570	(619)	158	(461)
Other non-recurring operating expenses (notes 7 & 33)	(13,191)	-	(13,191)	5,000	-	5,000
	144,090	**69,071**	**211,717**	**142,362**	**75,077**	**211,798**

(*) The difference between the figures presented under "Consolidated Group" for 2021 and 2020 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 2021 and 2020 in the amounts of €1,444 thousand and €5,641 thousand, respectively.

13.1 External services

The breakdown of "External services" in 2021 and 2020 is as follows:

€ 000	2021 Pulp	2021 Renewable Energy	2021 Consolidated Group	2020 Pulp	2020 Renewable Energy	2020 Consolidated Group
Transport, freight and business expenses	45,955	1,099	47,054	41,291	785	42,076
Utilities	42,584	4,605	47,112	32,337	2,301	34,638
Repairs and upkeep	14,824	22,521	37,345	13,291	25,391	38,682
Independent professional services	7,592	1,151	8,743	6,276	147	6,393
Insurance premiums	3,835	2,321	6,156	3,240	2,179	5,419
Banking and similar services	1,348	787	2,135	1,795	992	2,787
Rent and fees (note 18.3)	458	275	733	520	300	820
Advertising, publicity and public relations	795	123	918	3,026	63	3,089
Research and development costs	100	-	100	200	-	200
Other services	26,337	25,323	50,293	24,214	24,596	44,154
	143,828	**58,205**	**200,589**	**126,190**	**56,754**	**178,258**

(*) The difference between the figures presented under "Consolidated Group" for 2021 and 2020 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 2021 and 2020 in the amounts of €1,444 thousand and €4,686 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 €80 thousand in 2021 (2020: €49 thousand).

13.2 Audit fees

The financial statements of the companies comprising ENCE (Appendix I) were audited by KPMG Auditores, S.L. and Pricewaterhousecoopers Auditores, S.L. in 2021 and 2020, respectively. The Group switched auditor in 2021 because the outgoing auditor had been auditing ENCE for 10 years, which is the limit set in Spain's Account Audit Act (Law 22/2015 of 20 July 2015).

The fees paid to the auditor and entities related to the latter for account auditing and other services in 2021 and 2020 are shown in the next table:

€ 000	2021	2020
Audit services	208	209
Audit-related services	50	3
Other services	18	25

The audit-related services provided in 2021 include a limited review of the interim financial disclosures. In 2020, that concept included a review of the internal control over financial reporting system and a review of the financial ratios needed to comply with covenants under financing agreements.

14. Finance income and costs

The breakdown of this heading in 2021 and 2020 was as follows:

€ 000	2021			2020		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
Convertible bonds	(4,985)	-	(4,985)	(4,891)	-	(4,891)
Notes	-	(3,253)	(3,253)	-	(3,262)	(3,262)
Loans, credit facilities & other	(4,512)	(3,140)	(7,652)	(6,970)	(4,684)	(11,654)
Fees and other charges	(3,021)	(2,701)	(5,722)	(2,185)	(3,092)	(5,277)
Capitalised borrowing costs (note 19)	244	11	255	53	17	70
Inter-business finance income/cost (note 36)	1,246	(2,507)	(1,261)	2,750	(2,750)	-
Right-of-use assets (note 18)	(989)	(34)	(1,023)	(1,407)	(303)	(1,710)
Contingent consideration	(622)	642	20	-	-	-
Other finance income	3,335	1,116	4,451	646	3	649
	(9,304)	(9,866)	(19,170)	(12,004)	(14,071)	(26,075)
Hedging derivatives:						
Settlement of IR swap (note 32)	(253)	(2,048)	(2,301)	(125)	(2,073)	(2,198)
	(253)	(2,048)	(2,301)	(125)	(2,073)	(2,198)
	(9,557)	**(11,914)**	**(21,471)**	**(12,129)**	**(16,144)**	**(28,273)**

15. Earnings per share

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

Loss per share	Unit	2021	2020
Consolidated loss for the period attributable to owners of the parent	€ 000	(190,409)	(26,432)
Weighted average ordinary shares outstanding (*)	Shares, m	242.3	242.9
Weighted average diluted shares	Shares, m	262.4	264.1
Basic loss per share	**€**	**(0.78)**	**(0.11)**
Diluted loss per share	**€**	**(0.78)**	**(0.11)**

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

The diluted earnings per share figures in 2021 and 2020 do not include the potential ordinary shares originating from the Group's convertible securities - 19.8 million shares in 2021 and 21.2 million in 2020 - as their inclusion has an anti-dilutive effect.

The potential shares related with delivery of the 2019-2023 long-term bonus plan targets (note 12.2), estimated at 1,980 thousand shares at year-end 2021, assuming target delivery of 100%, similarly have anti-dilutive effects and have therefore been ignored for 2021 and 2020 diluted EPS calculation purposes.

16. 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 2021 and 2020 is as follows:

	€ 000			
31 December 2021	Balance at 01/01/2021	Additions/ (charges)	Transfers	Balance at 31/12/2021
Goodwill	2,737	-	-	2,737
Software	30,669	323	317	31,309
Development costs	18,452	-	-	18,452
Prepayments	4,771	2,388	(4,911)	2,248
Electric power generation rights	21,045	-	(43)	21,002
Other intangible assets	6,117	-	4,602	10,719
Total cost	**83,791**	**2,711**	**(35)**	**86,467**
Software	(22,337)	(2,444)	35	(24,746)
Development costs	(12,900)	(483)	-	(13,383)
Electric power generation rights	(643)	(841)	-	(1,484)
Other intangible assets	(1,413)	(189)	-	(1,602)
Total amortisation	**(37,293)**	**(3,957)**	**35**	**(41,215)**
Impairment (note 21)	**(4,595)**	**(2,719)**	**-**	**(7,314)**
Total	**41,903**			**37,938**

31 December 2020	€ 000				
	Balance at 01/01/2020	Changes in consol. scope (note 6)	Additions/ (charges)	Transfers	Balance at 31/12/2020
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
Electric power generation rights	21,045	-	-	-	21,045
Other intangible assets	23,596	(17,878)	399	-	6,117
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)
Electric power generation rights	-	-	(643)	-	(643)
Other intangible assets	(2,743)	2,724	(1,394)	-	(1,413)
Total amortisation	**(34,911)**	**2,955**	**(5,337)**	**-**	**(37,293)**
Impairment (note 21)	**(4,638)**	**582**	**(539)**	**-**	**(4,595)**
Total	**61,901**				**41,903**

16.1 Additions and other movements

The Group made significant investments in both years to digitalise and standardise ENCE's key business processes; it also made investments to acquire watering rights for some of its forest assets in southern Spain.

The Group did not capitalise any own work within intangible assets in 2021 or 2020.

At 31 December 2021, there were fully-amortised intangible assets still in use with an original cost of €26,164 thousand (year-end 2020: €24,362 thousand).

16.2 Goodwill

The breakdown of the Group's goodwill at 31 December 2021 and 2020 by the cash-generating units to which it has been assigned is provided in the table below:

31 December 2021		€ 000		
CGU allocated to	Technology	Goodwill	Impairment (note 21)	Carrying amount
Renewable Energy business:				
Jaen 16 MW - Ciudad Real 16 MW	Biomass	2,737	(1,244)	1,493
		2,737	**(1,244)**	**1,493**

31 December 2020		€ 000		
CGU allocated to	Technology	Goodwill	Impairment (note 21)	Carrying amount
Renewable Energy business:				
Jaen 16 MW - Ciudad Real 16 MW	Biomass	2,737	(995)	1,742
		2,737	**(995)**	**1,742**

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 (note 21).

17. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2021 and 2020 is as follows:

	€ 000						
31 December 2021	Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Transfer to held-for-sale (note 20)	Transfers	Translation differences	Balance at 31/12/2021
Forest land	83,794	-	-	-	-	-	83,794
Other land	17,837	4	-	-	(3,526)	10	14,325
Buildings	157,150	545	(2,460)	-	6,160	-	161,395
Plant and machinery	1,838,120	46,881	(28,523)	-	22,467	8	1,878,953
Other PP&E	61,911	115	(113)	-	2,425	1	64,339
Prepayments and PP&E in progress	23,320	33,142	(17)	(1,626)	(27,526)	-	27,293
Right-of-use - Land (note 18)	42,305	1,504	(30,402)	-	-	-	13,407
Right-of-use assets - Other assets (note 18)	9,887	3,713	(1,998)	-	-	-	11,602
Total cost	**2,234,324**	**85,904**	**(63,513)**	**(1,626)**	**-**	**19**	**2,255,108**
Buildings	(67,972)	(4,326)	2,182	-	-	-	(70,116)
Plant and machinery	(1,009,990)	(68,197)	26,148	-	-	(9)	(1,052,048)
Other PP&E	(37,067)	(2,586)	480	-	-	(2)	(39,175)
Right-of-use - Land (note 18)	(3,246)	(1,175)	2,276	-	-	-	(2,145)
Right-of-use assets - Other assets (note 18)	(3,527)	(2,459)	1,642	-	-	-	(4,344)
Total depreciation	**(1,121,802)**	**(78,743)**	**32,728**	**-**	**-**	**(11)**	**(1,167,828)**
Impairment (notes 7 & 21)	**(19,646)**	**(186,565)**	**2,492**	**-**	**-**	**-**	**(203,719)**
Carrying amount	**1,092,876**						**883,561**

31 December 2020	€ 000 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 18)	42,448	-	403	(546)	-	-	42,305
Right-of-use assets - Other assets (note 18)	12,939	(7,777)	4,927	(202)	-	-	9,887
Total 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 18)	(1,991)	-	(1,618)	363	-	-	(3,246)
Right-of-use assets - Other assets (note 18)	(1,674)	561	(2,490)	76	-	-	(3,527)
Total depreciation	**(1,167,549)**	**106,186**	**(92,616)**	**32,169**	**-**	**8**	**(1,121,802)**
Impairment (note 21)	**(23,595)**	**-**	**(1,107)**	**5,056**	**-**	**-**	**(19,646)**
Carrying amount	**1,238,304**						**1,092,876**

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

17.1 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:

	€ 000 2021	2020
Pulp business:		
Pontevedra (*)	49,047	14,454
Navia	16,201	29,355
Other	128	340
Renewable Energy business:		
46-MW Huelva	3,171	10,718
50-MW Huelva	3,941	3,612
50-MW Puertollano	2,144	10,940
Other	6,055	10,652
Subtotal	**80,687**	**80,071**
Right-of-use assets (note 18)	5,217	5,330
	85,904	**85,401**

(*) Includes the asset recognised as a result of the re-estimation of the Pontevedra dismantlingprovision in the amount of €42,267 (notes 7 and 33).

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.

Pulp business

The most significant investments carried out in 2021 and 2020 related to the capacity added at both biomills: 80,000 tonnes in Navia and 20,000 tonnes in Pontevedra.

Capital commitments

At year-end 2021, the Group was contractually committed to €22.9 million of capital expenditure, to be incurred in 2022.

17.2 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:

€ 000	YE 2021	YE 2020
Buildings	24,237	23,887
Plant	93,004	49,506
Machinery & equipment	340,439	381,700
Tools	739	1,642
Furniture and fittings	2,200	6,289
Other	17,206	5,822
	477,825	**468,846**

17.3 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. That value was determined by independent expert appraisers. As permitted under IFRS, the revalued amounts were considered the land's deemed cost. The gain on the revaluation amounted to €54,102 thousand at year-end 2021 and 2020 and is included in “Valuation adjustments” in equity (note 23.6).

17.4 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.

18. Right-of-use assets

18.1 Right-of-use assets

The reconciliation of the carrying amounts of the various components of "Right-of-use assets" and the corresponding accumulated depreciation charges at the beginning and end of 2021 and 2020:

		€ 000			
31 December 2021	Note	Balance at 01/01/2021	Additions/ (charges)	Derecognitions	Balance at 31/12/2021
Cost:					
Pontevedra biomill land	7 & 17	33,351	-	(29,560)	3,791
Forest leases	17	8,954	1,504	(842)	9,616
Other (*)	17	9,887	3,713	(1,998)	11,602
Cost		**52,192**	**5,217**	**(32,400)**	**25,009**
Depreciation:					
Pontevedra biomill land	7 & 17	1,488	372	(1,860)	-
Forest leases	17	1,758	803	(416)	2,145
Other (*)	17	3,527	2,459	(1,642)	4,344
Depreciation		**6,773**	**3,634**	**(3,918)**	**6,489**
Impairment	7 & 21	**-**	**3,790**	**-**	**3,790**
Carrying amount		**45,419**			**14,730**

(*) Mainly includes offices and vehicles.

		€ 000				
31 December 2020	Note	Balance at 01/01/2020	Additions/ (charges)	Derecognitions	Changes in consol. scope	Balance at 31/12/2020
Cost:						
Pontevedra biomill land	17	33,351	-	-	-	33,351
Forest leases	17	9,098	402	(546)	-	8,954
Other (*)	17	12,939	4,927	(202)	(7,777)	9,887
Cost		**55,388**	**5,329**	**(748)**	**(7,777)**	**52,192**
Depreciation:						
Pontevedra biomill land	17	744	744	-	-	1,488
Forest leases	17	1,248	873	(363)	-	1,758
Other (*)	17	1,674	2,491	(77)	(561)	3,527
Depreciation		**3,666**	**4,108**	**(440)**	**(561)**	**6,773**
Carrying amount		**51,722**				**45,419**

(*) Mainly includes offices and vehicles.

18.2 Lease liabilities

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2021 and 2020 is as follows:

31 December 2021	Note	Balance at 01/01/2021	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 31/12/2021
		€ 000						
Current debt	30.2	2,477	-	(5,114)	(434)	6,043	1,023	3,995
Non-current debt	7 & 30.2	43,489	8,932	-	(32,802)	(6,043)	-	13,576
		45,966	**8,932**	**(5,114)**	**(33,236)**	**-**	**1,023**	**17,571**

31 December 2020	Note	Balance at 01/01/2020	Additions	Installments paid	Derecognitions	Transfers	Interest	Changes in consol. scope	Balance at 31/12/2020
		€ 000							
Current debt	30.2	2,471	-	(5,804)	(54)	4,332	1,710	(178)	2,477
Non-current debt	30.2	49,792	5,545	-	(269)	(4,332)	-	(7,247)	43,489
		52,263	**5,545**	**(5,804)**	**(323)**	**-**	**1,710**	**(7,425)**	**45,966**

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%-2.8% for contacts with a term of between one and five years; of 2.8%-3.0% for contracts with a term of between 5 and 10 years; of 3.0%-3.3% for contracts with a term of between 10 and 20 years; and of 3.3%-3.9% for leases with a term of between 20 and 40 years.

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

18.3 Amounts recognised in the consolidated 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 2021 and 2020:

2021	Note	Depreciation	Finance costs	Lease payments
		€ 000		
Depreciation of right-of-use assets:				
Pontevedra biomill land	14 & 17	372	681	1,570
Other land	14 & 17	803	255	951
Other assets	14 & 17	2,459	87	2,593
		3,634	**1,023**	**5,114**

(*) In 2021, the Group capitalised €255 thousand of borrowing costs within the carrying amount of its forest cover (2020: €70 thousand).

2020	Note	€ 000 Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	14 & 17	744	1,124	1,418
Other land	14 & 17	873	70	1,153
Other assets	14 & 17	2,491	516	3,233
		4,108	**1,710**	**5,804**

The expenses recognised in connection with short-term leases and variable lease payments not included in the measurement of the lease liability amounted to €733 thousand in 2021 (2020: €820 thousand) (note 13.1).

Considering the leases in place at 31 December 2021, depreciation charges and interest expense related to the Group's right-of-use assets will average €2.2 million and €0.3 million, respectively, in the next five years (at year-end 2020: €2 million and €1.5 million, respectively).

19. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". The movement in this heading 2021 and 2020:

31 December 2021	€ 000 Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2021
Pulp business:				
Forest cover	120,516	4,907	(9,619)	115,804
Depletion of forest reserve	(46,831)	(11,430)	6,470	(51,791)
Impairment (notes 7 & 21)	(2,651)	(3,479)	1,700	(4,430)
	71,034	**(10,002)**	**(1,449)**	**59,583**
Renewable Energy business:				
Forest cover	2,619	33	(271)	2,381
Depletion of forest reserve	(2,254)	(130)	251	(2,133)
Impairment (note 21)	(129)	-	20	(109)
	236	**(97)**	**-**	**139**
	71,270			**59,722**

€ 000	€ 000			
	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 21)	(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 21)	(385)	-	256	(129)
	344	**(108)**	**-**	**236**
	79,076			**71,270**

In 2021, ENCE planted 558 hectares of land (2020: 139 hectares) and carried out forest preservation and protection work on 7,217 hectares (2020: 4,265 hectares), work which entailed investment totalling €4,940 thousand (2020: €3,388 thousand). A portion of the amount capitalised - €3,957 thousand in 2021 and €2,235 thousand in 2020 - has been recognised within "Own work capitalised" in the consolidated statement of profit or loss.

In 2021, the Group capitalised €1,058 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs (2020: €943 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.

19.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2021 and 2020 is provided below:

	Spain & Portugal			
	2021		2020	
Age (years)	Hectares (*)	Carrying amount (€ 000)	Hectares (*)	Carrying amount (€ 000)
> 17	1,079	1,884	1,112	2,516
14 - 16	3,523	9,598	4,027	12,383
11 - 13	8,833	20,839	8,830	22,789
8 - 10	8,096	12,709	8,825	17,025
4 - 7	8,526	7,038	10,185	8,742
0 - 3	16,831	12,193	14,777	10,595
Impairment of biological assets	-	(4,539)	-	(2,780)
	46,888	**59,722**	**47,756**	**71,270**

(*) Owned forest area planted

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

20. Non-current assets held for sale

ENCE did not have any "Non-current assets held for sale" at 31 December 2021 or 2020.

21. 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:

		€ 000					
			Additions/(charges)				
	Note	01/01/2021	Pontevedra concession arrangement (note 7)	Other	Amounts used	Amounts reversed	31/12/2021
Goodwill	16	995	-	249	-	-	1,244
Other intangible assets	16	3,600	2,470	-	-	-	6,070
Property, plant and equipment	17	19,646	186,565	-	(2,286)	(206)	203,719
Biological assets	19	2,780	2,479	1,000	(1,720)	-	4,539
Inventories							
Spare parts	22	15,269	2,929	657	(72)	(9)	18,774
Net realisable amount & other	22	977	-	288	-	(1,223)	42
		43,267	**194,443**	**2,194**	**(4,078)**	**(1,438)**	**234,388**

		€ 000					
	Note	01/01/2020	Additions/ (charges)	Amounts used	Amounts reversed	Changes in consol. scope	31/12/2020
Goodwill	16	1,038	539	-	-	(582)	995
Other intangible assets	16	3,600	-	-	-	-	3,600
Property, plant and equipment	17	23,595	1,107	(4,352)	(704)	-	19,646
Biological assets	19	7,273	672	(5,165)	-	-	2,780
Inventories							-
Spare parts	22	14,460	826	(5)	(12)	-	15,269
Net realisable amount & other	22	2,245	2,727	-	(3,995)	-	977
		52,211	**5,871**	**(9,522)**	**(4,711)**	**(582)**	**43,267**

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 were written down for impairment by €12 million at year-end 2021 (2020: €16 million).

The Group writes slow-moving parts down for impairment. Specifically, it begins to recognise impairment charges when an asset has not been turned 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 2021 and 2020 consolidated statements of profit or loss is shown below:

€ 000	Note	2021 Impairment losses (*)	2021 Gains/(losses) on derecognition/ sale	2021 Total	2020 Impairment	2020 Gains/(losses) on derecognition/ sale	2020 Total
Goodwill	13	249	-	249	(539)	-	(539)
Other intangible assets	13	2,470	-	2,470	-	-	-
Property, plant and equipment	4 & 14	186,359	(289)	186,070	(404)	-	(404)
Biological assets	4 & 16	3,479	1,231	4,710	(672)	-	(672)
		192,557	**942**	**193,499**	**(1,615)**	**-**	**(1,615)**

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

21.1 Methodology and key assumptions

ENCE tests its assets for indications of impairment at least annually. If any such indications are detected, it carries out the corresponding impairment tests, following the methodology outlined in note 3.5. It also tests the CGUs to which goodwill has been allocated systematically.

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 business

Biomill output: the projections assume production levels that are consistent with prior-year levels and the nominal installed capacity of the facilities, specifically between 600 and 620 thousand tonnes in Navia and between 300 and 450 thousand tonnes in Pontevedra.

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 USD910 and USD970. The exchange rate modelled is USD/EUR1.18.

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.

The discount rate used was 8.5%. In the case of the biological assets, the growth and discount rates are 1.5% and 7.6%, respectively.

Renewable Energy

Considering foreseeable future energy sale prices, the maturity in 2021 of the sales price hedges arranged exceptionally in 2020 at a time of record low prices and significant uncertainty and certain other factors, it was concluded that there are no indications that the Renewable Energy business may be impaired. The impairment tests performed on the CGUs to which goodwill has been allocated were run using the following assumptions:

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 €170/MWh in 2022, 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%.

21.2 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 and sales prices by 5% for 2022 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 2021, impairment losses stood at €4,539 thousand (year-end 2020: €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 €5.9 million of impairment losses.

22. Inventories

The breakdown of the Group's inventories at 31 December 2021 and 2020 is as follows:

€ 000	2021	2020
Timber and biomass	16,468	15,281
Other raw materials	4,192	2,765
High-turnover spare parts (*)	9,005	10,736
Greenhouse gas emission allowances	7,332	6,015
Finished goods and work in progress	26,686	17,638
Prepayments to suppliers	390	373
Projects under development (note 6)	1,662	-
Impairment (note 21)	(42)	(977)
	65,693	**51,831**

(*) Presented net of impairment allowances of €18,744 thousand and €15,269 thousand at 31 December 2021 and 2020, respectively (notes 7 and 27).

There are no restrictions on title to inventories.

At 31 December 2021, the Group had entered into agreements with suppliers for the purchase, during the next three years, of (i) 1.9 million tonnes of biomass for use at the power plants constituting the Renewable Energy business; and (ii) gas equivalent to 348 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.

22.1 Emission allowances

The reconciliation of the opening and year-end Group-owned greenhouse gas (GHG) emission allowance balances for 2021 and 2020 is provided in the next table:

	2021		2020	
	Number of allowances	€ 000	Number of allowances	€ 000
Opening balance	345,225	6,015	226,189	4,639
Allocations	148,705	5,469	114,695	2,754
Delivered (*)	(216,463)	(4,152)	(225,758)	(4,696)
Purchased	-	-	190,000	3,086
Changes in consol. scope (note 6)	-	-	(1,916)	(61)
Other	-	-	42,015	293
Closing balance	**277,467**	**7,332**	**345,225**	**6,015**

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

The Spanish government approved a new plan for the free allocation of GHG emission allowances for 2021 to 2025 on 13 July 2021. Under that plan, the Group received allowances equivalent to 148,705 tonnes of carbon emissions, valued at €5,469 thousand, in 2021 (114,695 tonnes valued at €2,754 thousand in 2020).

"Current provisions" on the liability side of the consolidated statement of financial position includes €7,578 thousand at 31 December 2021 (€4,213 thousand at year-end 2020) corresponding to the liability derived from the consumption of 203,791 allowances in 2021 (230,785 allowances in 2021) (note 33).

At 31 December 2021, the Group was contractually committed to the forward purchase of 28,000 allowances at an average price of €63.25/tonne. Those contracts are expected to be executed in 2022. Elsewhere, in 2020 the Group executed forward purchase contracts over 190,000 allowances at a price of €16.24/tonne.

23. Equity

23.1 Issued capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2021 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 2021 and 2020 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	31/12/2021	31/12/2020
Juan Luis Arregui / Retos Operativos XXI, S.L.	29.44	29.44
Víctor Urrutia / Asúa Inversiones, S.L.	7.29	7.29
Jose Ignacio Comenge / La Fuente Salada S.L.	6.38	6.38
Bestinver Gestión S.G.I.I.C. S.A.	0.00	3.12
Own shares	1.59	1.38
Directors with ownership interest of < 3%	0.55	0.55
Free float	54.75	51.84
Total	**100.00**	**100.00**

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

23.2 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.

23.3 Reserves

Below is the reconciliation of the opening and closing reserve balances for 2021 and 2020:

	Parent company reserves							
€ 000	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 reserves**
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	-	-	-	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**
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	5,041	33,220	5,573	(70,195)	(71)	(26,432)
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	(1,465)	-	-	-	(1,465)
Non-controlling interests and other movements	-	-	-	19,384	-	(20,488)	-	(1,104)
Balance at 31 December 2021	**45,049**	**10,566**	**19,701**	**150,280**	**-**	**53,646**	**(79)**	**279,163**

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.

23.4 Reserves in fully-consolidated companies

The balance of reserves in consolidated companies that is restricted stood at €21,143 thousand at year-end 2021 (year-end 2020: €19,240 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

23.5 Own shares

The reconciliation of "Own shares" at the beginning and end of 2021 and 2020 is as follows:

	2021		2020	
	No. of shares	€ 000	No. of shares	€ 000
Opening balance	3,393,738	11,856	3,297,853	11,783
Purchases	17,364,821	54,926	17,342,552	48,489
2019-2025 LT bonus plan (note 12.2)	(9,889)	(32)	-	-
Sales	(16,824,920)	(54,454)	(17,246,667)	(48,416)
Closing balance	**3,923,750**	**12,296**	**3,393,738**	**11,856**

The own shares held by the Company at 31 December 2021 represent 1.59% of its share capital (1.38% at 31 December 2020) and were carried at €3,531 thousand (€3,054 thousand at 31 December 2020). Those shares were acquired at an average price of €3.13 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 12.2).

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.

23.6 Valuation adjustments

The breakdown of "Valuation adjustments" on the consolidated statement of financial position at year-end is provided below:

	31/12/2021			**31/12/2020**		
€ 000	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Revaluation of land (note 17.3)	54,102	13,509	40,593	54,102	13,509	40,593
Hedging transactions (note 32)						
IR swap	(1,981)	(495)	(1,486)	(3,584)	(896)	(2,688)
Energy sales hedges	-	-	-	(3,984)	(996)	(2,988)
Pulp prices	-	-	-	(760)	(190)	(570)
Foreign currency	(6,977)	(1,745)	(5,232)	6,764	1,690	5,074
	45,144	**11,269**	**33,875**	**52,538**	**13,117**	**39,421**

23.7 Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" on the consolidated statement of financial position at the beginning and end of 2021 and 2020 is as follows:

€ 000	Balance at 01/01/2021	Bonds bought back	Liquidación	Reclassified to profit or loss	Tax effect	Balance at 31/12/2021
Convertible bonds (note 30)	10,431	(2,365)	-	-	712	8,778
Long-term incentive plan (note 12.2)	1,256	-	(73)	(86)	22	1,119
	11,687	**(2,365)**	**(73)**	**(86)**	**734**	**9,897**

€ 000	Balance at 01/01/2020	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 31/12/2020
Convertible bonds (note 30)	10,913	(482)	-	-	10,431
Long-term incentive plan (note 12.2)	748	-	677	(169)	1,256
	11,661	**(482)**	**677**	**(169)**	**11,687**

23.8 Corporate credit ratings

Standard & Poor's reiterated ENCE's BB- rating on 6 December 2021, a decision it attributed to the recovery in pulp and electricity prices, as well as the Company's strong liquidity position. It did, however, change its outlook from Stable to Negative to reflect the risk of annulment of the extension of the concession in Pontevedra (note 7).

On 14 October 2021, Moody's reiterated ENCE's credit rating of Ba3 in light of the improvement in its credit ratios thanks to the recovery in pulp prices, as well as its strong liquidity position. It likewise changed its outlook from Stable to Negative to reflect the risk of annulment of the extension of the concession in Pontevedra.

23.9 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2021 and 2020 is as follows:

2021	€ 000				
Company	Balance at 01/01/2021	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 31/12/2021
Energía de la Loma, S.A.	4,706	387	(275)	-	4,818
Energías de la Mancha Eneman, S.A.	5,312	1,163	(940)	-	5,535
Bioenergía Santamaría, S.A.	66	422	(49)	-	439
Ence Energía, S.L. and subsidiaries	126,622	(13,522)	(12,101)	1,067	102,066
Total	**136,706**	**(11,550)**	**(13,365)**	**1,067**	**112,858**

2020 Company	Miles de Euros 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. and subsidiaries	-	-	-	126,622	126,622
Total	**18,250**	**1,700**	**(1,408)**	**118,164**	**136,706**

On 20 December 2020, Ence Energía y Celulosa, S.A. completed the sale of a minority interest of 49% in Ence Energía, S.L., 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. 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).

24. Shareholder remuneration and proposed appropriation of the Parent's profit

24.1 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.

24.2 Proposed appropriation of the Parent's profit

In 2021, Ence Energía y Celulosa, S.A. recognised a separate loss of €181,378 thousand, as a result, mainly, of the impacts of the sentences annulling the extension of the concession over the public-domain land on which the Pontevedra biomill is built (note 7). The Parent's directors therefore propose appropriating that loss to “Appropriation of prior-year profit/(loss)”, a motion that will be submitted for approval at the Annual General Meeting.

25. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2021 and 2020 is as follows:

€ 000	Subsidised loans (note 30.2)	Grants relating to assets	Emission allowances (note 22.1)	Total
Balance at 31 December 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 December 2020	**34**	**5,524**	**-**	**5,558**
Additions, new grants (*)	-	219	-	219
Emission allowances granted	-	-	5,469	5,469
Reclassified to profit or loss	(33)	(865)	(5,469)	(6,367)
Balance at 31 December 2021	**1**	**4,878**	**-**	**4,879**

(*) Net of costs 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 received 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 profit or loss over the life of the loans on a systematic financial basis (note 30.2).

Lastly, the Group had been granted aid totalling €1,600 thousand at year-end 2021 (year-end 2020: €1,681 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.

26. Financial instruments by category

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

Year-end 2021 € 000	Note	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total a 31/12/2021
Investments accounted for using the equity method		-	-	26	26
Trade and other receivables	27	78,258	-	-	78,258
Trade receivables and other financial assets - Group companies and related parties	27 & 36	736	-	-	736
Other financial assets	29.2	18,821	-	22,774	41,595
Cash and cash equivalents	29.1	379,964	-	-	379,964
Total financial assets		**477,779**	**-**	**22,800**	**500,579**
Derivative financial instruments	32	-	11,753	-	11,753
Trade payables	28	259,596	-	-	259,596
Other accounts payable	31	84,619	-	-	84,619
Trade payables and other financial liabilities - Group companies and related parties	28 & 36	40,397	-	-	40,397
Notes and other marketable securities	30.1	217,674	-	-	217,674
Bank borrowings	30.1	204,966	-	-	204,966
Other financial liabilities	30.2	75,609	-	-	75,609
Total financial liabilities		**882,861**	**11,753**	**-**	**894,614**

Year-end 2020 € 000	Note	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total at 31/12/2020
Investments accounted for using the equity method		-	-	31	31
Derivative financial instruments	32	-	6,764	-	6,764
Trade and other receivables	27	57,757	-	-	57,757
Trade receivables and other financial assets - Group companies and related parties	27 & 36	174	-	-	174
Other financial assets	29.2	29,899	-	22,512	52,411
Cash and cash equivalents	29.1	522,620	-	-	522,620
Total financial assets		**610,450**	**6,764**	**22,543**	**639,757**
Derivative financial instruments	32	-	13,699	-	13,699
Trade payables	28	258,319	-	-	258,319
Other accounts payable	31	5,955	-	-	5,955
Trade payables and other financial liabilities - Group companies and related parties	28 & 36	37,467	-	-	37,467
Notes and other marketable securities	30.1	238,869	-	-	238,869
Bank borrowings	30.1	370,165	-	-	370,165
Other financial liabilities	30.2	110,390	-	-	110,390
Total financial liabilities		**1,021,165**	**13,699**	**-**	**1,034,864**

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 fair value of the contingent consideration is measured using level 3 inputs based on the terms of the sale agreement, the Group's knowledge of the business and the effects of the current economic climate.

The convertible bonds issued by ENCE were trading at 99.15% of par at 31 December 2021. 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. Note that the majority of the Group’s non-current liabilities are arranged at floating interest rates.

27. 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:

€ 000	31/12/2021	31/12/2020
Trade receivables:		
Pulp	42,325	19,204
Renewable Energy	29,521	34,117
Other items	1,058	4,382
Trade receivables, group companies and related parties (note 36)	700	138
Sundry receivables	9,839	4,214
Provision for impairment	(4,485)	(4,160)
	78,958	**57,895**

The credit period on pulp sales averages between 46 and 50 days. The fair value of pulp receivables does not differ significantly from their carrying amount.

27.1 Factoring facilities

The Group had drawn down €67,016 thousand under non-recourse factoring agreements with an aggregate limit of €135,000 thousand at 31 December 2021 (€88,352 thousand and €135,000 thousand, respectively, at 31 December 2020). The Group pays interest equivalent to 3-month EURIBOR plus a spread ranging between 1.10% and 1.60% on the receivables sold under those agreements.

The trade receivables not discounted under those facilities at year-end 2021 are expected to be collected from the corresponding debtors, rather than via sale.

28. 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:

€ 000	31/12/2021	31/12/2020
Trade and other accounts payable	227,019	193,402
Trade payables, group companies and related parties	2,301	632
Payable to fixed-asset suppliers	24,452	53,697
Employee benefits payable	6,597	10,005
Adjustments for tariff shortfall/surplus (note 31)	1,528	1,215
	261,897	**258,951**

The Group had drawn down €97,601 thousand under non-recourse reverse factoring agreements with an aggregate limit of €181,000 thousand at 31 December 2021 (€132,111 thousand and €165,000 thousand, respectively, at 31 December 2020). 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.

Spanish Law 15/2010 (5 July 2010) addressing the 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 2021 and 2020 as well as the transactions outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2021	2020
Average supplier payment term (days)	74	72
Paid transactions ratio (days)	75	73
Outstanding transactions ratio (days)	58	46
	€ 000	
Total payments made	770,009	625,155
Total payments outstanding by more than the legally-stipulated term	56,800	37,676

29. Financial assets

29.1 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 €372,964 thousand of cash and cash equivalents at 31 December 2021 (€522,620 thousand at year-end 2020), €318,496 thousand of which corresponding to the Pulp business and €61,468 thousand to the Renewable Energy business (year-end 2020: €448,089 thousand and €74,531 thousand, respectively).

When assessing the availability of the Group's cash, the reader should note that a portion of the balance held in dollars, namely US$9,867 thousand, was pledged to guarantee certain timber purchases arranged at the end of 2021.

29.2 Other financial assets

The breakdown of this consolidated statement of financial position heading at year-end 2021 and 2020:

	31/12/2021		31/12/2020	
€ 000	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 31)	-	-	-	8,080
ENCE's share liquidity agreement (note 23.5)	318	-	3,209	-
Contingent consideration (note 6)	8,510	14,264	9,234	13,278
Debt cash reserve	-	10,000	-	10,000
Security deposits and other accounts receivable	6,287	2,216	5,772	2,838
	15,115	**26,480**	**18,215**	**34,196**

The “Debt cash reserve” includes €10 million of cash held to cover the obligation, stipulated in the financing taken on by the Renewable Energy business, 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 30), which was fully undrawn at both 31 December 2021 and 31 December 2020.

The movement in the fair value of the contingent consideration, the main financial instrument classified within Level 3 of the fair value measurement hierarchy, implied the recognition of finance income, associated with the unwinding of the balance receivable, in the amount of €2,181 thousand; finance costs associated with movements in fair value in the amount of €1,430 thousand; and a reduction in the amount collectible of €490 thousand.

30. Borrowings

30.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2021 and 2020 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

			Maturity					
2021			Current					
€ 000	Limit	Drawn down	2022	2023	2024	2025	2026	Total non-current
Borrowings - Pulp business								
Notes issued	126,066	126,066	-	126,066		-	-	126,066
Revolving credit facility	130,000	-	-	-	-	-	-	-
Bank loans	105,000	105,000	5,000	12,500	28,414	43,981	15,105	100,000
Arrangement fees	-	(1,193)	-	-	-	-	-	(1,193)
Interest and coupons payable and other	-	1,208	1,208	-	-	-	-	-
	361,066	**231,081**	**6,208**	**138,566**	**28,414**	**43,981**	**15,105**	**224,873**
Borrowings - Renewable Energy business								
Notes issued	93,000	93,000	-	-	-	93,000		93,000
Revolving credit facility	20,000	-	-	-	-	-	-	-
Bank loans	100,450	100,450	29,400	27,067	33,733	10,250	-	71,050
Arrangement fees	-	(1,897)	-	-	-	-	-	(1,897)
Interest and coupons payable and other	-	6	6	-	-	-	-	-
	213,450	**191,559**	**29,406**	**27,067**	**33,733**	**103,250**	-	**162,153**
	574,516	**422,640**	**35,614**	**165,633**	**62,147**	**147,231**	**15,105**	**387,026**

2020			Maturity					
			Current					
€ 000	Limit	Drawn down	2021	2022	2023	2024	2025	Total non-current
Borrowings - Pulp business								
Notes issued	148,357	148,357	-	-	148,357	-	-	148,357
Notes repurchased								
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**

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 €2.3 million and €4.9 million. In the Renewable Energy business, annual interest payments during the next four years are estimated at between €4.0 million and €5.6 million.

ENCE's average borrowing cost was 2.52% in 2021 (2021: 2.42%). The average borrowing cost in the Pulp business was 1.52% (2020: 1.64%), compared to 4.19% in the Renewable Energy business (2020: 3.63%).

At 31 December 2021, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

ENCE’s borrowings do not carry any clauses that would imply their modification or renegotiation as a result of a change in its credit ratings.

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 (*):	8.0901
Conversion premium:	40%
Conversion ratio (shares / bond):	12,361
Maximum no. of shares to be issued:	19,777,259
Potential dilution (% increase in share capital):	8.03%
Traded on:	Frankfurt stock exchange
ISIN:	XS1783932863
Issuance costs:	€2,075,000

(*) The conversion price changed from 7.5517 to 8.0901 on 1 July 2021

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 2021 ENCE bought back bonds with a face value of €26,000 thousand at an average price of 99.04% of par. It recognised finance income of €2,380 thousand as a result of those transactions (note 14). In previous years it had repurchased bonds with a face value of €5,300 thousand.

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 accrued interest benchmarked to EURIBOR and was due in 2023. On 23 July 2021 that facility was refinanced, increasing its limit to €130 million and extending its maturity to 2026. The revolving credit facility was fully drawn down at 31 December 2021. 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

As of 31 December 2021, ENCE had arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan in a combined amount of €105 million; those loans fall due between 2024 and 2026. A portion of those loans, with a face value of €70 million, accrues interest at fixed rates ranging between 1.65% and 1.80%. The remainder mainly accrue interest at EURIBOR plus a spread of between 1.43% and 2.0%. The interest rate on those loans may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing.

In 2021, ENCE repaid €123 million of loans; most were prepayments designed to boost Group liquidity in the wake of heightened uncertainty as a result of COVID-19.

Other financing

In 2021, the Group cancelled €15,958 thousand of reverse factoring facilities which on account of their characteristics were classified within 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:

	€ 000			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	50,000	50,000	Dec. 2025 (ii)	3.45%
Tranche 1	42,000	42,000	dic-2024	1.75%-3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	51,000	51,000	dic-2024	1.75%-3.25%
Tranche 4	20,000	-	dic-2024	1.25%-2.75%
Senior notes (iv) and (v)	43,000	43,000	Dec. 2025 (ii)	3.45%
Tranche 5 (v)	16,150	16,150	dic-2025	1.75%-3.25%
	228,150	**208,150**		

(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) Financed the construction of the 46-MW Huelva plant.
(iv) The notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).
(v) Financed the construction of the 50-MW Puertollano plant.

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.

In calculating the "Net Debt / EBITDA" leverage ratio, the financing agreement stipulates the computation of EBITDA on the basis of consolidated profit for the year, adjusted for certain items, including non-recurring income and charges. Losses, charges, income and gains generated by initiatives or transactions that, in light of the Group's sector, are not considered related to the business and are not expected to arise on a recurring basis are considered "non-recurring" for such purposes.

Using that definition, in calculating EBITDA for the purpose of calculating the leverage ratio, the following non-recurring items were excluded: 1) costs incurred and income generated in 2021 in connection with the equipment malfunctions at the 50 MW-Huelva and 41-MW Huelva facilities with a net charge of €10.4 million; and 2) the extraordinary loss of €53.3 million caused by the physically delivered energy contracts arranged exceptionally by Ence Energia, S.L. in 2020 in a context of record low prices and heightened uncertainty as a result of the COVID pandemic, in order to lock in a minimum level of cash generation (note 32.4). The non-recurring loss caused by those contracts was determined as the difference between the fixed price locked in and pool prices. All of those contracts matured in 2021 and there are no plans, in the current regulatory environment, to arrange similar contracts on a recurring basis in the future.

The covenants also stipulate a cash sweep in the 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 (note 29).

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 82% of the financing drawn down and lock in an average rate of 1.22% (note 32).

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

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

Project finance facility at the Puertollano thermal solar power plant

On 15 December 2020, Ence Energía, S.L. closed the sale of 100% of its shares in Ence Energía Solar, S.L.U., an entity whose core purpose was to hold a 90% ownership interest in Ence Energía Termollano, S.A., the operating company that owned a 50-MW thermal solar thermal plant in Puertollano, which ENCE had acquired in November 2018.

As a result of that sale, the new owner, Q-ENERGY SORDINA, S.L.U., became 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 of 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 32).

30.2 Other financial liabilities

The breakdown of this consolidated statement of financial position heading at year-end 2021 and 2020:

Year-end 2021 € 000	Drawn down	Current 2022	Maturity 2023	2024	2025	2026	Beyond	Total non-current
Other financial liabilities - Pulp business								
Financing granted by public organisms	58,038	6,371	8,049	8,618	8,464	8,464	18,072	51,667
Liabilities for right-of-use assets (note 18)	16,445	3,614	3,267	1,403	1,773	940	5,447	12,830
	74,483	**9,985**	**11,316**	**10,021**	**10,237**	**9,404**	**23,519**	**64,497**
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 18)	1,127	381	227	191	111	35	182	746
	1,127	**381**	**227**	**191**	**111**	**35**	**182**	**746**
	75,610	**10,366**	**11,543**	**10,212**	**10,348**	**9,439**	**23,701**	**65,243**

Year-end 2020 € 000	Drawn down	Current 2021	Maturity 2022	2023	2024	2025	Beyond	Total non-current
Other financial liabilities - Pulp business								
Financing granted by public organisms	64,424	3,930	5,827	8,049	9,068	8,914	37,550	60,494
Liabilities for right-of-use assets (note 18)	44,785	2,028	2,007	1,730	1,311	1,732	37,709	42,757
	109,209	**5,958**	**7,834**	**9,779**	**10,379**	**10,646**	**75,259**	**103,251**
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 18)	1,181	449	178	139	139	106	276	732
	1,181	**449**	**178**	**139**	**139**	**106**	**276**	**732**
	110,390	**6,407**	**8,012**	**9,918**	**10,518**	**10,752**	**75,535**	**103,983**

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.

30.3 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 2021 and 2020 statement of cash flows:

2021 Thousands of euros	Balance at 01/01/2021	Cash flows: Issues and drawdowns (net of fees)	Cash flows: Repayments/ installments paid	Cash flows: Bonds bought back	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 31/12/2021
Borrowings - Pulp business										
Notes and bonds (note 30.1)	147,158	-	-	(25,749)	-	-	700	-	3,459	125,568
Bank loans	242,692	(161)	(138,480)	-	-	-	254	-	-	104,305
Other financial liabilities	64,424	116	(6,633)	-	-	-	-	-	131	58,038
Interest and coupons payable and other	1,353	-	-	-	(9,594)	9,449	-	-	-	1,208
Liabilities related with right-of-use assets	44,785	-	(4,145)	-		989	-	(25,185)	-	16,444
	500,410	**(45)**	**(149,258)**	**(25,749)**	**(9,594)**	**10,438**	**954**	**(25,185)**	**3,590**	**305,561**
Derivatives associated with financing	257	-	-	-	(252)	-	-	-	(5)	-
	500,667	**(45)**	**(149,258)**	**(25,749)**	**(9,846)**	**10,438**	**954**	**(25,185)**	**3,585**	**305,561**
Borrowings - Renewable Energy business										
Notes and bonds	91,711	-	-	-	-	-	395	-	-	92,106
Bank loans	126,071	1,300	(28,550)	-	-	-	626	-	-	99,447
Interest and coupons payable and other	50	-	-	-	(6,432)	6,389	-	-	-	7
Liabilities related with right-of-use assets	1,181	-	(969)	-		34	-	881	-	1,127
	219,013	**1,300**	**(29,519)**	**-**	**(6,432)**	**6,423**	**1,021**	**881**	**-**	**192,687**
Derivatives associated with financing	11,850	-	-	-	(3,214)	-	-	-	(3,855)	4,781
	230,863	**1,300**	**(29,519)**	**-**	**(9,646)**	**6,423**	**1,021**	**881**	**(3,855)**	**197,468**
	731,531	**1,255**	**(178,777)**	**(25,749)**	**(19,492)**	**16,861**	**1,975**	**(24,304)**	**(270)**	**503,030**

2020 Thousands of euros	Balance at 01/01/2020	Cash flows: Issues and drawdowns (net of fees)	Cash flows: Repayments/installments paid	Cash flows: Bonds bought back	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	Deconso-lidations (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)	-	-
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**

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

The breakdown at year-end 2021 and 2020:

€ 000	31/12/2021 Current	31/12/2021 Non-current	31/12/2020 Current	31/12/2020 Non-current
Adjustments for tariff shortfall/surplus	1,528	83,514	1,215	5,955
Other	-	1,105	-	-
	1,528	**84,619**	**1,215**	**5,955**

The line items "Other non-current liabilities" at year-end 2021 and 2020 and "Other non-current financial assets" at year-end 2020 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 3.15, 10 and Appendix III). The current balance due in this respect amounts to €1,528 thousand and is recognised in "Trade and other accounts payable" in the accompanying consolidated statement of financial position (note 28).

The breakdown of "Adjustment for tariff shortfall/surplus" at 31 December 2021 and 2020, classified by the year in which the balances are due settlement by the regulator and/or reclassification to profit or loss, is provided below:

2021		Maturity					
		Current					
Thousands of euros	Total	2022	2023	2024	2025	Beyond	Total non-current
Balances payable:							
Pulp business:	19,817	223	1,106	1,188	1,276	16,024	19,594
Renewable Energy business:	65,225	1,305	7,737	8,309	8,924	38,950	63,920
	85,042	1,528	8,843	9,497	10,200	54,974	83,514
Net receivable/(payable)	**85,042**	**1,528**	**8,843**	**9,497**	**10,200**	**54,974**	**83,514**

2020		Maturity					
		Current					
Thousands of euros	Total	2021	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**

32. 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 2021 and 2020 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
€ 000	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Cash flow hedges:						
IR swap	-	-	2,441	6,187	2,615	3,353
IR swap arrangement fee	-	-	(280)	(585)	-	-
Currency hedges	-	6,764	-	-	6,977	-
Energy sales price hedges	-	-	-	-	-	3,984
Pulp price hedges	-	-	-	-	-	760
Total	**-**	**6,764**	**2,161**	**5,602**	**9,592**	**8,097**

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in 2021 and 2020 are shown below:

€ 000 - Gain/(loss)	2021	2020
Impact on operating profit:		
Currency hedges	437	(9,344)
Pulp price hedges	(53,192)	-
Energy sales price hedges	(35,411)	-
Energy purchase price hedges	-	(1,496)
Subtotal	(88,166)	(10,840)
Impact on net finance costs:		
IR swap (note 14)	(2,301)	(2,198)
Total	**(90,467)**	**(13,038)**

All of the derivatives arranged by ENCE at year-end 2021 qualify for hedge accounting.

32.1 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 2021:

Underlying	Maturity	Strike price Call	Strike price Put	Notional amount (USD m)
EUR/USD	1Q22	1.181	1.232	85.5
EUR/USD	2Q22	1.179	1.219	85.5
EUR/USD	3Q22	1.170	1.197	38.5
EUR/USD	4Q22	1.135	1.158	25.6
				235.1

The contracts outstanding at 31 December 2021 cover approximately 54% and 21% of forecast pulp sales in the first and second halves of 2022, respectively. The contracts outstanding at 31 December 2020 covered 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 negative market value of €6,977 thousand at 31 December 2021 (a positive market value of €6,764 thousand at year-end 2020).

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 2021 is shown below:

€ 000	Change in USD/EUR exchange rate	Operating profit (-)/+	Impact on equity (-)/+
2021	5% depreciation	7,770	5,828
	5% appreciation	(10,474)	(7,856)
2020	5% depreciation	7,531	5,648
	5% appreciation	(6,550)	(4,913)

32.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2021 and 2020 are shown below:

	Fair	Notional amounts at reporting date:				
€ 000	value (*)	2020	2021	2022	2023	2024
2021						
Renewable Energy business	5,056	-	158,688	134,038	111,371	3,188
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

(*) Balance payable.

The main movement in the hedges written in 2020 related to the deconsolidation of the financing associated with Ence Energía Solar, S.L.U. and Ence Energía Termollano, S.A. (notes 6 and 30).

There were inefficiencies in the interest rate derivatives in 2021, prompting the Group to recognise a gain of €1,158 thousand under "Change in fair value of financial instruments" in the consolidated statement of profit or loss for year ended 31 December 2021.

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 2021 is shown below:

€ 000	Change in interest rates	Impact on finance cost (-)/+	Impact on equity (-)/+
2021	50bp increase	(370)	(2,117)
	50bp decrease	370	2,085
2020	50bp increase	(498)	(2,026)
	50bp decrease	498	2,070

32.3 Pulp price hedges

In 2020, at the start of the pandemic and faced by the uncertainty generated by the Covid-19 coronavirus, ENCE arranged swaps to hedge the sales price of 247,000 tonnes of pulp, which was equivalent to approximately 20% of forecast 2021 sales. The fair value of those swaps at 31 December 2020 was a negative €760 thousand. Those hedges were settled in 2021, entailing a cash outflow of €53,192 thousand, which has been recognised “Gains/(losses) on hedging transactions” in the accompanying consolidated statement of profit or loss.

None of those contracts was pending settlement at year-end 2021.

32.4 Energy sale-purchase price hedges

Likewise framed by the uncertainty sparked by COVID-19, in 2020 ENCE arranged commodity swaps over the price of 516,840 MWh of electricity sold to OMEL to be settled in 2021. The fair value of those swaps at 31 December 2020 was a negative €3,984 thousand. Those swaps were settled in 2021, entailing a cash outflow of €35,411 thousand, which has been recognised “Gains/(losses) on hedging transactions” in the accompanying consolidated statement of profit or loss.

Elsewhere, in 2021 a number of companies comprising the Renewable Energy business had contracts for the sale of energy at a fixed price covering a volume of approximately 215 GWh. The income generated was less than that which would have been generated by selling that energy on the market by the sum of €17,887 thousand.

All of the hedges arranged over energy sales prices and the fixed-price sale agreements had expired by year-end 2021.

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

33. Provisions, guarantees and contingent liabilities

33.1 Provisions

The reconciliation of the opening and closing balances of current and non-current provisions in 2021 and 2020 is as follows:

Year-end 2021	€ 000 Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31/12/2021
Non-current:					
Long-term remuneration plan (note 12.2)	715	94	(40)	(394)	375
Provision for dismantling (note 7)	-	42,631	-	-	42,631
Provision for contractual obligations (note 7)	-	6,059	-	-	6,059
Other	2,117	901	(858)	-	2,160
	2,832	**49,685**	**(898)**	**(394)**	**51,225**
Current					
Long-term remuneration plan (note 12.2)	-	(85)	-	394	309
Emission allowances (notes 13 & 22.1)	4,152	7,578	(4,152)	-	7,578
Pontevedra Environmental Pact (notes 7 & 13)	14,000	1,250	(15,250)	-	-
Other provisions	11,202	-	(267)	-	10,935
	29,354	**8,743**	**(19,669)**	**394**	**18,822**

Year-end 2020	€ 000 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 12.2)	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					
Employee commitments (note 12.2)	-	-	-	-	-
Emission allowances (notes 13 & 22.1)	4,696	4,213	(4,696)	(61)	4,152
Pontevedra Environmental Pact (note 7)	9,000	5,000	-	-	14,000
Other provisions	12,012	-	(810)	-	11,202
	25,708	**9,213**	**(5,506)**	**(61)**	**29,354**

"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.

33.2 Guarantees extended to third parties

At 31 December 2021, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €95,434 thousand (€119,084 thousand at 31 December 2020), as broken down in the table below.

	€ 000
Government permitting of renewable energy power generation plants	46,662
Subsidised loans (note 30.2)	11,746
Grid access - Pre-allocations	11,600
Receivable discounting lines	7,500
Tax claims	1,873
Execution of forest projects	4,531
Pontevedra concession	3,050
Electricity market	3,600
Environment related	1,604
Payments to suppliers	1,197
Other	2,071
	95,434

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.

33.3 Contingent assets and liabilities

At year-end 2021, the Group is party to legal claims and controversies arising in the ordinary course of its business. The most significant claims are detailed below:

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, "ENCE") 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, ENCE 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. On 15 November 2021, the Ministry of Ecological Transition and Demographic Challenges sent ENCE a report from the General Directorate of Energy Policy and Mining which concludes that its claim for damages is not admissible. ENCE has presented its arguments against that conclusion within the deadline granted to that end.

Any decision ENCE 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.

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. On 3 March 2021, the European Union Court of Justice ruled that the regulation governing this tax is compatible with EU law, prompting the withdrawal of the ongoing lawsuits.

34. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2021 and 2020 are shown below:

	31/12/2021		31/12/2020	
€ 000	Assets	Liabilities	Assets	Liabilities
Non-current:				
Deferred tax assets	64,149	-	71,952	-
Deferred tax liabilities	(18,586)	-	-	21,661
Total	**45,563**	-	**71,952**	**21,661**
Current:				
VAT	15,414	11,474	-	2,195
Current tax on profits for the year	1,842	78	962	5,635
Electricity generation levy	-	149	101	10,174
Sundry other taxes	481	3,955	209	8,027
Total	**17,737**	**15,656**	**1,272**	**26,031**

34.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

ENCE pays its corporate income tax through two tax consolidation groups:

- ENCE Energía y Celulosa, S.A., which has been filing its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Spanish Corporate Income Tax Act (Tax Group 149/02), along with all the Spanish companies itemised in Appendix I in which it has a shareholding of over 75%, since 2002.

- ENCE Energía y Celulosa, S.A., which has been filing its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Spanish Corporate Income Tax Act (Tax Group 410/21), along with all the Spanish companies itemised in Appendix I in which it has a shareholding of over 75%, since 2021.

  The sale of a minority interest of 49% in ENCE Energía, S.L. meant that that subsidiary and all its subsidiaries left Tax Group 149/02 with effect from 1 January 2020, joining the other Spanish entities that filed individually in 2020.

The rest of the Group companies file individual tax returns.

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 subsequently restated for the corresponding eliminations and adjustments applicable under prevailing tax consolidation rules.

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.

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2021 and 2020 is provided below:

	€ 000	
	2021	**2020**
Accounting profit: Profit/(loss) before tax (*)	(192,539)	(36,657)
Permanent differences:		
Arising in profit or loss	3,015	(130,276)
Arising in equity	(46)	(47)
Temporary differences:		
Arising during the current year:		
Temporary differences recognised in the statement of financial position	18,543	11,560
Temporary differences not recognised in the statement of financial position	163,830	-
Arising in prior years	(22,724)	5,215
Consolidation adjustments	(10,417)	99,499
Utilisation of tax losses	(625)	(1,055)
Taxable income/(tax loss)	**(40,963)**	**(51,761)**

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

The permanent differences arising from profit or loss in respect of 2021 relate mainly to impairment losses on equity investments in Group companies.

The permanent differences arising from profit or loss in respect of 2020 corresponded 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. on the sale of certain shareholdings, in a combined amount of €120 million. A part of that gain, namely €83.6 million, was eliminated upon consolidation as it was 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. The temporary differences arising in the year that have not been recognised in these annual financial statements relate to the impairment charges and provisions recognised as a result of the sentences annulling the extension of the concession over the use of the land on which the Pontevedra biomill is built. The positive adjustment in that respect totals €194,897 thousand; it is offset by a negative adjustment of €31,067 thousand, related with the inclusion in taxable income of the tax impairment equivalent to the depreciation of impaired assets considering their remaining useful lives (note 7).

34.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to tax income/(tax expense) in 2021 and 2020 is provided below:

	€ 000	
	2021	**2020**
Accounting profit: Profit/(loss) before tax (*)	(192,539)	(36,657)
Permanent differences arising in profit or loss	3,015	(130,276)
Derecognition of previously recognised deferred tax assets (unused tax losses)	85,699	-
Elimination of the accounting profit of entities not resident in Spain	615	430
Consolidation adjustments and eliminations	(10,521)	120,577
Temporary differences not recognised in the statement of financial position	163,830	-
Taxable income/(tax loss)	**50,099**	**(45,926)**
Tax payable before adjustments	**12,525**	**(11,482)**
Deductions and adjustments in respect of prior year	(3,120)	(452)
Tax corresponding to entities not resident in Spain	15	9
Tax expense /(income)	**9,420**	**(11,925)**

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

The breakdown of tax expense / (income) in 2021 and 2020:

	€ 000	
	2021	**2020**
Current tax and other	2,140	(7,731)
Deferred tax	7,280	(4,194)
Tax expense /(income)	**9,420**	**(11,925)**

34.4 Recognised deferred tax assets and liabilities

The reconciliation of this consolidated statement of financial position heading at the beginning and end of 2021 and 2020:

Deferred tax assets

2021	Balance at 01/01/2021 (€ 000)	Increases	Decreases	Transfers and other	Balance at 31/12/2021
Deferred tax assets recognised in profit or loss:					
Non-current asset depreciation	3,061	-	(940)	697	2,818
Non-current asset impairment	4,947	250	(1,067)	(1,587)	2,543
Provisions	5,387	-	(2,425)	(7)	2,955
Employee commitments	1,330	49	(59)	86	1,406
Current-asset impairment	1,931	220	(233)	(1)	1,917
Limit on deductibility of interest expense and other	843	773	(853)	804	1,567
Non-resident companies and consolidation adjustments	794	3,412	(598)	10	3,618
Unused tax losses	42,251	7,964	(156)	(19,720)	30,339
Unused tax credits	8,717	956	-	4,840	14,513
	69,261	**13,624**	**(6,331)**	**(14,878)**	**61,676**
Deferred tax assets recognised in equity:					
Hedging derivatives (note 32)	2,691	1,744	(1,963)	-	2,473
	2,691	**1,744**	**(1,963)**	**-**	**2,473**
Total	**71,952**				**64,149**

2020	Balance at 01/01/2020 (€ 000)	Increases	Decreases	Transfers and other	Changes in consol. 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 32)	3,629	1,296	(1,934)	-	(300)	2,691
	3,629	**1,296**	**(1,934)**	**-**	**(300)**	**2,691**
Total	**54,042**					**71,952**

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 tax credits by at least 15 years.

The deferred tax assets recognised correspond 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 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.

It reviews its recognised deferred tax assets at each year-end to check that they continue to qualify for capitalisation and are considered recoverable within a timeframe of approximately 10 years. 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 21); 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 the deferred tax assets recognised at year-end 2021 and 2020 will be recovered within an period of around 10 years.

In addition, at 31 December 2021, the Group had unused tax losses of €88.4 million in Spain and €1.3 million in Portugal, all of which included in the Pulp business, for which it had not recognised deferred tax assets (€2.8 million in Spain and €0.4 million in Portugal at year-end 2020). Elsewhere, the Group has not recognised any deferred tax assets in connection with the impairment losses and provisions recognised as a result of the rulings annulling the extension of the Pontevedra biomill public-domain concession in the amount of €163.8 million (note 7).

The general state budget for 2022 was published in Spain on 29 December 2021 (Law 22/2021, of 28 December 2021) , modifying the Corporate Income Tax Act to introduce the concept of “minimum taxation” in Spain in fiscal years beginning on or after 1 January 2022. ENCE factored that modification into its analysis of the recoverability of its deferred tax assets.

Deferred tax liabilities

	€ 000				
2021	**Balance at 01/01/2021**	**Increases**	**Decreases**	**Transfers and other**	**Balance at 31/12/2021**
Recognised in profit or loss:					
Accelerated depreciation (RDL 4/2004)	912	-	(182)	1	731
Finance costs	68	-	(16)	(1)	51
Consolidation and other adjustments	3,931	4,423	(4,650)	(14)	3,690
	4,911	**4,423**	**(4,848)**	**(14)**	**4,472**
Recognised in equity:					
Revaluation of forest land (note 17.3)	13,510	-	-	-	13,510
Convertible bonds (note 30)	1,654	-	(1,458)	-	196
Consolidation and other adjustments	1,586	174	(1,542)	190	408
	16,750	**174**	**(3,000)**	**190**	**14,114**
Total	**21,661**				**18,586**

2020	€ 000					
	Balance at 01/01/2020	Increases	Decreases	Transfers and other	Changes in consol. 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 17.3)	13,510	-	-	-	-	13,510
Convertible bonds (note 30)	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**

34.5 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).

All of the Group's relevant decisions have been analysed internally and also by external advisors, in 2021 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 uncertainty over tax treatments. As a general rule, it takes a prudent approach to factoring any such uncertainty into determination of its tax. ENCE has not identified any uncertain tax positions requiring assessment.

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 administrative and court proceedings pertaining to both assessments 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 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.

35. Director and key management personnel pay and other benefits

35.1 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 2021 and 2020 in their capacity as directors:

		€ 000			
		2021			
2021 - Director	Type	Fixed remuneration	Attendance fees & other	Total	2020
Fernando Abril-Martorell Hernández	Other external	45	88	133	123
Gorka Arregui Abendivar	Proprietary	33	54	87	-
Javier Arregui Abendivar	Proprietary	37	44	81	-
Oscar Arregui Abendivar	Proprietary	33	72	105	-
José Ignacio Comenge Sánchez-Real	Proprietary	45	66	111	6
Ignacio de Colmenares Brunet	Executive	135	-	135	135
Víctor de Urrutia Vallejo	Proprietary	45	38	83	77
Rosa María García Piñeiro	Independent	45	73	118	120
Miren Amaia Gorostiza Tellería	Independent	45	63	108	94
Irene Hernández Álvarez	Independent	45	100	145	132
María Paz Robina Rosat	Independent	37	35	72	-
Isabel Tocino Biscarolasaga	Independent	45	71	116	126
José Guillermo Zubía Guinea	Other external	45	109	154	149
Juan Luis Arregui Ciarsolo	Proprietary	11	-	11	91
José Carlos del Álamo Jiménez	Independent	11	20	31	125
Javier Echenique Landiribar	Other external	11	14	25	101
Retos Operativos XXI, S.L.	Proprietary	11	17	28	120
Turina 2000, S.L.	Proprietary	11	20	31	123
La Fuente Salada, S.L.	Proprietary	-	-	-	97
		690	**884**	**1,574**	**1,619**

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 2021 or 2020.

The disclosures regarding average director remuneration broken out by gender are provided in the "Non-financial statement - Sustainability report", which is part of 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 his executive duties in 2021, including his fixed and variable remuneration, totalled €586 thousand (2020: €1,186 thousand). ENCE's Chairman & CEO, following the results obtained in 2020, took the voluntary and extraordinary decision of reducing his fixed remuneration for the performance of his executive duties by 20% in 2021, thereby evidencing his personal commitment to the Group's earnings performance.

The Chairman & CEO is also the beneficiary of a mixed savings, life and accident insurance policy (note 3.13), which is also part of his remuneration package.

In addition to the above-mentioned remuneration, ENCE's Chairman & CEO has 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 both 2021 and 2020.

Lastly, the Chairman & CEO is a beneficiary under the 2019-2023 long-term bonus plan (note 12.2). 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 of its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis in either 2021 or 2020.

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 changes in the composition of the Board of Directors in 2021 are outlined below: (i) Javier Arregui Abendivar, Oscar Arregui Abendivar and Gorka Arregui Abendivar joined the Board of Directors as proprietary directors and María de la Paz Robina Rosat joined as independent director; and (ii) Retos Operativos XXI, S.L., Turina 2000, S.L., Carlos del Álamo Jiménez, Javier Echenique Landiribar and Juan Luis Arregui Ciarsolo stepped down from the Board of Directors.

In 2020, the composition of the Board of Directors changed as follows: José Ignacio Comenge Sánchez-Real joined and La Fuente Salada, S.L. left the Board.

The members of the Board of Directors did not receive any termination benefits in either 2021 or 2020. The termination benefits to which the directors are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Reports for 2021 and 2020, 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.

35.2 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 Business Officer
Felipe Torroba Maestroni (i)	Independent Energy Plants Officer
Reyes Cerezo Rodríguez-Sedano	General Secretary | Sustainability Officer
María José Zueras Saludas	Human Capital Officer
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
Fernando González-Palacios Carbajo	Planning and Control Manager
Ángel J. Mosquera López-Leyton	Internal Audit Manager

(i) With effect from 1 January 2022, Felipe Torroba Maestroni left the Management Committee; he has been replaced by Marc Gómez Ferret, who has been hired as CEO of Ence Energía, S.L. (the holding company for ENCE's Renewable Energy business).

(ii) The following individuals ceased to be considered key management personnel in 2020: Luis Carlos Martínez Rodríguez (Director of Communication and Institutional Relations,); Alvaro Eza Bernaola (Director of Supply Chain Management); and Faustino Martínez Rodríguez (Director of HSEQ).

The table below provides disclosures regarding the remuneration and other benefits accrued by ENCE's key management personnel in 2021 and 2020:

€ 000	**2021**	**2020**
Fixed remuneration	1,753	2,176
Variable remuneration	120	1,148
Savings schemes (note 3.13)	102	107
In-kind & other remuneration	89	187
	2,064	**3,618**
2019-2023 LT bonus plan (note 12.2)	26	-
Termination benefits	220	844
	2,310	**4,462**

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.

Also, the key management personnel are beneficiaries under 2019-2023 long-term bonus plans (note 12.2). Assuming full delivery of the targets to which that incentive scheme is tied, they stand to receive €1,541 thousand and 619,765 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.

36. Transactions with Group companies and related parties

36.1 Transactions with investees accounted for using the equity method

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

31 December 2021	€ 000		
	Current loans	Current receivables (note 27)	Current payables (note 28)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	464	864
	36	**464**	**864**

31 December 2020	€ 000		
	Current loans	Current receivables (note 27)	Current payables (note 28)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	138	632
	36	**138**	**632**

The transactions performed with investees accounted for using the equity method of consolidation in 2021 were as follows:

€ 000	2021		2020
	Services rendered	Operating expenses	Operating expenses
Capacitación de Servicios Forestales, S.L.	771	2,102	905
	771	**2,102**	**905**

36.2 Transactions with non-controlling shareholders

The balances outstanding with non-controlling interests at 31 December 2021 and 2020 are as follows:

31 December 2021	€ 000 Non-current financial assets (note 29.2)	Current financial assets (note 29.2)	Current receivables (note 27)	Non-current receivables	Current borrowings	Current payables (note 28)
Ancala Partners LLP	12,549	8,510	-	36,835	1,261	-
San Miguel Arcángel, S.A.	-	-	-	-	-	598
Aceites y Energía Santamaría, S.A.	-	-	236	-	-	839
	12,549	**8,510**	**236**	**36,835**	**1,261**	**1,437**

31 December 2020	€ 000 Non-current financial assets (note 29.2)	Current financial assets (note 29.2)	Non-current receivables
Ancala Partners LLP	12,205	9,234	36,835
	12,205	**9,234**	**36,835**

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

The transactions carried out with non-controlling shareholders in 2021 and 2020:

2021	€ 000 Sales	Purchases	Operating expenses	Finance costs (note 14)
Ancala Partners LLP	-	-	-	1,261
San Miguel Arcángel, S.A.	-	4,466	-	-
Aceites y Energía Santamaría, S.A.	638	2,307	312	-
	638	**6,773**	**312**	**1,261**

2020	€ 000 Sales	Purchases	Operating expenses
San Miguel Arcángel, S.A.	-	4,409	-
Aceites y Energía Santamaría, S.A.	712	2,758	332
	712	**7,167**	**332**

36.3 Transactions with directors

ENCE had no balances outstanding with its directors at either year-end 2021 or 2020. Moreover, ENCE did not perform any transactions with directors in either year.

37. 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 environmental impacts derived from its customers' manufacturing process. A good example of that approach is the development of unbleached pulp, Naturcell, at the Pontevedra biomill, a product which doesn't require bleaching, thanks to which it consumes smaller amounts of materials, water and energy per unit of output than standard pulp.

- ✓ With its Renewable Energy activities, ENCE contributes to the decarbonisation of the Spanish generation mix. Moreover, the recovery and reuse of agricultural biomass prevents the harmful diffuse emissions associated with uncontrolled burning of crop waste in rural areas without any form of treatment. Moreover, it mobilises forestry biomass.

In addition to helping protect the environment through its business activities, ENCE is committed to framing its manufacturing processes with environmental considerations: its motto is to look beyond 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 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.

The amount of capital expenditure incurred in each line of business in 2021 is shown below:

	€ 000
Pulp business	4,402
Renewable Energy business	3,537
	7,939

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. However, ENCE is aware that its environmental footprint transcends its direct operations, which is why it extends its environmental commitment to every link in its value chain: from its forestry activities to its pulp production and energy generation activities, emphasising the potential environmental impacts of its supply chain and urging its suppliers to similarly meet the highest standards of environmental excellence.

Compliance and best available techniques

Although the Company's ambition is to go beyond its legal obligations, ENCE's environmental commitment first and foremost entails stringent and exhaustive compliance with prevailing legislation, which stipulates the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources, and to adapt 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 2021, it continued to execute the projects aimed at adapting its facilities for implementation of those best available techniques in order to comply with the BREF for Large Combustion Plants. That work focused on complying with the new emissions limit values, completing the implementation of 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
- Lifting 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, the Group 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.

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 established by senior management and the defined targets and goals are met. That integrated system is certified by an accredited organism that carries out the corresponding audits. 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

In 2021, progress was made on including the Merida, La Loma and Enemansa power plants within the scope of the environmental management system, with Merida earning external certification from AENOR in the month of July.

Elsewhere, the Pontevedra and Navia biomills 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.

In 2021, ENCE consolidated implementation of its Workplace Safety Observations and Works of Particular Environmental Risk tools. The former is designed to detect initiatives and conditions that may have adverse environmental consequences and facilitate their constructive remediation. It also helps identify and acknowledge best practices, while cementing a culture of environmental commitment across the entire organisation. The second tool reinforces the execution of certain tasks to ensure they are performed to the most stringent environmental protection standards.

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 ENCE'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.

The facilities in Pontevedra, Navia, Merida, Enemansa, La Loma and Biollano also hold Zero Waste certification, while the Huelva plant is "Towards Zero Waste" certified. It is ENCE's intention to have all of its facilities attain that certification, so endorsing them as benchmarks in efficient waste management and recovery.

2021 was also the year of SURE certification. The SURE label is one of the tools developed to ensure compliance with the requirements emanating from the Renewable Energy Directive (Directive (EU) 2018/2001, known as RED II), the European rules stipulating a host of criteria to be met by all biomass used in the bioenergy sector with the aim of ensuring its sustainability, an appropriately balanced mix, the reduction of greenhouse gas emissions and energy efficiency. Early certification places ENCE at the forefront, having taken a pioneering approach to getting ready for the RED II requirements and, yet again, the future sustainability of biomass as a source of energy. ENCE set out on that path in 2017, with its 10-Point Declaration on the Sustainability of Biomass as a Fuel, a trailblazing initiative in Spain rolled out to guarantee fully sustainable and responsible use of biomass and care for the environment in using it as an energy source.

Transitioning to a circular economy

ENCE is contributing to the transition to a circular economy by selling products made using renewable sources of energy, such as pulp, that ENCE's customers then use to make end products that are recyclable and biodegradable. As for its energy business, ENCE provides a solution for managing agricultural and forestry waste by reusing biomass to generate energy and closing the loop in sectors of tantamount importance to the rural economy.

In addition, ENCE applies circular economy principles in its own productive processes, searching for new ways to reduce its unit consumption of materials and reuse as much waste as possible.

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 2021, the Company made progress on several decarbonisation projects with the aim of delivering its emissions-cutting targets in 2025. For example, it replaced fossil fuels with biomass at the Pontevedra biomill and consolidated its self-generation capabilities at the Merida and Huelva power plants thanks to the use of photovoltaic solar panels.

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 2021.

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. ENCE invested over €4.9 million in the forests it manages during the year; those investments encompass 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.

Complementing the management of its own forest land, ENCE continues 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).

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) (with license numbers PEFC/14-22-00010 and PEFC/14-33-00001).

The Agri-Forestry 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.

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 with all the sector players 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.

Improvements to that policy have translated into a steady rise in the percentage of incoming timber that is certified, which currently stands at 69% overall. As for the forests under its management, over 85% of the land area managed by ENCE is certified under one or other scheme.

ENCE's end-to-end forestry activities were audited in 2021 by the benchmark PEFC® and FSC® chain of custody certification and forest management experts:

- FSC® Chain of Custody Audit. In March, the FSC® chain of custody certificate covering the Pontevedra biomill, the Sales Department, the third-party sales operations in Huelva and management of an intermediate asset was audited for renewal for another five years. The audit went well, without incident, endorsing the timber traceability system (purchase and sale of timber), the transfer of credits and the subsequent sale of pulp to customers.
- FSC® Sustainable Forest Management Audit. The audit to renew FSC® Forestry Management certification for the tracts owned by ENCE took place in April. During the audit, the inspectors visited a number of forests in Asturias, Cantabria and Huelva, as well as the nursery in Huelva.
- PEFC Chain of Custody Audit. The third follow-up audit of the PEFC chain of custody certificate covering the Navia and Pontevedra facilities and the Sales Department took place in June. The audit confirmed ENCE’s ability to ensure compliance with its voluntary commitments (PEFC CoC), its binding requirements and the effectiveness of the management system.

- Elsewhere, ENCE continued its research collaboration with FSC®'s certifier, Assurance Services International (ASI), as part of FSC®'s transaction verification policy, to which end an extraordinary audit took place in January with the purpose of assessing the certification body's performance in the course of its audit effort through a direct audit of ENCE, in keeping with the latter's chain of customer certification requirements. ASI focused its audit on the assessment of the Company's inputs and outputs system (the credit transfer system and the transfer of credits to the credit account), paying particular attention to the supply chain. As a result of that verification audit, ASI endorsed, without incident, the work done by the audit firm (SCS Global Services) in assessing ENCE. Moreover, the auditor indicated that its conclusions following the audit were very positive and that it had nothing to add to that indicated by SCS Global Services in its audit reports. That endorsement further validates ENCE's chain of custody effort.

In addition to fostering certified sustainable forestry management, ENCE undertakes research and development work in the following areas: best forestry care practices; enhanced plants suited for emerging climate conditions; and innovative methods for waging biological warfare against the pests and diseases that affect the eucalyptus.

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. Specifically, the Company 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 about how to improve the sector, to which end the authorities and civil society are similarly engaged.

The procurement of timber and biomass also has positive effects on society, important among which is 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 financial 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; 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.

ENCE seeks to contribute to development in the communities in which it operates, fostering the purchase of local timber in Galicia, Asturias, Cantabria and the Basque region. Local wood purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint. In 2021, ENCE purchased timber from more than 1,600 forest owners and 369 traders, over 88% of which are small in size, evidencing ENCE's commitment to giving work to smaller players.

In addition, 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.

Sustainable management of biomass procurement

In 2021, ENCE 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 ensures that the biomass it supplies to its facilities meet the required sustainability standards, to which end it is working to uphold specific voluntary commitments.

In relation to agricultural biomass, in 2021, ENCE continued to work on the framework for implementing the 10-Point Declaration on the Sustainability of Biomass it launched 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.

The main biomass sustainability challenge faced by ENCE in 2021 was implementation of the SURE scheme and certification of all of the independent power plants and biomills under it.

The SURE scheme certifies compliance with requirements under the EU's Renewable Energy Directive. The latter stipulates the criteria to be met by all biomass used in the bioenergy sector with the aim of ensuring its sustainability, an appropriately balanced mix, the reduction of greenhouse gas emissions and energy efficiency.

The Merida plant was the first Group facility and indeed the first facility in Europe to achieve SURE certification, so guaranteeing that the biomass consumed in its processes is used in a fully sustainable manner. All of the Group's independent power plants and the two biomills then earned certification over the course of 2021 following satisfactory performance of the process of verifying compliance with the scheme's requirements, thereby complying with the first two milestones established in the draft bill for transposing RED II into Spanish law, which took place before the Spanish standard was even published.

SURE certification encompasses the entire biomass management process end to end, specifically including sourcing (agricultural land, forests or industrial waste), the supply chain itself, logistics at the facilities and plants and the production of renewable energy. All of which well-oiled to ensure maximum efficiency.
In 2021 ENCE also rolled out another important line of work in relation to SURE certification: supply chain certification. In order to comply with the contents of the Directive and its transposition into Spanish law, ENCE not only has to certify its own facilities; indeed, its entire supply chain needs to get certified in order to meet the legal requirements for the consumption of certified biomass. In order to work on that aspect, during the second half of 2021 ENCE launched the second phase of its SURE certification project, which will finish in 2023 by when 90% of the biomass consumed should be certified.

As with the Group's timber operations, the Agri-Forestry Sustainability Department is tasked with ensuring that all the raw materials sourced for the production of energy, whether produced on owned forests or purchased from third parties (standing timber and directly from traders), comply with prevailing legal and regulatory requirements.

In addition to the work done on the 10-Point Declaration and on implementation of the SURE scheme, it is also worth highlighting the biomass sustainability communication plan. A key priority within ENCE's strategy for encouraging the use of biomass as a source of energy is to communicate its standards along the supply chain. To that end it launched a plan to publicise its 10-Point Declaration and the new Renewable Energy Directive with the aim of educating, raising awareness and training sectors involved in ENCE's nationwide effort ahead of transposition of the Directive into Spanish law.

Lastly, as already noted, ENCE strives to give back to society by means of its raw material sourcing policies (including the sourcing of biomass) by generating income and jobs in the rural economy. In 2021, the biomass procurement effort involved a total of close to 700 suppliers and over 1.9 tonnes of biomass, 37% of which came from crops, 44% from forest waste and the remaining 19%, from industrial sources.

Pulp business

Navia biomill

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

The results of that environmental upgrade effort materialised over the course of the project's execution in the form of higher-quality discharges and lower emissions. The main environmental improvements introduced:

- Improvements at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, while also improving aeration and refrigeration systems at the biological treatment facility. The advantages unlocked by that investment are tangible in the quality of the biomill's wastewater, whose chemical oxygen demand readings are down 23% by comparison with 2020. That wastewater quality indicator averaged 2.25 kg/ADt in 2021, which is significantly below the limit set in the biomill's environmental permit (15 kg/ADt).

  The investments also included a 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 reduction in the ratio of total suspended matter in the biomill's wastewater per tonne of pulp produced. ENCE continued to fine-tune the floating unit throughout 2021, eking out an additional improvement of 13% with respect to 2020.

- Optimisation of the facility's 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.

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%. Despite those advances, reduction of the biomill's odour impact remains a core sustainability target for ENCE and new reduction targets are set annually.

In 2021, the Navia biomill renewed certification of its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, having been one of the first companies in Spain to obtain this certificate, with recovery ratios of 96%. 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 did not reveal any shortcomings and endorse ENCE's steady progress towards environmental excellence.

ENCE's circular economy approach towards its productive model also strives to reduce 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 Navia biomill has 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.

In May 2021, 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 2020 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.

Energy efficiency is another top priority at the Navia biomill. To that end, in October 2021 it certified its energy management system under the international 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. That same month, the biomill attained certification under the SURE scheme, demonstrating that the facility meets the requirements for the sustainable production of energy from renewable forestry biomass, in keeping with Directive (EU) 2018/2001 (RED II).

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 worth highlighting the support lent to the first football campus organised in Navia by the Royal Oviedo Foundation, the provision of assistance to sports clubs in the Navia bay area for the purchase of sports equipment and gear and the contribution, on the environmental front, to recertification of the sustainability seal by the octopus fishery in western Asturias.

The Company 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. In 2021, ENCE donated to the construction of playground built in the town of Villacondide, which was lacking such a facility, for the enjoyment of families living there.

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. In 2021 it therefore continued to execute Zero Odour Plan initiatives, an effort that delivered a 25% year-on-year reduction in odour measured in minutes. That means emissions from channelled sources have declined by over 99% since the project got underway in 2010.

Responsible management of water resources at the Pontevedra biomill is a cornerstone of the sustainability strategy, to which end ENCE has been working for years to rationalise consumption and improve the quality of its wastewater. ENCE therefore continues to implement continuous improvement measures and fine-tune its processes, so boosting efficiency and maximising the reuse of water. Indeed, water consumption per tonne of pulp hit a record low in 2021. The measures deployed have driven a reduction in water consumption per tonne of pulp of 25% over the last five years.

As for its wastewater, the Pontevedra biomill continues to consolidate the results attained in prior years. 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 set in the corresponding permit by 58%, coming in at 2.95 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 85% 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 ENCE facility to earn that certification. Its waste recovery rate stands at over 99.5 %.

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 biomill has 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, the Pontevedra biomill was the first ENCE facility to certify 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, which translates 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 approach to product design, creating pulp products whose production requires more rational use of chemicals. The best exponent of that design strategy is its production of unbleached pulp, called Naturcell, which, by doing away with the need for bleaching agents, consumes far fewer chemicals per tonne produced.

The Pontevedra biomill's environmental management and performance was acknowledged in specific environmental prizes awarded by APROEMA, Galicia's professional association of environmentally-friendly companies.

In arriving at its decision, APROEMA specifically pinpointed the Company's leadership in prevention and control, its encouragement for the use of continuous business improvement, the boost to competitiveness unlocked by environmental improvements and protection and its effort to get other industries to adopt voluntary standards that go beyond strict legislative requirements.

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.

Renewable Energy business

In 2020, ENCE made further progress on execution of the projects rolled out in 2019 aimed at adapting the energy operations centres for implementation of best available techniques ahead of effectiveness this year of the BREF for Large Combustion Plants. And in 2021 it edged towards the last milestone in that process, filing an application for the revision of the power plants' environmental permits for the purpose of BAT adaptation.

Work likewise continued on the execution of the so-called Reliability of Environmental Indicator Measurements, having completed the related upgrades at the Lucena plant.

Circular economy

ENCE continues to look for new ways to reuse the waste generated in its operations to give it a second lease of life and minimise environmental impacts. A good example was its collaboration with Spain's higher scientific research council, CSIC, on the use of the ash generated in its combustion furnaces to make new construction materials, specifically self-healing concrete. It is also working to pinpoint mining facilities close to the Group's facilities that might want to use the ash waste to repair degraded soil.

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

One of the chief sources of waste at the Group'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. The Group, 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), the Group 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 that authorisation for the ash produced at the La Loma and Lucena plants and, most recently, the 46-MW Huelva plant. The Ministry is in the process of evaluating the application for classifying the ash generated at the Huelva-50 plant as a sub-product. In 2021, ENCE also prepared the application for that same certification for the ash generated at the 50-MW Puertollano plant, with plans to file the application in 2022. Thanks to that effort, the Group's ash waste is now being incorporated into fertiliser manufacturing processes. The Group 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 it 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.

Water consumption rationalisation plans.

ENCE is firmly committed to sustainability in all its manifestations. Environmental care is a priority and minimum use of the various raw materials it needs is a key objective. Water savings are of particular importance in light of its different uses. It is used for industrial purposes, human consumption and watering. In 2021 ENCE studied potential sources of water savings and better usage across the energy plants and set specific improvement targets for 2022.

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.

Projects to improve the air quality and noise levels remain ongoing; specifically, action plans for reducing particle emissions from diffuse sources continue to be designed and executed. A noise map was drawn up at the plant, factoring in the installations to be dismantled and an action and investment plan for 2022 and 2023 was put together.

Operation of the 859-kW photovoltaic solar facility for self-generation at the plant gained traction in 2021 and there are plans for expanding it in 2022. The solar facilities cover part of the auxiliary installations' consumption requirement and improve the complex's overall energy efficiency.

Lastly, in terms of the dismantling of the pulp-making facilities, in 2021, the work continued as scheduled, complying notably with the stipulated workplace safety and environmental standards, particularly those related with diffuse emissions, noise and waste management.

Merida operations centre

In 2021 Merida continued to comply with its wastewater and emissions requirements.

It completed plans for a new photovoltaic plant adjacent to the biomass plant to reduce the facility's Scope 2 emissions.

The biomass storage area has been extended and upgraded to increase capacity in the reception area and to reduce particle emissions from diffuse sources as a result of internal material movements.

The Merida plant also attained its sustainability goals in 2021, certifying its environmental management system under ISO 14001:2015 and obtaining Zero Waste certification from AENOR. Training and refresher courses were provided on environmental standards and the TQM model.

In July 2021 the centre became the first facility in Spain and indeed all of Europe to obtain sustainability certification under the SURE scheme in accordance with Directive (EU) 2018/2001.

With the aim of furthering the sustainable economy model at this centre, meetings took place with the Extremadura regional government's sustainability team addressing the possibility of emulating the degraded mine land recovery project in Salamanca in the region. The authorities have expressed interest in this initiative and work is underway to speed up the permitting process.

In Merida, ENCE is 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: the final phase, involving a number of interventions at the furnace area and cooling towers, is close to completion. A particle capture machine was installed and commissioned in the biomass processing area to reduce the generation of particles from diffuse sources, so minimising environmental fallout and effects on the people working at the plant.

Enemansa operations centre

In 2021 work at this plant continued to focus on reducing noise and odour levels and diffuse particle emissions, while further enhancing the already high quality of its liquid effluents. By executing phase three of the noise project, thanks to implementation of the pneumatic ash conveyance system, the plant's noise pollution has fallen.

During the last quarter of the year, the plant implemented the Group's environmental management system, a process which included internal inspection of the zero-waste certification earned in February, so ensuring that all activities are performed in keeping with the management policy defined by senior management and the defined objectives and goals, framed by the UNE-EN-ISO 14001 environmental management standard.

Lastly, the report itemising the revisions for the purpose of adaptation for the BATs was presented, barring the final net electric efficiency figures, which are subject to further testing.

La Loma operations centre

In 2021, ENCE fine-tuned the 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. The plant reported noteworthy improvements in all its key environmental performance indicators: emissions, effluents and waste management.

During the last quarter of the year, the plant implemented the Group's environmental management system, a process which included internal inspection of the zero-waste certification earned in February, so ensuring that all activities are performed in keeping with the management policy defined by senior management and the defined objectives and goals, framed by the UNE-EN-ISO 14001 environmental management standard. The plant also invested to improve air quality by minimising the generation of diffuse particles as a result of the movement of biomass and handling of ash and slag.

Lucena operations centre

2021 marked consolidation of the continuous emissions measurement equipment at the biomass. Although not a legal requirement, ENCE is committed to tightening oversight and control of the plant's emissions.

All the atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

Progress was made during the year on the plans for changing the location of the discharge point requested by the authorities.

Biollano operations centre (Puertollano)

The effort to reduce emissions continued at Biollano. The plant obtained Zero Waste certification from AENOR which guarantees maximum recovery of the waste generated at the facility.

The environmental management system remains a key tool and it is worth highlighting the environmental awareness training and communication sessions provided to ENCE staff and subcontractors.

38. Events after the reporting date

No significant events have taken place since 31 December 2021, other than those already disclosed herein, that would imply modifying the accompanying 2021 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 2021 and 2020 and each of their core businesses:

	Company	Registered office	Business activity	Interest held directly or indirectly 2021	Interest held directly or indirectly 2020	Consolidation method (b)
	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	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. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	51	51	Full
	Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	51	Full
	Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	51	Full
	Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	51	Full
	Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	51	Full
	Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	32.67	32.67	Full
	Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	34.89	34.89	Full
	Ence Energía Puertollano, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	51	51	Full
	Fuerzas Energéticas Sur Europa XXIX, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	51	51	Full
	Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Cordoba)	Generation and sale of electric energy	35.7	35.7	Full
	Ence Solar, 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía la Loma 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Este, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Extremadura 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Sostenibilidad y Economía Circular, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Celta, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Castilla y León, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Castilla y León Dos, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Energía Pami, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Biomasa Córdoba, S.L.U	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Lepe Solar S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Ence Huelva Solar 10, S.L.U	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Andújar I Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Andújar II, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Jaén III, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Sevilla Solar I, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Sevilla II, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Sevilla Solar III, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(**)	Ence Energía Puertollano 2, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
	Oleoenergía de Puertollano, S.L.	Arruzafa, 21 (Cordoba)	Generation and sale of electric energy	15.30	15	EM

(a) Annual financial statements audited

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

(*) Changes in consolidation scope in 2021 (note 6).

(**) 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 2021 AND 2020

	2021				2020			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	1,493	-	1,493	-	1,742	-	1,742
Other intangible assets	13,161	36,571	(13,287)	36,445	15,813	38,210	(13,862)	40,161
Property, plant and equipment	436,856	456,297	(9,592)	883,561	627,716	476,849	(11,689)	1,092,876
Biological assets	59,582	140	-	59,722	71,033	237	-	71,270
Non-current financial assets:								
Securities portfolio	112,528	-	(112,528)	-	125,788	-	(125,788)	-
Investments accounted for using the equity method	25	1	-	26	30	1	-	31
Loans to group companies and associates	38,342	-	(38,342)	-	38,342	-	(38,342)	-
Other financial assets	14,560	11,920	-	26,480	17,555	16,641	-	34,196
Deferred tax assets	20,106	22,123	3,334	45,563	56,159	15,793	-	71,952
	695,160	**528,545**	**(170,415)**	**1,053,290**	**952,436**	**549,473**	**(189,681)**	**1,312,228**
CURRENT ASSETS:								
Inventories	53,598	12,095	-	65,693	43,310	9,478	(957)	51,831
Trade and other receivables	59,768	36,673	(17,483)	78,958	61,797	22,846	(26,748)	57,895
Tax receivables	10,413	5,482	-	15,895	(78)	388	-	310
Income tax receivable	1,507	335	-	1,842	25	937	-	962
Current financial assets:								
Loans to group companies and associates	-	36	-	36	-	36	-	36
Hedging derivatives	-	-	-	-	6,764	-	-	6,764
Other financial assets	15,107	8	-	15,115	18,207	8	-	18,215
Cash and cash equivalents	318,496	61,468	-	379,964	448,089	74,531	-	522,620
Other current assets	2,191	(14)	-	2,177	1,265	67	-	1,332
	461,080	**116,083**	**(17,483)**	**559,680**	**579,379**	**108,291**	**(27,705)**	**659,965**
TOTAL ASSETS	**1,156,240**	**644,628**	**(187,898)**	**1,612,970**	**1,531,815**	**657,764**	**(217,386)**	**1,972,193**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2021 AND 2020

	2021				2020			
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	48,955	(48,955)	170,776	170,776	74,955	(74,955)	170,776
Parent company reserves	225,596	10,964	(10,964)	225,596	169,416	2,649	(2,649)	169,416
Parent company retained earnings (prior-year losses)	-	-	-	-	(5,573)	(30,423)	30,423	(5,573)
Reserves in fully-consolidated companies	71,505	(17,176)	(683)	53,646	187,393	(3,623)	(39,441)	144,329
Reserves in equity-accounted investees	(79)	-	-	(79)	(8)	-	-	(8)
Exchange differences	9	-	-	9	18	-	-	18
Own shares - parent company shares	(12,296)	-	-	(12,296)	(11,856)	-	-	(11,856)
Valuation adjustments	35,360	(2,182)	697	33,875	41,916	(4,892)	2,397	39,421
Other equity instruments	9,897	-	-	9,897	11,539	148	-	11,687
Other owner contributions	-	170,517	(170,517)	-	-	170,517	(170,517)	-
Consolidated profit/(loss) for the year	(183,387)	(25,546)	18,524	(190,409)	(52,298)	25,953	(87)	(26,432)
Equity attributable to owners of the parent	**539,026**	**208,136**	**(234,502)**	**512,660**	**732,968**	**257,888**	**(277,433)**	**713,423**
Non-controlling interests	**-**	**10,429**	**102,429**	**112,858**	**-**	**10,613**	**126,093**	**136,706**
TOTAL EQUITY	**539,026**	**218,565**	**(132,073)**	**625,518**	**732,968**	**268,501**	**(151,340)**	**850,129**
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	125,567	92,107	-	217,674	147,159	91,710	-	238,869
Bank borrowings	99,305	70,047	-	169,352	193,582	97,521	-	291,103
Other financial liabilities	64,497	746	-	65,243	103,250	733	-	103,983
Derivative financial instruments	-	2,161	-	2,161	93	5,509	-	5,602
Grants	4,113	766	-	4,879	4,509	1,049	-	5,558
Deferred tax liabilities	-	-	-	-	19,879	1,782	-	21,661
Non-current provisions	51,147	78	-	51,225	2,716	116	-	2,832
Non-current accruals and deferred income	11	2,245	-	2,256	3	1,761	-	1,764
Other non-current liabilities	19,594	65,025	-	84,619	-	5,955	-	5,955
Borrowings from group companies and associates	-	75,177	(38,342)	36,835	-	75,177	(38,342)	36,835
	364,234	**308,352**	**(38,342)**	**634,244**	**471,191**	**281,313**	**(38,342)**	**714,162**
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	6,208	29,406	-	35,614	50,463	28,599	-	79,062
Other financial liabilities	9,985	381	-	10,366	5,958	449	-	6,407
Derivative financial instruments	6,980	2,612	-	9,592	4,912	3,185	-	8,097
Current borrowings from related parties	3	1,258	-	1,261	12	-	(12)	-
Trade and other payables	207,676	71,704	(17,483)	261,897	226,296	59,390	(26,735)	258,951
Income tax payable	22	56	-	78	16	5,619	-	5,635
Taxes payable	6,001	9,577	-	15,578	11,602	8,794	-	20,396
Current provisions	16,105	2,717	-	18,822	28,397	1,914	(957)	29,354
	252,980	**117,711**	**(17,483)**	**353,208**	**327,656**	**107,950**	**(27,704)**	**407,902**
TOTAL EQUITY AND LIABILITIES	**1,156,240**	**644,628**	**(187,898)**	**1,612,970**	**1,531,815**	**657,764**	**(217,386)**	**1,972,193**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR 2021 AND 2020

	2021				2020			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	667,611	154,884	(2,820)	819,675	504,481	205,963	(2,736)	707,708
Gains/(losses) on hedging transactions	(88,166)	-	-	(88,166)	(9,344)	-	-	(9,344)
Changes in inventories of finished goods and work in progress	9,048	-	-	9,048	(4,829)	-	-	(4,829)
Own work capitalised	4,085	619	-	4,704	2,825	(851)	-	1,974
Other operating income	5,563	17,447	(1,444)	21,566	8,603	8,196	(5,641)	11,158
Grants taken to income	5,138	1,229	-	6,367	3,329	992	-	4,321
Gain on the sale of subsidiaries	-	-	-	-	-	32,855	-	32,855
Operating income subtotal	603,279	174,179	(4,264)	773,194	505,065	247,155	(8,377)	743,843
Cost of goods sold	(295,249)	(73,472)	2,820	(365,901)	(275,226)	(65,347)	2,736	(337,837)
Employee benefits expense	(70,585)	(13,586)	-	(84,171)	(78,442)	(13,933)	-	(92,375)
Depreciation and amortisation charges	(47,832)	(36,738)	2,673	(81,897)	(57,274)	(43,734)	3,928	(97,080)
Depletion of forest reserve	(11,430)	(130)	-	(11,560)	(9,771)	(292)	-	(10,063)
Impairment of and gains/(losses) on disposal of fixed assets	(192,441)	(1,058)	-	(193,499)	225	(1,840)	-	(1,615)
Impairment of financial assets	(78)	(257)	-	(335)	(175)	(194)	-	(369)
Other operating expenses	(144,090)	(69,071)	1,444	(211,717)	(142,362)	(75,077)	5,641	(211,798)
Operating expenses subtotal	(761,705)	(194,312)	6,937	(949,080)	(563,025)	(200,417)	12,305	(751,137)
OPERATING PROFIT/(LOSS)	**(158,426)**	**(20,133)**	**2,673**	**(175,886)**	**(57,960)**	**46,738**	**3,928**	**(7,294)**
Finance income								
From equity instruments:								
Third parties	40	-	-	40	-	-	-	-
From marketable securities & other financial instruments:								
Related parties	1,246	-	(1,246)	-	2,750	-	(2,750)	-
Third parties	4,835	1,758	-	6,593	646	3	-	649
Finance costs:								
Borrowings from related parties	-	(2,507)	1,246	(1,261)	-	(2,750)	2,750	-
Third-party borrowings	(15,678)	(11,165)	-	(26,843)	(15,525)	(13,397)	-	(28,922)
Change in fair value of financial instruments	-	1,158	-	1,158	-	-	-	-
Net exchange gains/(losses)	3,697	(30)	-	3,667	(1,259)	(29)	-	(1,288)
Impairment of and gains/(losses) on disposal of financial assets	-	-	-	-	165	51	-	216
NET FINANCE INCOME/(LOSS)	**(5,860)**	**(10,786)**	**-**	**(16,646)**	**(13,223)**	**(16,122)**	**-**	**(29,345)**
Share of profit/(loss) of entities accounted for using the equity method	(7)	-	-	(7)	(18)	-	-	(18)
PROFIT/(LOSS) BEFORE TAX	**(164,293)**	**(30,919)**	**2,673**	**(192,539)**	**(71,201)**	**30,616**	**3,928**	**(36,657)**
Income tax	(19,094)	6,341	3,333	(9,420)	18,903	(2,963)	(4,015)	11,925
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(183,387)**	**(24,578)**	**6,006**	**(201,959)**	**(52,298)**	**27,653**	**(87)**	**(24,732)**
Profit/(loss) for the the year from continuing operations attributable to non-controlling interests	-	(968)	12,518	11,550	-	(1,700)	-	(1,700)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	**(183,387)**	**(25,546)**	**18,524**	**(190,409)**	**(52,298)**	**25,953**	**(87)**	**(26,432)**

(*) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR 2021 AND 2020

	2021				2020			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	(164,293)	(30,919)	2,673	(192,539)	(71,201)	30,616	3,928	(36,657)
Adjustment for:								
Depreciation and amortisation	59,262	36,868	(2,673)	93,457	67,045	44,026	(3,928)	107,143
Changes in provisions and other deferred expense (net)	(494)	2,064	-	1,570	8,389	(3,215)	-	5,174
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	192,441	1,058	-	193,499	(391)	(31,065)	-	(31,456)
Adjustments for tariff shortfall/surplus (electricity market)	24,140	64,978	-	89,118	(10,611)	(25,559)	-	(36,170)
Finance income and costs (net)	7,244	10,757	-	18,001	13,037	16,145	-	29,182
Grants taken to profit and loss	(615)	(283)	-	(898)	(994)	(254)	-	(1,248)
	281,978	**115,442**	**(2,673)**	**394,747**	**76,475**	**78**	**(3,928)**	**72,625**
Changes in working capital:								
Inventories	(11,497)	(2,025)	-	(13,522)	2,438	1,080	-	3,518
Trade and other receivables	(43,908)	(5,499)	-	(49,407)	(8,049)	(2,778)	-	(10,827)
Financial and other current assets	2,377	-	-	2,377	(4,532)	-	-	(4,532)
Trade payables, other payables and other liabilities	26,378	620	-	26,998	28,935	25,375	-	54,310
	(26,650)	**(6,904)**	**-**	**(33,554)**	**18,792**	**23,677**	**-**	**42,469**
Other cash flows from operating activities:								
Interest paid, net (including right-of-use assets)	(6,920)	(12,281)	-	(19,201)	(6,451)	(15,557)	-	(22,008)
Dividends received	40	-	-	40	-	-	-	-
Income tax paid	(1,281)	(6,878)	-	(8,159)	6,292	(364)	-	5,928
Other amounts received/(paid)	-	(41)	-	(41)	-	-	-	-
	(8,161)	(19,200)	-	(27,361)	**(159)**	**(15,921)**	**-**	**(16,080)**
Net cash from operating activities	82,874	58,419	-	141,293	**23,907**	**38,450**	**-**	**62,357**
CASH FLOWS FROM INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment and biological assets	(49,908)	(18,367)	-	(68,275)	(52,220)	(66,919)	26,923	(92,216)
Intangible assets	(2,553)	(156)	-	(2,709)	(4,022)	(796)	-	(4,818)
Financial assets	(330)	2	-	(328)	(3,204)	-	3,204	-
	(52,791)	**(18,521)**	**-**	**(71,312)**	**(59,446)**	**(67,715)**	**30,127**	**(97,034)**
Proceeds from disposals:								
Property, plant and equipment	409	-	-	409	749	-	-	749
Financial assets	13,260	5,549	(13,260)	5,549	82,705	58,294	(82,500)	58,499
	13,669	**5,549**	**(13,260)**	**5,958**	**83,454**	**58,294**	**(82,500)**	**59,248**
Net cash (used in)/from investing activities	**(39,122)**	**(12,972)**	**(13,260)**	**(65,354)**	**24,008**	**(9,421)**	**(52,373)**	**(37,786)**
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Proceeds from issuance of own equity instruments	-	-	-	-	-	(52,373)	52,373	-
Transactions with non-controlling interests	(242)	-	-	(242)	219,872	-	-	219,872
Buyback of own equity instruments	(54,926)	-	-	(54,926)	(48,489)	-	-	(48,489)
Disposal of own equity instruments	52,989	-	-	52,989	48,376	-	-	48,376
	(2,179)	**-**	**-**	**(2,179)**	**219,759**	**(52,373)**	**52,373**	**219,759**
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	3,667	(3,667)	-	-	(1,080)	1,080	-	-
Proceeds from issuance of bonds, net of arrangement fees	(25,749)	-	-	(25,749)	(4,967)	-	-	(4,967)
Increase/(decrease) in bank borrowings, net of issuance costs	(138,642)	(27,249)	-	(165,891)	87,668	(11,287)	-	76,381
Increase/(decrease) in other borrowings	(6,517)	-	-	(6,517)	1,705	-	-	1,705
Payments for right-of-use assets	(4,145)	(969)	-	(5,114)	(4,391)	(1,413)	-	(5,804)
Grants received, net	220	-	-	220	169	-	-	169
	(171,166)	**(31,885)**	**-**	**(203,051)**	**79,104**	**(11,620)**	**-**	**67,484**
Dividends and payments on other equity instruments								
Dividends from related parties	-	(13,260)	13,260	-	-	-	-	-
Dividends paid to non-controlling interests	-	(13,365)	-	(13,365)	-	(1,408)	-	(1,408)
	-	**(26,625)**	**13,260**	**(13,365)**	**-**	**(1,408)**	**-**	**(1,408)**
Net cash (used in)/ from from financing activities	**(173,345)**	**(58,510)**	**13,260**	**(218,595)**	**298,863**	**(65,401)**	**52,373**	**285,835**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(129,593)**	**(13,063)**	**-**	**(142,656)**	**346,778**	**(36,372)**	**-**	**310,406**
Cash and cash equivalents - opening balance	448,089	74,531	-	522,620	101,311	110,903	-	212,214
Cash and cash equivalents - closing balance	318,496	61,468	-	379,964	448,089	74,531	-	522,620

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, on 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, since 2020, 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 (replacing Law 54/1997), establishes the economic and financial stability of the electricity system as its governing principle, to which end it strives to limit structural tariff deficits.

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-Law 9/2013, adopting urgent measures towards guaranteeing the financial stability of the electricity system, was published on 12 July 2013. That piece of legislation made substantial changes to the applicable legal and financial framework. Among other things, it repealed Royal Decree 661/2007 (of 25 May

2007) and Royal Decree 6/2009 (of 30 April 2009), which had until then constituted the remuneration regime in support of renewable energies, and in that regard had governed ENCE's electricity generation facilities in Spain.

The new regulatory regime provided that, in addition to the remuneration earned for the sale of electricity in the pool at market prices, eligible facilities would be entitled to specific remuneration consisting of an amount per unit of installed capacity (remuneration for investment) designed to cover the costs of investing in a so-called standard facility not recoverable from the sale of power; and an amount in respect of operations (remuneration for operation) designed to cover the difference, if any, between operating expenses and revenue from participation in the market by that standard facility.

The calculation of that specific remuneration factors in, for a standard facility, over the course of its regulated useful life and assuming operation by an efficient and well-managed undertaking: a) standard revenue from the sale of electricity at pool prices; b) standard operating costs; and c) the standard upfront investment amount (NPV).

The idea underpinning the above metrics is to provide but not exceed the minimum level of remuneration needed so that the eligible facilities can cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return. The proxy for that targeted reasonable return (on a pre-tax basis) is the average yield on 10-years Spanish government bonds on the secondary market plus an appropriate spread. Additional provision one of Royal Decree- Law 9/2013 set that spread for eligible facilities at 300 basis points, subject to potential review every six years.

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. Implementing that Royal Decree, a Ministerial Order (IET 1045/2014) was published on 20 June 2014 setting the definitive remuneration parameters applicable to all existing and prospective renewable energy facilities. The resulting new model defines the remuneration for assets applicable from 14 July 2013 as a result of Royal Decree-Law 9/2013.

Royal Decree 413/2014 additionally introduced the concept of 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 remain unchanged throughout. The regime also envisages the possibility of revising the interest rate used for remuneration purposes every six years, albeit 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 for 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%). That reasonable return was calculated on the basis of the net present value (NPV) initially allocated to each standard facility covered by the specific remuneration regime. Having defined the initial NPV amounts and the rest of the parameters referred to in the remuneration legislation, the remuneration for investment was calculated following the methodology outlined in Appendix VII of the said Royal Decree.

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 by 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.

At the end of their regulatory useful lives, the facilities cease to receive the remuneration supplements for investment and operation. In addition, any facilities that still within their regulatory useful lives have obtained the contemplated reasonable return will accrue remuneration for investment equivalent to zero.

The reasonable return principle enshrined in the remuneration framework is conceived of as a minimum return; as a result, facilities are not obligated to reimburse any remuneration received in the event the facility owner generates a return that is higher than that contemplated in the remuneration regime except in two specific circumstances: a) in the last stub period in which the standard facility reaches the end of its regulatory useful life; or b) if a facility exits the remuneration regime before the end of its regulatory useful life. In those instances, the maximum amount of the reimbursement would correspond to the negative adjustments arising in the stub period in which those circumstances arise.

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.

The Secretary of State for Energy published a Resolution on 18 December 2015 establishing the criteria for participating in the system adjustment services and enacting certain testing and operation procedures for the purpose of adapting them for Royal Decree 413/2014, regulating the generation of electricity from renewable energy sources, co-generation and waste. That Resolution took effect from 10 February 2016 and permits participation in the system adjustment services in exchange for the corresponding income in respect of the renewable facilities deemed apt that pass the eligibility tests in place for each class of adjustment service. Certain ENCE power generation facilities participate in the “Electricity System Adjustment Services” regulated in the TSO's Operating Procedures No. 7.2 and 7.3.

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.

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.

The sector watchdog published Circular 4/2019 in November 2019, modifying the remuneration methodology applicable to the TSO and the prices to be passed on to the agents for financing purposes.

On 24 January 2020, the sector watchdog published Circular 3/2020, establishing the methodology for calculating the electricity transmission and distribution tolls and eliminating the generation toll in place until then of €0.5/MWh.

Ministerial Order TED/171/2020 updated the remuneration parameters for estimating the regulated remuneration for power generated using renewable sources and CHP technology for the 2020-2022 regulatory stub 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 for new facilities will be determined via a competitive tender process.

One of the pieces of legislation implementing Royal Decree-Law 23/2020 includes Royal Decree 960/2020, published in November 2020, which develops a new framework for the remuneration of renewable energy sources different from the specific remuneration regime based on the notion of long-term recognition of a price for energy. Ministerial Order TED/1161/2020 was published in December 2020, regulating the first auction mechanism for awarding the "economic regime for renewable energy" and establishing an indicative timeline for 2020-2025. It set a minimum target of 3,000 MW of capacity for 2020.

Royal Decree 1106/2020 (15 December 2020) regulates the statute for energy intensive consumers, establishing the requirements and procedure for obtaining the energy intensive consumer certificate. That certificate has been obtained by the Group's two biomills, so providing access to the compensation mechanism defined in Title III of that same Royal Decree.

Royal Decree 1055/2014 (12 December 2014) created a cost compensation mechanism for certain industrial sectors. That assistance, as per the associated EU directive, can only be received by the sectors itemised in Appendix II of Communication from the Commission 2012/C 158/04 on Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme, as published in Official Journal of the European Commission C 158 on 5 June 2012 (hereinafter, the "Guidelines"), along with the corresponding NACE codes. ENCE's sector was not included on that list. On 16 December 2020, the European Commission published "EFTA Surveillance Authority Decision No 156/20/COL of 16 December 2020 adopting Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021 [2021/604]". Appendix 1 of that Decision published a new list of sectors that replaces that referred to above in which the production of paper pulp is included. As a result, in the next call for applications for compensation for indirect emission costs in 2022 (which will correspond to the costs incurred in 2021), ENCE's biomills will be included.

The sector watchdog published a Resolution on 18 March 2021 setting the tolls for accessing the electricity transmission and distribution networks applicable from 1 June 2021. It published another Resolution on 16 December 2021 establishing the tolls for accessing the electricity transmission and distribution networks from 1 January 2022.

Ministerial Order TED/371/2021 (19 April 2021) set the prices for the electricity system 'charges', which cover regulated electricity system costs other than remuneration for the transmission and distribution networks, and capacity payments applicable from 1 June 2021. Ministerial Order TED/1484/2021 (28 December) established the prices for the system charges and sundry other regulated systems costs for 2022.

A joint Resolution issued on 25 March 2021 by the Department of Energy and Mining Policy and Spain's Climate Change Office published the Cabinet Agreement of 16 March 2021, ratifying the final version of the National Integrated Energy and Climate Plan for 2021-2030. That Plan sets the following specific targets for 2030: a 23%

reduction in greenhouse gas emissions with respect to 1990 levels; a renewable energy share of 42% of end-use energy consumption; a 39.5% increase in energy efficiency; a generation mix in which 74% of capacity is renewable; and 6 GW of new storage capacity. It also sets the timeline for the phasing out of nuclear power and sets a target of 5 million electric vehicles on the road by 2030.

Law 7/2021 (20 May 2021) on climate change and energy transition sets climate targets aligned with those established in the above Plan to be revised in 2023; those targets can only be revised upwards. The new legislation establishes mechanisms for aligning the electricity sector with the goals of boosting consumption participation, investment in renewable energy, distributed generation, storage, alternative use of the electricity networks and the development of pumped storage hydropower. It consolidates the contribution of €450 million of the taxes obtained from emission allowance auctions to the electricity system and encourages electrification and the development of zero-emission heating systems.

Royal Decree-Law 12/2021 (24 June 2021) adopts urgent measures in the field of energy taxation and energy generation and suspends application of the electricity generation levy of 7% for the third quarter of the year. Lastly, Royal Decree-Law 17/2021 (14 September 2021) on urgent measures to mitigate the impact of the surge in natural gas prices on the retail gas and electricity markets extended the above temporary suspension of the generation levy until 31 December 2021.

The table below sets out the remuneration applicable to the facilities managed by ENCE at 31 December 2021:

	Ro (€/MWh) (**)					
Facility	**b.1.2**	**b.6**	**b.8**	**Gas**	**c.2**	**Ri (€/MW)**
Renewable Energy business:	-					
50-MW Huelva	-	52.85	33.96	-	-	255,660
41-MW Huelva	-	60.12	38.33	-	-	226,938
20-MW Merida	-	51.07	-	-	-	282,617
16-MW Jaen	-	59.90	38.43	-	-	242,096
16-MW Ciudad Real	-	59.90	38.43	-	-	242,096
14-MW Cordoba - Biomass	-	56.21	35.79	-	-	215,703
13-MW Cordoba - Gas	-	-	-	49.78	-	-
50-MW Puertollano - Biomass	-	48.21	48.21	-	-	-
46-MW Huelva	-	48.21	48.21	-	-	-
Pulp business:						
37-MW Navia	-	54.71	35.04	-	-	218,256
40-MW Navia	-	-	-	-	29.03	-
35-MW Pontevedra (*)	-	54.58	34.76	-	29.03	52,105

(*) Uses vapour deriving 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.

Virtually all of ENCE's facilities sell the energy they generate to the pool via one of its subsidiaries, Ence Energía, S.L., which acts exclusively as broker and representative.

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:

The reporting entity has not changed its name since the end of the last reporting period.

Domicile of entity

Spain

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 111 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

2021 Group Management Report

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

2021 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 2021, 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 and the Annual Report on Director Remuneration. Both reports are part of this Management Report, as stipulated in article 538 of the Corporate Enterprises Act. Those reports are sent separately to the CNMV and are 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 “Generating a positive impact - Eco-friendly operations"), its R&D efforts (mainly in the section titled “Transforming ENCE”) and about employee matters (mainly in the section titled “Generating a

positive impact - Committing to people"); 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 38 of the consolidated financial statements), own share transactions (note 23) and the average supplier payment term (note 28).

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 such 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, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the Financial, Corporate Development & Forest Assets Officer, the Human Capital Officer, the Pulp Sales and Logistics Manager, the Financial Controller, the Communication Manager, 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 head of the corporate Human Capital Department, 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 at the energy plants. That committee meets weekly to monitor the pulp biomills' and the energy plants' key performance indicators with respect to employee safety, environmental matters, workplace climate, sales matters related with customers and products, operational and cost indicators and matters related with the procurement of timber and biomass.

In addition, ENCE has an Internal Audit Department which reports directly to the Audit Committee.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former. In this respect, the Company singly manages all of the companies within its Group, with the exception of Ence Energía, S.L.

The Company holds a 51% ownership interest - and control - in Ence Energy, S.L

Ence Energía, S.L. is governed by a board of directors to which the non-controlling shareholder appoints two members. Ence Energy, S.L. is in turn the sole director of 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.

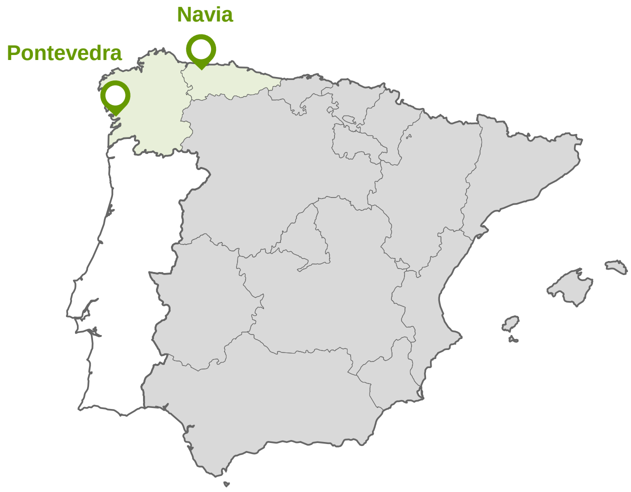
Its two core businesses are autonomous and complementary. The production of pulp is a cyclical business, while the generation of energy from renewable energy is a regulated business that provides earnings stability and visibility. The Pulp business accounted for 67% of Group EBITDA (before hedges) in 2021, while the Renewable Energy business accounted for the remaining 33%.

This section is supplemented by the report about the Group's Fourth-quarter 2021 earnings report, appended to this Management Report as Appendix I, 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.

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.

The extension of ENCE's concession for the use of the public-domain land on which the Pontevedra biomill is built was annulled by Spain's National Appellate Court in 2021. ENCE has appealed the sentences before the Supreme Court and is currently awaiting an initial decision from the high court about the admissibility of the appeals lodged.



Both biomills use eucalyptus wood 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, ENCE operates eight power plants in Spain fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

In addition to operating its existing plants, ENCE is developing new facilities, some to be fuelled by biomass, others by photovoltaic solar power and others by different renewable technologies, in order to continue to diversity and create value within the Renewable Energy business.

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. That 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 risks 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 expose it 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 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, with the aim of locking in a minimum level of cash flows in light of the uncertainty derived from the COVID-19 pandemic and the low prevailing prices, ENCE arranged, exceptionally, hedges over pulp and electricity sales prices covering approximately 20% and 30%, respectively, of anticipated 2021 sales.

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.

A number of forward currency contracts were arranged at prevailing prices in 2021 over approximately 48.61% of sales forecast for the second half of 2021 and 49.54% of those forecast for the first half of 2022.

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 earnings 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 2021, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it upgraded its salesforce 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, economic fallout from sector and environmental regulations and technological developments on the part of competitors. Meanwhile, the prices of timber and biomass 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) with a view to taking the 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. ENCE's response to the risk of an insufficient supply of biomass for use as an input at its energy plants is focused on closing supply agreements with suppliers, developing the purchase of biomass from traders and continuously searching for new fuels.

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 products from those 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 was designed to reinforce the presence and positioning of the Company's products in the European market and materialised 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 areas' 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 very strongly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities in which 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 regular internal and external audits and implementing inspection, oversight and control measures, framed by a preventive approach. Note that in 2021, 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 town 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 contested the acquiescence vehemently.

The National Appellate Court's Chamber for Contentious Administrative Proceedings issued three rulings, two on 15 July 2021 and the third on 21 September 2021, upholding the appeals lodged by Greenpeace Spain, the town council of Pontevedra and ADPR and annulling the ministerial resolution of 16 January 2016 extending the concession, based on the Court's understanding that the resolution had failed to substantiate the fact that ENCE's biomill in Pontevedra necessarily has to be located on the public-domain coastal land or to provide reasons of public interest in defence of the biomill's current location.

ENCE lodged appeals against both rulings before the Supreme Court on 28 September and 29 November 2021.

If the Supreme Court does not agree to allow the appeal preparation to go ahead or dismisses the appeals, the Appellate Court rulings would become final. ENCE estimates that, in that event, execution of the sentences would imply the start of dismantling work at the biomill in 2023 or 2024.

Although ENCE believes there are legal grounds in defence of the lawfulness of the concession extension, which is why it has decided to appeal the Appellate Court sentences, because of the restrictive nature of the appeal proceedings and the specific circumstances surrounding the matter in dispute, in keeping with applicable accounting rules, the Group has recognised a range of impacts totalling 200.2 million euros, in these consolidated financial statements.

If, having exhausted all appeal options, the courts of justice uphold the annulment of the resolution of 20 January 2016, ENCE will seek damages from the state in respect of all the losses caused by the annulment.

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 optimal 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 under 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 virus spread and enable the Company's workplaces to continue to function to the extent possible.

Since ENCE issued the first benchmark protocol for the prevention of COVID-19 transmission on **24 February 2020**, it has been updated continuously, rounding out its contents in respect of all of ENCE's business areas and value chain and fine-tuning those contents as required in line with the evolution of the pandemic 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 sector’s Best Available Techniques (BAT) reference document (BREF) is more stringent in terms of production and emissions requirements 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 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 2021.

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 2021, 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 – FOURTH-QUARTER 2021 EARNINGS 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 AND ANNUAL REPORT ON DIRECTOR REMUNERATION

As stipulated in article 538 of the Corporate Enterprises Act, the Annual Corporate Governance Report and the Annual Report on Director Remuneration are both part of the Management Report. Both reports are submitted separately to the CNMV and are available on that entity's website (www.cnmv.es) and on ENCE's website (www.ence.es).