



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 2022)

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
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 2022, and the consolidated income statement, 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 2022 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.)

Litigation relating to the public land concession in Pontevedra

See notes 4 and 7 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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.</p> <p>During 2021, the Group filed applications for leave to appeal with the Spanish Supreme Court against the rulings handed down. At 31 December 2021, based on the estimates of the Group's management and its legal advisors regarding the probability of success of the appeal 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 196 million after tax, which assumes a closure scenario estimated to be in 2023-2024.</p> <p>On 8 March 2023, the Group was notified of the Spanish Supreme Court's judgment which upheld the aforementioned appeals by the Group and other companies against the Spanish High Court's rulings declaring such rulings null and void and confirming the legality of the extension and therefore the 60-year term of the concession. There is no ordinary appeal against this Supreme Court judgment.</p> <p>At 31 December 2022, considering these judgments of the Spanish Supreme Court, the Group has recognised a net gain on reversal of impairment of assets and other items of Euros 169 million, after tax effects. In addition, the provision for plant decommissioning was updated.</p> <p>Due to the significance of the assets and liabilities affected by this litigation, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Analysis of the judgment of the Spanish Supreme Court received by the Company in March 2023. - Assessment of the reversal of the impairments and provisions resulting from the Spanish Supreme Court's judgment of March 2023, as well as the update of a portion of the provisions, the useful lives of the assets concerned, the assets and liabilities for right of use, and the assumptions made and main value judgements used for their calculation. - Assessment of the reasonableness of the update to the decommissioning provision based on the report of the independent expert engaged by the Group to estimate the aforementioned provision, the concession period and the inflation and discount rates used by the Group. - Assessment of the key assumptions used by management to estimate future taxable profits against which the deferred tax assets recognised by the Group following the Spanish Supreme Court's judgment in March 2023. - We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.



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Recoverable amount of intangible assets and property, plant and equipment of the energy business

See notes 3.3, 3.5, 9 and 20 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has intangible assets and property, plant and equipment corresponding to the energy business with a carrying amount of Euros 424 thousand at 31 December 2022, allocated to the corresponding cash-generating units (CGUs).</p> <p>At the reporting date the Company assesses whether there are any indications that the assets allocated to the cash-generating units may be impaired, for the purpose of determining their recoverable amount. During 2022, the Company calculated the recoverable amount of these assets through their value in use and consequently, made provision amounting to Euros 38.3 thousand for impairment of goodwill and property, plant and equipment of the energy business.</p> <p>Value in use was calculated by applying valuation techniques which require the exercising of judgement by the Directors and the use of estimates.</p> <p>Due to the high level of judgement, the uncertainty associated with these estimates and the significance of the carrying amount of the aforementioned assets, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Understanding the processes followed by the Group in evaluating and identifying indications of impairment and in estimating the recoverable amount of intangible assets and property, plant and equipment, as well as the design and implementation of this process. - Evaluating the reasonableness of the methodology and assumptions used by the Group when estimating the recoverable amount, with the involvement of our valuation specialists. - Moreover, we assessed the sensitivity of the recoverable amount to changes in the key assumptions, in order to determine their potential impact on the valuation. - We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.



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Measurement of biological assets

See notes 3.4 and 19 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2022, the Group has recognised biological assets of Euros 61 million under biological assets in the consolidated statement of financial position. These consist of various forest species, mainly eucalyptus, which is used as raw material for pulp production and for its sale to third parties.</p> <p>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.</p> <p>The Group has developed a pricing model for its forestry assets based on discounted expected future cash flows. The key assumptions are detailed in note 3.4 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.</p> <p>Due to the high degree of judgement associated with these estimates, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- 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 pricing model, we have considered the reasonableness of the methodology 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 pricing model is consistent with the model used in prior years.- We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.



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Other Information: Consolidated Directors' Report

Other information solely comprises the 2022 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 and 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 2022, 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.



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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.

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 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.



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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 2022 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 2022 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"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the consolidated directors' report.

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 31 March 2023.



(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, from 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
01/23/00378
issued by the
Spanish Institute
of Registered
Auditors (ICJCE)

On the Spanish Official Register of Auditors ("ROAC") with 20,435



ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated annual financial statements for
2022 and Group management report, along
with the independent auditor's report

**Consolidated financial
statements for 2022**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022

Thousands of euros	Note	Year-end 2022	Year-end 2021 (*)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	16	-	1,493
Other intangible assets	16	37,906	36,445
Property, plant and equipment	17	983,876	883,561
Biological assets	19	60,531	59,722
Investments accounted for using the equity method	25	40	26
Non-current financial assets			
Hedging derivatives	25 & 31	3,331	-
Other financial assets	25 & 28.2	32,816	26,480
Deferred tax assets	33	53,091	45,563
		1,171,591	1,053,290
CURRENT ASSETS:			
Inventories	21	102,346	65,693
Trade and other receivables	25 & 26	49,623	78,958
Other taxes receivable	33	21,010	15,895
Income tax receivable	33	8,028	1,842
Current financial assets			
Loans to group companies and related parties	25 & 35	36	36
Hedging derivatives	25 & 31	2,579	-
Other financial assets	25 & 28.2	9,898	15,115
Cash and cash equivalents	25 & 28.1	412,913	379,964
Other current assets		2,282	2,177
		608,715	559,680
TOTAL ASSETS		1,780,306	1,612,970
EQUITY:			
Share capital	22.1	221,645	221,645
Share premium	22.2	170,776	170,776
Reserves	22.3	94,007	279,163
Interim dividend		(66,553)	-
Translation differences		1	9
Own shares - parent company shares	22.5	(12,958)	(12,296)
Valuation adjustments	22.6	42,998	33,875
Other equity instruments	22.7	3,753	9,897
Profit/(loss) for the year attributable to owners of the parent	23	247,220	(190,409)
Equity attributable to owners of the parent		700,889	512,660
Non-controlling interests	22.9	117,249	112,858
TOTAL EQUITY		818,138	625,518
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	25 & 29	78,436	217,674
Bank borrowings	25 & 29	130,414	169,352
Other financial liabilities	25 & 29	77,257	65,243
Derivative financial instruments	25 & 31	-	2,161
Grants	24	6,408	4,879
Non-current provisions	32	27,983	51,225
Non-current accruals and deferred income		3,241	2,256
Other non-current liabilities	30	104,342	84,619
Non-current borrowings from group companies and related parties	25 & 35	17,843	36,835
		445,924	634,244
CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	25 & 29	63,300	-
Bank borrowings	25 & 29	35,776	35,614
Other financial liabilities	25 & 29	12,016	10,366
Derivative financial instruments	25 & 31	358	9,592
Current borrowings from group companies and related parties	25 & 35	363	1,261
Trade and other payables	25 & 27	345,942	260,369
Income tax payable	33	13	78
Other taxes payable	33	8,784	15,578
Other current liabilities	30	6,892	1,528
Current provisions	32	42,800	18,822
		516,244	353,208
TOTAL EQUITY AND LIABILITIES		1,780,306	1,612,970

The accompanying notes 1 to 37 and the Appendices are an integral part of the consolidated statement of financial position at 31 December 2022.

(*) The consolidated statement of financial position at 31 December 2021 is presented exclusively for comparative

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

Thousands of euros	Note	2022	2021 (*)
Continuing operations:			
Revenue	10	1,003,374	819,675
Gains/(losses) on hedging transactions	31	(20,343)	(88,166)
Changes in inventories of finished goods and work in progress	21	3,567	9,048
Self-constructed assets	17 & 19	5,957	4,704
Other operating income	10.1	13,999	21,566
Grants taken to profit and loss	24	9,771	6,367
Operating income		1,016,325	773,194
Cost of goods sold	11	(400,256)	(365,901)
Employee benefits expense	12	(93,191)	(84,171)
Depreciation and amortisation charges	16 & 17	(91,370)	(81,897)
Depletion of forest reserve	19	(6,990)	(11,560)
Impairment of and gains/(losses) on disposal of fixed assets	17 & 20	143,896	(193,499)
Impairment of financial assets	26	183	(335)
Other operating expenses	13	(290,363)	(211,717)
Operating expenses		(738,091)	(949,080)
OPERATING PROFIT/(LOSS)		278,234	(175,886)
Finance income	14	1,088	6,633
From equity investments:			
Third parties		-	40
From marketable securities and other financial instruments:			
Third parties		1,088	6,593
Finance costs	14	(27,344)	(28,104)
Group companies and associates		(1,009)	(1,261)
Third-party borrowings		(26,335)	(26,843)
Change in fair value of financial instruments	31	301	1,158
Exchange differences		1,315	3,667
NET FINANCE INCOME/(COST)		(24,640)	(16,646)
Share of profit/(loss) of entities accounted for using the equity method		(5)	(7)
PROFIT/(LOSS) BEFORE TAX		253,589	(192,539)
Income tax	33	(4,663)	(9,420)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		248,926	(201,959)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		248,926	(201,959)
Profit/(loss) for the the year from continuing operations attributable to non-controlling	22.9	(1,706)	11,550
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (**)		247,220	(190,409)
Earnings/(loss) per share attributable to owners of the parent		€/share	
Basic	15	1.02	(0.78)
Diluted	15	0.95	(0.78)

The accompanying notes 1 to 37 and Appendices are an integral part of the consolidated statement of profit or loss for the year ended 31 December 2022

(*) The consolidated statement of profit or loss for the year ended 31 December 2021 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 2022

Thousands of euros	Note	2022	2021 (*)
GROUP PROFIT/(LOSS) FOR THE PERIOD (***)		248,926	(201,959)
Profit/(loss) recognised directly in consolidated equity			
- Cash-flow hedges (**)		(4,996)	(96,161)
- Translation differences (**)		(8)	(9)
- Tax effect		1,249	24,040
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	22	(3,755)	(72,130)
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (**)		21,812	90,467
- Tax effect		(5,453)	(22,617)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	22	16,359	67,850
TOTAL COMPREHENSIVE INCOME		261,530	(206,239)
Attributable to:			
Parent		259,824	(194,689)
Non-controlling interests		1,706	(11,550)

The accompanying notes 1 to 37 and Appendices are an integral part of the 2022 consolidated statement of comprehensive income.

(*) The consolidated statement of comprehensive income for the year ended 31 December 2021 is presented exclusively for comparative purposes.

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

(***) Corresponds to "Profit/(loss) for the period from continuing operations" in the condensed 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 2022

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 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)
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
Total recognised income/(expense)	-	-	-	-	-	247,220	(8)	12,612	-	259,824	1,706	261,530
Appropriation of prior-year profit/(loss)	-	-	-	(190,409)	-	190,409	-	-	-	-	-	-
Dividends distributed	-	-	-	-	(66,553)	-	-	-	-	(66,553)	(981)	(67,534)
Trading in own shares	-	(662)	-	1,033	-	-	-	-	-	371	-	371
Non-controlling interests and other movements	-	-	-	4,220	-	-	-	(3,489)	(6,144)	(5,413)	3,666	(1,747)
Balance at 31 December 2022	221,645	(12,958)	170,776	94,007	(66,553)	247,220	1	42,998	3,753	700,889	117,249	818,138

The accompanying notes 1 to 37 and Appendices are an integral part of the 2022 consolidated statement of changes in equity

(*) The consolidated statement of changes in equity for the year ended 31 December 2021 is presented exclusively for comparative purposes.

(**) Includes: the legal reserve; cancelled capital reserve; capitalisation reserve; voluntary reserves; retained earnings (prior-period losses); and reserves in consolidated companies

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

Thousands of euros	Note	2022	2021 (*)
OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		253,589	(192,539)
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	16 & 17	91,370	81,897
Depletion of forest reserve	19	6,990	11,560
Changes in provisions and other deferred expense (net)		25,549	1,570
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	20	(144,004)	193,499
Adjustments for tariff shortfall/surplus and sector regulations	10	24,950	89,118
Finance income and costs (net)	14	24,643	18,001
Grants taken to profit and loss	24	(668)	(898)
		28,830	394,747
Change in working capital			
Inventories	21	(34,574)	(13,522)
Trade and other receivables	26	20,530	(49,407)
Financial and other current assets	28	2,337	2,377
Trade payables, other payables and other liabilities	27	79,261	26,998
		67,554	(33,554)
Other cash flows from operating activities			
Interest paid, net (including right-of-use assets)		(23,294)	(19,201)
Dividends received		-	40
Income tax received/(paid)	33	(22,574)	(8,159)
Long-term remuneration and other plans	12.2	(426)	(41)
		(46,294)	(27,361)
Net cash flows from operating activities		303,679	141,293
INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	17 & 19	(51,809)	(68,275)
Intangible assets	16	(3,058)	(2,709)
Financial assets		180	(328)
		(54,687)	(71,312)
Proceeds from disposals:			
Group companies and associates	6 & 22.9	400	-
Property, plant and equipment	17	3	409
Financial assets		380	5,549
		783	5,958
Net cash flows used in investing activities		(53,904)	(65,354)
FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests		-	(242)
Buyback of own equity instruments	22.5	(47,629)	(54,926)
Disposal of own equity instruments	22.5	47,761	52,989
		132	(2,179)
Proceeds from/(repayments of) financial liabilities:			
Borrowings from related parties	35.2	(18,992)	-
Notes (net of arrangement fees)	29	(79,279)	(25,749)
Increase/(decrease) in bank borrowings, net of issuance costs	29	(39,362)	(165,891)
Increase/(decrease) in other borrowings	29	(8,062)	(6,517)
Payments for right-of-use assets	18	(5,891)	(5,114)
Grants received, net	24	2,196	220
		(149,390)	(203,051)
Dividend payments			
Dividends paid to ENCE shareholders	23	(66,587)	-
Dividends paid to non-controlling interests	22.9	(981)	(13,365)
		(67,568)	(13,365)
Net cash flows used in financing activities		(216,826)	(218,595)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		32,949	(142,656)
Cash and cash equivalents - opening balance	28.1	379,964	522,620
Cash and cash equivalents - closing balance	28.1	412,913	379,964

The accompanying notes 1 to 37 and Appendices are an integral part of the 2022 consolidated statement of cash flows.

(*) The consolidated statement of financial position at 31 December 2021 is presented exclusively for comparative purposes.

Notes to the 2022 consolidated financial statements

Contents

Consolidated financial statements for 2022.....	2
1. Group information	8
2. Basis of preparation and consolidation	10
3. Accounting policies	15
4. Key accounting estimates and judgements	36
5. Financial risk management	38
6. Main acquisitions, disposals and other changes in the scope of consolidation	44
7. Public-domain concession - The ENCE biomill in Pontevedra.....	45
8. Climate change and the Paris Agreement.....	49
9. Operating segments.....	51
10. Revenue and other operating income	56
11. Cost of sales	58
12. Employee benefits expense	58
13. Other operating expenses.....	61
14. Finance income and costs	62
15. Earnings per share	63
16. Goodwill and other intangible assets	63
17. Property, plant and equipment	65
18. Right-of-use assets.....	68
19. Biological assets	70
20. Impairment of non-financial assets	72
21. Inventories	74
22. Equity	76
23. Shareholder remuneration and proposed appropriation of the Parent's profit.....	79
24. Grants.....	81
25. Financial instruments by category	82
26. Trade and other receivables	83
27. Trade and other payables	83
28. Financial assets	85
29. Borrowings.....	86
30. Other current and non-current assets and liabilities:.....	92
31. Derivative financial instruments	93
32. Provisions, guarantees and contingent liabilities	95

33. Tax matters	98
34. Director and key management personnel pay and other benefits	104
35. Transactions with Group companies and related parties	107
36. Environmental management	109
37. Events after the reporting date	121
Appendix I - Consolidation scope	122
Appendix II – Financial statements: Pulp & Renewable Energy	124
Appendix III - Energy sector regulatory framework	129

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2022 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, Spain. 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 60,870 hectares of productive forest in Spain, 43,215 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. Permitting of one of the projects is complete and the process of permitting the other two is expected to finalise in the first half of 2023. 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, Magnon Green Energy, S.L., the Renewable Energy business' holding company, agreed the sale to third parties of five photovoltaic assets with total capacity of an estimated 373 MW; those developments are currently at the permitting phase. Their sale will complete once construction of the developments begins (note 6), milestones expected to be reached by the various projects between 2023 and the first half of 2024.

Other:

In 2022, the Group embarked on the business of producing renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network, by permitting a range of projects.

It also began to operate biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities, which can in turn reduce the cost of their GHG emissions.

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

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 2022 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 2022 and its financial performance and cash flows for the year then ended.

The Group's consolidated financial statements for 2022, 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 2021 were approved at the Annual General Meeting held by the Parent on 31 March 2022.

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.

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 joint 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 2022 and 2021. Where material, the notes to the accompanying consolidated financial statements show the relevant effects 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 2021 is presented for comparison purposes only.

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 2022 or 2021, 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 2021, except for 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 2022:

Standard	Contents
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.
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.
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.
Annual improvements to IFRSs, 2018-2020 cycle (published in May 2020)	Narrow-scope amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

The above amendments have not had a significant impact on the accompanying consolidated financial statements. Although the amendment of IAS 16 - Proceeds before intended use modifies one of the Group's accounting policies, there were no such proceeds in 2022 or 2021 that were deducted from the cost of the PP&E.

2.7 Standards and interpretations issued but not yet effective

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

Standard	Contents	Applicable in annual periods beginning on or after
Standard amendments:		
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
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)	Changes to the transition requirements under IFRS 17 for insurers applying IFRS 17 and IFRS 9 for the first time at the same time.	1 January 2023
New standards:		
IFRS 17 - Insurance contracts	This replaces IFRS 4 and sets out the recognition, measurement, presentation and disclosure rules for insurance contracts to ensure that an entity provides relevant and reliable financial information on the effect of insurance contracts on the financial statements.	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.

2.8 Russia-Ukraine conflict

Armed conflict broke out between Russia and Ukraine on 24 February 2022. That conflict is having a significant impact on the global economy and financial markets. The energy sector is one of the most affected and oil and gas prices have increased sharply, in turn driving electricity prices to high levels and causing significant volatility.

ENCE is monitoring the situation and developments caused by the crisis continuously in order to manage the potential risks. Its priority has been to limit and reduce the impact of the increase in commodity and energy prices, which are affecting the cost of certain inputs used in its manufacturing processes and shipping costs. It is also stepping up its internal defence measures and controls for the protection of its digital infrastructure.

ENCE's Pulp business is self-sufficient in terms of electricity as it generates more electric power in its biomills than it consumes. The Renewable Energy business, meanwhile, also generates an energy surplus as its core business is the generation of power from renewable sources.

The Group is also monitoring its main customers closely in order to track how they are being affected by the energy crisis and adopt alternative sales practices if necessary.

None of the Group's counterparties on either the supply or sales sides are exposed to or affected by the sanctions. The Group has no transactions or supply agreements related with Russia.

The situation is constantly evolving. Regulatory uncertainty is currently very high and in the current context of high and volatile prices, ENCE is monitoring the key macroeconomic and business variables continuously so as to have real-time information to feed the best possible estimates of the potential impacts on its future cash flows. Moreover, ENCE's financial solidity and low level of indebtedness are factors that mitigate the risks derived from this situation.

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.

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.

Specifically, the goodwill allocated to the renewable energy power plants is expected to be recovered over the remaining regulatory useful lives of those plants. Therefore, 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 29).
- 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 2022, the Group capitalised €250 thousand of own work (2021: €747 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 and restore the sites on which they are located, the present value of the amount of such costs are added to the carrying amount of those assets with a balancing entry under "Provisions" in the consolidated statement of financial position. Any subsequent changes in estimated dismantling costs are accounted for by increasing or decreasing the corresponding assets' carrying amounts in the year in which the estimates change.

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).

- 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); 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. ENCE transfers work in progress to property, plant and equipment when the corresponding test period is finished.

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. The gain or loss on the disposal of any replaced items is calculated as the difference between the sum received for the sale and the carrying amount of the asset disposed of.

Depreciation and impairment charges

In 2022, 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:

	2022		2021	
	Depreciation rate	Estimated years of useful life	Depreciation 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	5%-8.3%	12-20
Machinery & equipment	5%-12.5%	8-20	5%-12.5%	8-20
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.

In 2021, the Group 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, on 1 January 2023, the Group re-estimated the period for which it reasonably expects to consume the economic benefits embodied in its 16-MW Jaen, 16-MW Ciudad Real and 41-MW Huelva biomass power generation plants (note 20). As a result of that re-estimation, their economic useful lives are now expected to end in 2023-2024..

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.

As a general rule, 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 ENCE's productive processes, 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 29).

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, 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 active market 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 2022 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 test 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.

A given CGU may contain a right-of-use asset and a lease liability. In impairment tests, the liability is considered in determining the recoverable amount of the CGU if the Group considers that in the event of disposal of the CGU, the buyer would have to assume the lease liability. If the recoverable amount is determined using value in use, the amount of the lease liability is deducted from that value in use. If the recoverable amount is determined using fair value less costs to sell, the recoverable amount is determined using the value that would be obtained from selling the CGU's assets and the liabilities associated with the rights-of-use. The liability is discounted using the interest rate implicit in the lease agreement.

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 analyses, varying revenue growth inputs, margin assumptions and the discount rates in order to assess the impact of potential changes in these variables (note 14).

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 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; the terminal value is not significant. For biological assets, projected cash flows encompass a productive cycle of up to 40 years and 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, plus any 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 7.4%.

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 upon 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 the Group, are recognised as incurred under "External services - Leases" 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 (changes in future payments due to changes in the underlying index/rate, changes in future instalments and the reassessment of the likelihood that the purchase option will be exercised). 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.

On occasion, ENCE subleases leased forestry equipment. When it does, it analyses whether it has transferred substantially all the risks and rewards of ownership of the subleased asset. If so, it derecognises the associated rights-of-use asset and recognises a receivable at an amount equal to the net investment in the sublease.

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, transaction 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. The Group uses the simplified approach to calculate expected credit loss for its trade receivables based on its historical credit loss experience.

- ii. Fair value through profit or loss: this category includes derivatives that don't qualify as hedges under IFRS 9 - Financial instruments; 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.

Transaction costs that are directly attributable to the purchase or issuance of this class of financial assets are recognised in the consolidated statement of profit or loss as they are incurred.

- iii. Financial assets at fair value through other comprehensive income: the Group does not have any assets in this category.

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 2022 or 2021.

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, the Group 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 it recognises lifetime expected losses. To assess whether there has been a significant change in credit risk, the Group considers changes in the credit ratings awarded by external experts.

Under the simplified approach, the Group recognises lifetime expected credit losses. That approach is based on the Group's historical credit loss experience 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. When a financial asset is derecognised, the Group recognises the difference between its carrying amount and the amount of consideration received, net of transaction costs, including any assets obtained or liabilities assumed and any loss or gain deferred in other comprehensive income, in the consolidated statement of profit or loss.

Depending on its prevailing cash requirements, the Group sells its trade receivables to financial institutions (factoring) and occasionally securitises them. 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 in accordance with IFRS 9 - Financial 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 qualify 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 the Group 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 may arrange derivative financial instruments to hedge these exposures. The Group does not arrange derivative financial instruments for speculative purposes.

Those financial instruments are recognised under "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and 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.

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. The Group does not have any embedded derivatives requiring separate accounting treatment.

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 the Group 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, the Group has concluded that their impact on the measurement of its derivatives is not significant.

3.9 Distinction between current and non-current

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

Cash and cash equivalents are classified as current assets unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

To classify its liabilities as non-current, the Group assesses whether it has an unconditional right at the reporting date to defer settlement of the liability for at least 12 months from that date.

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 primarily for use in the Group's productive processes are recognised as inventories, initially at their acquisition cost, calculated using the weighted average cost method.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2022-2025 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 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 investments 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 under "Other operating income" 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 (note 4).

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 and other benefits

Certain Group companies have defined benefit commitments to employees who remain in employment at year-end consisting of the contribution by the employer 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. The Group has no material defined benefit obligations.

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 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).

Certain Group executives, including its Chairman and 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.

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.

Long-term bonus plan

The Group 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.

3.14 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 the Group. 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; customer returns are the exception.

Elsewhere, 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 at the gross sale price, to the extent the Group acts as principal.

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

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

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

Expenses are recognised in the consolidated statement of profit or loss as they accrue. If future economic benefits are no longer expected, the Group recognises an expense immediately.

Revenue from energy sales

As provided in Royal Decree 413/2014, renewable energy generation plants in Spain receive certain incentives: in addition to the remuneration earned from the sale of electricity in the pool at market prices, eligible facilities are entitled to specific remuneration consisting of an amount per unit of 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 facility. That Royal Decree also stipulates the update, every regulatory stub period, of certain remuneration parameters, via ministerial order.

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).

The manner in which the Group accounts for the Tariff Adjustment is that set down in a document titled “Criteria for accounting for adjustments for tariff shortfalls/surpluses (“Tariff Adjustment”) pursuant to article 22 of Royal Decree 413/2014” published by the CNMV on 22 October 2021:

- As a general rule, the Group recognises each shortfall or surplus arising under Royal Decree 413/2014 in its consolidated statement of financial position with a balancing entry under revenue.

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 “Other current liabilities” 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, by its net asset value, or NAV (the net present value of future receipts by way of supplementary remuneration for investment).
- 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 and other qualitative factors, 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. That situation arises at standard facilities for which, factoring in current forecasts for market prices, the Group's management believes that, during the review of the remuneration parameters applicable in the next regulatory stub period, it is probable they will no longer be entitled to remuneration from the regulator or will only be entitled to an insignificant amount.

3.15 Income tax

The Group pays income tax through two tax consolidation groups under the 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 Magnon Green 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.

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income). Current and deferred tax is recognised as income or expense in the consolidated statement of profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity, or a business combination.

Current tax assets or liabilities are measured at the amounts expected to be paid to or recovered from the tax authorities using the tax rates and tax laws that have been enacted or substantively enacted in the countries where the Group companies operate.

Deferred tax assets and liabilities are determined on the basis of differences between the carrying amounts of its assets and liabilities and their tax bases, using the tax rates objectively expected to be prevailing when the assets and liabilities are realised and incurred, respectively, as embodied by prevailing rates. Deferred taxes 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 recognises a deferred tax liability for all taxable temporary differences. It only recognises a deferred tax asset, however, to the extent that it is probable that the consolidated entities will generate sufficient taxable profit in the future against which the 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.

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, or when they relate to a temporary difference arising on investments in subsidiaries, branches and associates and interest in joint ventures if the Group can control the timing of its reversal and it is probable that it will not reverse in the foreseeable future.

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.

3.16 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”.

3.17 Earnings per share

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

Diluted EPS amounts are calculated by dividing “Profit/(loss) for the year attributable to owners of the parent” by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. To 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.

3.18 Related-party transactions

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

3.19 Foreign currency transactions and balances

The 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 scanty 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.

3.20 Segment information

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

3.21 Statement of cash flows

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

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term (< 3 months), highly liquid investments which are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group.

3.22 Activities with an environmental impact

Environmental activities are those undertaken by the Group 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 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.

Those 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 the Group 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 Magnon Green Energía, S.L., ENCE's Renewable Energy holding company.

ENCE controls Magnon Green 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). Specifically: 1) Business plan and annual budget: the non-controlling shareholder has accepted the business plan prepared by ENCE which contemplates annual budgets until 2080; it will have a veto right if there are proposals to alter the annual budget by at least 15% of the budget items deemed essential; 2) Appointment of the management team: ENCE appoints the chief executive and the non-controlling shareholder appoints the CFO, whose responsibilities are tied to execution of above-mentioned business plan; 3) Material contracts (associated with plant investments, procurements 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); 4) Investment and financing decisions not contemplated in the ENCE business plan accepted by the non-controlling shareholder: decisions involving more than €20 million not contemplated in the plan require a qualified majority; 5) ENCE's policies apply to any matters not specifically contemplated in the shareholder agreement; and 6) Management of the Renewable Energy business relies on ENCE for its technical and managerial expertise (the non-controlling shareholder does not have equivalent experience).

Contingent consideration

Contingent consideration arrangements between parties as a result of the sale of ownership interests in subsidiaries that do not imply the loss of control are measured at fair value at all times.

The Group has estimated that fair value by modelling the cash flows contemplated in the various scenarios, which it weighted by 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 return expected on the power generation projects to be auctioned in the future, of around 10%; the estimated timeframe for completing the auctions, currently estimated at 2024-2026; and the discount rate, which coincides with the reasonable return contemplated in prevailing electricity sector regulations, based on the best information available to management. 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 28).

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

The tangible and intangible assets held by the Group 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 supervised by an outside expert. The analysis contemplated the durability of the main structural components of the facilities on the basis of their wear and tear, the possibility of using them at other sites and equipment obsolescence.

As a result of that revision, the estimated useful life of the assets recognised under “Plant - Other facilities” now ranges between 12 and 20 years and that of those recognised under “Machinery” ranges between 8 and 20 years. The impact of this change in accounting estimate, which took effect from 1 April 2021, was to reduce depreciation and amortisation charges by €4,706 thousand in 2021.

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). Options to extend or terminate a lease are only included in the lease term determination if extension is reasonably certain or the lessee is reasonably certain not to terminate. 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). 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 20).

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 (notes 10, 27 and 30 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 at every reporting date, 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 32). 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 (note 33).

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 3.15 and 33).

Climate change

The Group's strategy factors in the targets agreed at the Paris Agreement in an attempt to keep global warming at under 2°C and attain climate neutrality by 2050. Specifically, they have been taken into consideration in preparing the consolidated financial statements.

Note that the useful life estimates, the facility closure and restoration cost estimates and the non-financial asset impairment tests incorporate the effects of that strategy (note 8)

5. Financial risk management

The activities performed by ENCE expose it to certain risks that, were they to materialise, could have an impact on its financial statements: (i) market risk; (ii) credit risk; and (iii) liquidity risk. Section 4 of the consolidated management report provides further information about the risks faced by the Group.

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 under the supervision and control of the Audit Committee and Internal Audit Department.

- 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 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 (-)/+
	2022	5% increase	31,274	31,274
		5% decrease	(31,274)	(31,274)
	2021	5% increase	27,228	27,228
		5% decrease	(27,228)	(27,228)

Renewable energy prices

As for price risk in respect of the renewable energy sold by the Group 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 (note 10 and Appendix III).

The Group sells all the power it generates for third parties through the grid operator, OMEL. All of the Group's electricity generation capacity is subject to regulated remuneration. The second half of 2021 and

2022 were characterised by high energy prices throughout all of Europe, a development that will trigger a reduction in remuneration for investment during, at least, the next regulatory stub period (2023-2025), as well as zero remuneration for operation (except for the Group's gas-powered generation plant) in 2023 and 2024 (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, exceptionally, 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 (-)/+
	2022	5% increase	(10,863)	(10,863)
		5% decrease	10,863	10,863
	2021	5% increase	(11,355)	(11,355)
		5% decrease	11,355	11,355

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 2022 and 2021:

€ 000	2022	2021
Cash	9,625	17,769
Accounts receivable	20,870	26,656
Accounts payable	(10,524)	(8,062)
	19,971	36,363

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 (-)/+
	2022 5% appreciation	31,274	31,274
	5% depreciation	(31,274)	(31,274)
	2021 5% appreciation	27,228	27,228
	5% depreciation	(27,228)	(27,228)

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 2022 and 2021, factoring in the hedges arranged, is as follows:

€ 000	Pulp		Renewable Energy	
	2022	2021	2022	2021
Fixed-rate	100,300	196,066	134,038	158,687
Floating-rate	58,000	35,000	16,012	34,763
Fees and interest	647	15	(1,071)	(1,891)
Total borrowings (note 29)	158,947	231,081	148,979	191,559

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 €0.4 million in 2022 (2021 : €1.8 million).

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). The Group 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, the Group 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 €4,302 thousand at year-end 2022 (year-end 2021: €4,485 thousand). The table below provides a breakdown of the age of ENCE's trade debt and the impairment provisions recognised (including expected credit losses):

€ 000	31/12/2022		31/12/2021	
	Receivable	Impairment	Receivable	Impairment
Not past due	40,106	-	72,169	-
Past due by 0 - 30 d:	7,732	-	4,058	-
Past due by 30 - 180	1,813	27	2,980	247
Past due by > 180 d:	4,275	4,275	4,238	4,238
	53,926	4,302	83,445	4,485

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 solvency information and the credit scoring analysis conducted by prestigious credit underwriters.

Pulp

Credit risk is spread across 200-300 customers and other counterparties. ENCE's biggest single customer accounted for 10% of pulp sales in 2022 and 2021.

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	2022
Risk level:		
Low	30%	34%
Medium	50%	33%
Medium-high	18%	26%
High	2%	7%

Renewable Energy

Under the regulatory framework in effect, in 2022 and 2021, 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

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:

	2022	2021
Rating:		
A	60%	37%
BBB	24%	45%
BB	16%	18%
B	0%	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 2022, 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 I of the 2022 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 2022 and 2021 are shown in the table below:

€ m	Pulp		Renewable Energy	
	2022	2021	2022	2021
Net debt	(36.1)	(19.5)	6.1	121.2
EBITDA	137.7	89.0	109.8	17.8
Net debt/EBITDA (*)	(0.3)	(0.2)	0.1	1.5

(*) In interpreting EBITDA in the Renewable Energy business in 2021, the reader should consider two “non-recurring” events that had a significant impact on the business's operations and earnings: i) the incident at the 50-MW Huelva power plant; 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. The Net Debt/EBITDA ratio in the Renewable Energy business in 2021 including both effects would have been 6.8x.

The M&A transactions completed in 2020 and momentum in the business in 2021 and 2022 have enabled a sharp 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 29.

6. Main acquisitions, disposals and other changes in the scope of consolidation

2022

Changes in the scope of consolidation

Ence Biogás, S.L. was incorporated in 2022 as a wholly-owned subsidiary of the Parent with the purpose of producing renewable gas (biomethane), made from farming and breeding by-products, for injection into the natural gas network.

BioCH4 Developments, S.L. was also incorporated in 2022. It is 60%-owned by Ence Biogás, S.L. and its purpose is to provide services related with the development and construction of biomethane and biogas plants.

2021

Agreement to sell five photovoltaic developments

On 10 December 2021, Magnon Green Energy, S.L., the holding company for ENCE's Renewable Energy business, entered into an agreement with Naturgy Renovables, S.L.U. under which it committed to sell 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 their construction has begun.

The agreed transaction price is €62 million, subject to certain adjustments, mainly related to the cash on hand at the companies sold on the closing dates, certain costs that have to be incurred prior to their sale and definitive documentation of the sale agreement specific to each of the assets.

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 was recognised as an advance payment on the 2021 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 2023 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 21).

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.

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 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 6 March 2019, the newly-named Ministry of Ecological Transition Demographic Challenges 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.

As a result of the state's acquiescence, the Works Committees at ENCE's head offices and at the biomill in Pontevedra 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 APDR, annulling the ministerial resolution of 16 January 2016 extending the concession, based on that 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 those rulings before the Supreme Court on 28 September 2021 and 29 November 2021. The Supreme Court agreed to hear two of the appeals, specifically the appeal against the sentence issued in the case brought by Greenpeace Spain and the appeal lodged against the sentence issued in the case brought by the town council of Pontevedra, on 23 February and 23 March 2022, respectively. The Supreme Court decided on 29 March 2022 to suspend the appeal lodged against the sentence issued in the case brought by APDR until after it ruled on the first two appeals.

On 10 and 11 January 2023, the Supreme Court announced it would vote and rule on the appeals on 7 February 2023. On 7 February 2023, a notice was published on the official website of the General Counsel of the Judiciary informing that Section Five of the Supreme Court's Chamber for Contentious Administrative Proceedings had found in favour of the appeals presented by ENCE and other entities against the National Appellate Court rulings annulling the Resolution issued by the Directorate General of Coastal and Marine Sustainability on 20 January 2016, granting ENCE a 60-year extension on its concession for the use of a stretch of public-domain coastal land for its pulp factory in Pontevedra, thereby endorsing the 60-year extension of the Pontevedra biomill's concession.

On 8 March 2023, ENCE received formal notification of the Supreme Court's rulings upholding the appeals lodged by the Company against the two National Appellate Court rulings of 15 July 2021 in response to cases brought by Greenpeace Spain and the town council of Pontevedra regarding the extension of the concession for the use of the public-domain coastal land on which the Pontevedra biomill is located.

Both Supreme Court rulings render the above-mentioned National Appellate Court rulings null and uphold the legality of the concession extension and, thereby, its 60-year term, which runs from the day on which the extension was originally applied for. There is no ordinary appeal against said Supreme Court rulings.

The Group is expecting an imminent and identical Supreme Court ruling on the appeal brought by ENCE against the National Appellate Court ruling on the case filed by the APDR, likewise related with the extension of the concession.

Impacts recognised in ENCE's annual consolidated financial statements

In 2022, in light of the rulings issued by the Supreme Court upholding the legality of the extension of the concession over the land on which the Pontevedra biomill is located until 2073, ENCE has reversed the provisions and impairment losses recognised in 2021 following an assessment of the potential consequences of the National Appellate Court's rulings.

The breakdown of the impacts recognised in the 2022 and 2021 consolidated statements of profit or loss is as follows:

€ 000	Note	Statement of profit or loss: charge / (income)	
		2021	2022
Impairment:			
Intangible assets	16 & 20	2,470	(2,386)
Property, plant and equipment	17 & 20	186,565	(181,548)
Biological assets	19 & 20	2,479	(2,479)
Inventories	21	2,929	(2,929)
Depreciation of Pontevedra biomill assets, 2022	16 & 17	-	9,941
Right-of-use assets	18 & 20	(1,134)	470
Deferred tax assets	33	13,426	(12,043)
Contractual obligations	32	6,025	(6,025)
ENCE Pontevedra Environmental Pact	32	(14,446)	21,000
Effect of provisions and impairment charges on income tax		-	7,088
		198,314	(168,910)

Impairment of “Property, plant and equipment” and “Other intangible assets”:

The Supreme Court rulings upholding the legality of the extension of the Pontevedra biomill’s concession until 2073 prompted the reassessment of the biomill’s recoverable amount. Note that the Pontevedra biomill constitutes a standalone cash generating unit (CGU).

The recoverable amount was estimated assuming the present value of the biomill’s cash inflows and outflows, underpinned by the following assumptions: 1) sales prices in line with consensus sector forecasts and an exchange rate of around US\$/€1.10-1.15; 2) pulp production and energy generation volumes in line with the facility’s installed capacity; 3) cash costs in line with those observed in recent years; 4) a pre-tax discount rate of 8.5%-10%; and 5) extraordinary cash outflows associated with the stoppage of activity at the facility.

The recoverable amount so estimated is higher than the carrying amount of the CGU’s assets, prompting the decision to reverse the outstanding balance of the provision recognised in 2021 against the facility’s intangible assets in the amount of €2,386 thousand, and against the Pontevedra biomill’s productive assets, including the estimated costs of dismantling the facility and remedying the site and the rights-of-use assets associated with the CGU, in an aggregate amount of €181,548 thousand.

The difference between the amounts provided for at year-end 2021 and the amounts reversed correspond to the additional depreciation charges that would have been recognised against those assets in 2021 but were not as those assets were fully written down for impairment that year.

Impairment losses on other assets and provisions

The Supreme Court rulings upholding the legality of the extension of the Pontevedra biomill’s concession until 2073 also prompted the reversal of other impairment losses and provisions recognised in 2021: impairment losses against biological assets in the amount of €2,479 thousand associated with the additional costs that would have been incurred as a result of not being able to devote the related forest cover to the Pontevedra biomill; spare part impairment losses in the amount of €2,929 thousand associated with the potential devaluation of parts not apt for use in other facilities; and provisions of €6,025 thousand originally recognised to cover the costs of fulfilling or terminating contractual obligations and onerous contracts as a result of the cessation of pulp production at the Pontevedra biomill.

Deferred tax assets:

As a result of the above-mentioned Supreme Court rulings, ENCE also re-assessed its deferred tax assets, mainly unused tax losses and unused tax credits, to check its ability to utilise them within the allowed timeframes.

The projections drawn up to analyse the recoverability of the unused tax losses and tax credits certified by the tax consolidation group comprising all of the Pulp business's assets, prepared assuming that the Pontevedra biomill will remain in business until at least 2073, as well as the rest of the assumptions outlined in note 20, indicate the ability to fully utilise those losses and credits within a period of 10 years, prompting their capitalisation and, accordingly, recognition of a gain under "Income tax" in the 2022 consolidated statement of profit or loss in the amount of €12,043 thousand.

That same analysis performed at year-end 2021 had triggered the derecognition of the deferred tax assets associated with unused tax losses and unused tax credits previously recognised at the tax consolidation group comprising all of the Pulp business's assets in the amount of €13,426 thousand.

Right-of-use assets:

The Group has reestimated the concession term of the rights-of-use asset allocated to this CGU to reflect that fact that the Pontevedra biomill is now expected to continue to operate to 2073. That estimate implied the recognition of an asset and liability of €16,911 thousand in 2022.

In 2021, modelling a scenario that assumed that the facility would start to be dismantled in 2023-2024, the Group derecognised the previously recognised asset and the associated lease liability in the amounts of €27,701 thousand and €28,835 thousand, respectively.

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 the 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. Those commitments included €21 million of contributions to improving the quality of living of the people of Galicia.

Effectiveness of those commitments was always 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 voided the commitments contemplated in the Environmental Pact and Collaboration Agreement. Now that the Supreme Court has upheld the appeals lodged by ENCE, endorsing extension of the biomill's concession term until 2073, those commitments are no longer suspended.

As a result, in 2022, ENCE recognised a provision for all of the contributions contemplated (note 32) with a charge against "Other operating expenses" in the condensed consolidated statement of profit or loss. In 2021, in the wake of the rulings issued by the National Appellate Court, the Group had reversed the provisions set aside to cover those commitments in the amount of €16,750 thousand. That reversal was recognised in the consolidated statement of profit or loss under "Other operating expenses".

8. Climate change and the Paris Agreement

As a Group that bases its business model on natural capital, ENCE is aware of its exposure to risks derived from climate change, especially physical risks that could affect the availability of its key raw materials (timber and biomass). However, ENCE is also convinced that the decarbonisation challenge and transition to a world free from fossil fuels also brings opportunities and it is articulating its growth strategy around them.

To that end, ENCE believes it is crucial to analyse the risks and opportunities derived from climate change that could affect the Company and its value chain. To tackle that analysis in a systematic manner, ENCE is following the recommendations issued by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The governing body tasked with management of climate change risks is ENCE's Board of Directors, which, through its Audit Committee, supervises the related risk identification and management systems and mitigation strategies as an integral part of its overall enterprise risk management system. Those same bodies likewise supervise the scenarios and time horizons used in that risk assessment and the relevant information ENCE reports to the market.

At the executive level, the Sustainability Committee is in charge of establishing the applicable analytical methodologies and guidelines. The business areas, meanwhile, coordinated by the corporate Sustainability Department, work to identify and prioritise specific risks and opportunities, define mitigation plans and assess the potential impact of the risks on their key business metrics as the basis for calculating their financial impact.

ENCE has selected a range of physical and transition scenarios and different time horizons for analysing the impact of climate-related risks and opportunities on its business model. More specifically, it is working on an intermediate scenario which assumes average global warming of around 2°C by the end of the twenty-first century and a pessimistic scenario in which temperatures rise by an average of around 4°C over the same timeframe. Those scenarios are modelled over three different time horizons: the near future (by 2040), the mid-term (until 2070) and the long-term (until 2100). The relevant risks, assumptions and estimates used by the Group are outlined next:

The main physical risk identified by ENCE is the change in precipitation and temperature patterns, which could affect agricultural and forest crops and, by extension, the supply of timber and biomass. To analyse that risk in depth, ENCE is analysing the impacts of the forecast new climate conditions on the viability of the main species of Eucalyptus it works with and their impact on the incidence of diseases that could affect the productivity of its plantations, especially those caused by fungi. That analyses determines whether the change in abiotic conditions, coupled with the change in the incidence of fungi-related diseases, is expected to have a favourable or unfavourable impact on the regions ENCE sources from. That information was in turn used to define the risk mitigation strategy, which entails adapting the forestry R&D genetic enhancement programme in response to the emerging climate conditions in order to produce plants that are more resistant to climate change and promoting adapted forest management techniques.

A reduction in the availability of water in the regions where ENCE does business is another key physical risk identified. Despite the mitigating measures rolled out by ENCE in recent years focused on reducing its facilities' water consumption, this risk materialised in 2022 at the Pontevedra biomill: the lack of rainfall coupled with high temperatures during the summer drastically reduced the flow of water in the Lérez River from which the biomill sources its water. To ensure an environmentally-safe flow and prioritise the population's water supply, ENCE was forced to temporarily idle the biomill until water levels recovered. By way of mitigating strategy, ENCE has revised its plans and established even more ambitious water

consumption reduction targets for its facilities. In addition, ENCE has designed an innovative solution which it is currently testing out to enable it to continue to operate during periods of drought by reusing water taken from the nearby treatment facility, which, following a specific treatment, can be used in the pulp production process.

ENCE has also flagged a range of risks of a regulatory nature, including growth in the cost of emission allowances under the scope of the EU emissions trading scheme (ETS) and inclusion of the shipping sector within the scope of the trading scheme (which could increase logistics costs if the carriers pass that new cost through their customers). The strategy for mitigating those risks consists of a decarbonisation plan for the reduction of emissions and, by extension, the need to buy allowances under the ETS. Other important regulatory risks relate to regulatory changes that affect the Group's operations, such as restrictions on the use of certain fuels or tighter biomass sustainability criteria, as proposed by the European Commission as part of its review of the Renewable Energy Directive (RED III). To manage those risks, ENCE remains in constant dialogue with the Spanish and international sector associations such as APPA and Bioenergy Europe, in order to stay abreast of potential legislative initiatives that could affect the business and adapt ahead of time. Here it is worth underlining the effort made by the Company in 2022 to certify its supply chain in accordance with the Directive's requirements.

Market risks include risks related with potentially higher raw material and energy costs (including fuels) and risks related with the need to embrace low-carbon technologies, which could increase competition from newcomers, such as cement makers and biofuel producers, for biomass. Here the risk mitigation strategy involves diversifying the raw material supply chain and changing the fuels used (as happened at Navia in 2022 due to the surge in natural gas prices, even though that development is attributable to the war in Ukraine and not climate change). Specifically in relation to risk of more intense competition for biomass, the mitigation strategy consists of reinforcing the supply network in order to increase biomass mobilisation capabilities and defining a diversification strategy so as to be able to use different types of biomass for which demand is not as tight.

ENCE has factored the above risks and different time horizons into its non-financial asset impairment tests. The conclusion was that they do not have a significant impact on those assets' valuations.

Albeit aware of the risks, ENCE believes that adapting for climate change, specifically transitioning to a lower-carbon economy, presents more opportunities than risks for the Group. The main opportunities identified by ENCE, around which it is articulating its business strategy, are the following:

- Growth in renewable energies: the push at the EU level for the rollout of clean energies, which is translating into ever more ambitious renewable generation targets, represents an opportunity for ENCE, prompting the Company to focus its strategy on growth in renewable power generation using biomass and diversification into other technologies, particularly photovoltaic power. In 2022, it also embarked on the business of producing renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network, by permitting a range of projects.
- Demand for low-carbon industrial heat: the decarbonisation of industrial sectors that cannot readily electrify is a challenge that throws up a major opportunity for ENCE, as its experience managing biomass facilities puts it in an ideal position to become a leading player in the production of low-carbon industrial heat. This business line, which ENCE started up in 2022, consists of the operation of biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities, which can in turn reduce the cost of their GHG emissions.
- Carbon offsetting: in line with the roadmap established by the European institutions, a growing number of organisations are committing to net zero pathways that are only achievable by offsetting the emissions they are not able to eliminate. Against that backdrop, as the leading private forest manager

in Spain, with over 65,000 hectares under management, ENCE has a magnificent opportunity to develop carbon sinks and sell the resulting carbon credits. In fact, in 2022, ENCE already recorded its first carbon sink in the Spanish national register and secured an agreement with a private customer for the sale of the resulting allowances.

- **Biogenic CO₂:** Against the backdrop of the decarbonisation thrust, biogenic carbon dioxide has emerged as a high-interest raw material for use, in combination with green hydrogen, to produce biofuels and other products that can replace fossil materials. ENCE is also in a privileged position to take advantage of this opportunity as both its biomills and its independent energy plants produce significant volumes of biogenic CO₂ every year. ENCE is already working with a number of potential partners on the development of projects for different uses of the carbon dioxide released from biomass.
- **Low carbon pulp products:** within the Pulp business, ENCE has also identified interesting business opportunities related with the decarbonisation of the paper market. Specifically, ENCE is developing low-carbon and even carbon-neutral pulp products that can help its customers reduce the carbon footprints of their end products. ENCE's reduced carbon unbleached pulp, Naturcell, and its carbon-neutral version, Naturcell Zero, are clear examples of how the Group is taking advantage of this opportunity.
- **Plastic substituting bioproducts:** again in the Pulp business, ENCE is exploring a number of opportunities for the production of materials apt for replacing plastic and other petrochemical derivatives, based on lignin, for example. Specifically, in 2022, ENCE did the engineering work for its project for extracting and purifying lignin at the Navia biomill, while contacting a number of potential partners in parallel to analyse possible chemical and industrial applications for the material.
- **Advancing on circular bioeconomy criteria** by using lignin derived from a renewable resource such as timber to replace natural gas to fuel the lime furnaces used in the pulp production process. Gradual substitution of natural gas by the fuel "produced" in the lignin separation process directly reduces the use of energy per production unit.

In drawing up these consolidated financial statements, the Group factored in the above-listed risks and opportunities, specifically in relation to its assets' useful life estimates, investment commitments, the assessment of potential dismantling costs and its non-financial asset impairment tests, without identifying any significant impacts.

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 2022 and 2021 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 2022 and 2021, based on the management information reviewed regularly by senior management:

2022	€ 000						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP			
Revenue:							
Third parties	707,926	1,251	-	709,177	294,197	-	1,003,374
Inter-segment revenue	2,697	9,839	(8,838)	3,698	111	(3,809)	-
Total revenue	710,623	11,090	(8,838)	712,875	294,308	(3,809)	1,003,374
Earnings:							
EBITDA (*)	130,948	6,784	-	137,732	109,847	(2)	247,577
Operating profit/(loss)	248,001	322	-	248,323	28,262	1,649	278,234
Finance income	2,380	30	(492)	1,918	192	(1,022)	1,088
Finance costs	(11,845)	(470)	492	(11,823)	(16,543)	1,022	(27,344)
Hedging derivatives	-	-	-	-	301	-	301
Exchange gains/(losses)	1,367	(7)	-	1,360	(45)	-	1,315
Impairment of financial instruments	(1,850)	-	1,850	-	-	-	-
Share of profit/(loss) of investees	-	(5)	-	(5)	-	-	(5)
accounting for using equity method							
Income tax	2,198	1,525	-	3,723	(8,243)	(143)	(4,663)
Profit/(loss) for the period	240,251	1,395	1,850	243,496	3,924	1,506	248,926
Profit/(loss) attributable to non-controlling interests	-	-	-	-	618	(2,324)	(1,706)
Profit/(loss) attributable to owners of the parent	240,251	1,395	1,850	243,496	4,542	(818)	247,220
Capital expenditure (**)	44,096	7,945	-	52,041	10,406	-	62,447
Accumulated depreciation and depletion of forest reserves (**)	(895,441)	(68,193)	-	(963,634)	(310,736)	(15,114)	(1,289,484)
Impairment (**)	(7,186)	(3,398)	-	(10,584)	(38,649)	(86)	(49,319)

(*) 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 2022 earnings report” appended to the Group’s 2022 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).

31 December 2022	€ 000						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp			
Assets							
Non-current	778,289	167,560	(114,590)	831,259	439,571	(152,330)	1,118,500
Current	434,107	6,859	(3,838)	437,128	201,199	(29,612)	608,715
Total assets (a)	1,212,396	174,419	(118,428)	1,268,387	640,770	(181,942)	1,727,215
Liabilities							
Non-current	225,823	18,465	(15,040)	229,248	235,251	(18,575)	445,924
Current	347,561	6,018	(3,707)	349,872	195,979	(29,607)	516,244
Total liabilities (a)	573,384	24,483	(18,747)	579,120	431,230	(48,182)	962,168

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

2021	€ 000						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP			
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
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).

31 December 2021	€ 000						Total
	PULP business			ENERGY Business & Segment	Adjustments & Eliminations		
	Pulp	Forest Assets & Other	Adjustments & Eliminations				
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.							

(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:

2022	€ 000						Total
	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	
Business metrics:							
Pulp output (ADt)	239,315	576,996	-	-	816,311	-	816,311
Pulp sales volume (ADt)	244,818	581,799	-	-	826,617	-	826,617
Energy sales volume (MWh)	136,580	561,872	-	1,481,446	2,179,898	-	2,179,898
Continuing operations:							
Revenue	198,697	520,748	-	267,396	986,840	(3,809)	983,031
Cost of sales and other costs	(87,995)	(222,147)	-	(86,546)	(396,688)	-	(396,688)
GROSS PROFIT	110,702	298,600	-	180,850	590,152	(3,809)	586,343
Employee benefits expense	(18,644)	(28,357)	(36,030)	(10,159)	(93,191)	-	(93,191)
Other operating expenses	(71,012)	(118,234)	(14,200)	(48,293)	(251,738)	6,163	(245,575)
Overhead passed on	(14,944)	(19,470)	50,229	(15,815)	-	-	-
EBITDA (*)	6,102	132,539	-	106,582	245,223	2,354	247,577
Asset depreciation/amortisation and impairment	180,115	(36,614)	-	(97,965)	45,536	-	45,536
Other non-recurring operating expenses	(14,920)	-	-	42	(14,878)	-	(14,878)
OPERATING PROFIT/(LOSS)	171,297	95,926	-	8,659	275,881	2,354	278,235
Net finance cost	(2,506)	(4,737)	-	(17,397)	(24,640)	-	(24,640)
Share of profit/(loss) of equity-accounted investees	-	-	-	(5)	(5)	-	(5)
PROFIT/(LOSS) BEFORE TAX	168,791	91,189	-	(8,743)	251,236	2,354	253,590
Income tax	(42,090)	(21,917)	-	59,344	(4,663)	-	(4,663)
PROFIT/(LOSS) FOR THE PERIOD	126,701	69,271	-	50,601	246,573	2,354	248,927
Profit/(loss) attributable to non-controlling interests	-	-	-	(1,706)	(1,706)	-	(1,706)
Profit/(loss) attributable to owners of the parent	126,701	69,271	-	48,894	244,866	2,354	247,220

(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 2022 earnings report" appended to the Group's 2022 Management Report.

	€ 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 2022 earnings report" appended to the Group's 2022 Management Report.

	€ 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)

10. Revenue and other operating income

Revenue corresponds to revenue from contracts with customers. The breakdown of Group revenue by segment in 2022 and 2021 is as follows:

	2022			2021		
€ 000	Pulp	Renewable Energy	Consol. Group	Pulp	Renewable Energy	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	826,617	-	826,617	996,057	-	996,057
Energy sales volume (MWh) (**)	698,452	1,481,446	2,179,898	832,184	1,430,199	2,262,383
Revenue						
Pulp	625,476	-	625,476	544,568	-	544,568
Electric energy	73,613	293,726	367,339	106,700	154,051	260,751
Timber and forestry services	10,088	471	10,559	13,622	734	14,356
Inter-segment sales	3,698	111	-	2,721	99	-
	712,875	294,308	1,003,374	667,611	154,884	819,675

(*) The difference between the figures presented under "Consolidated Group" for 2022 and 2021 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 2022 and 2021 in the amounts of €3,809 thousand and €2,820 thousand, respectively.

The accounting treatment of the Tariff Adjustments (note 3.14 and Appendix III) for 2022 implied a reduction in revenue from the sale of energy of €34,115 thousand (2021: a decrease in revenue of €89,118 thousand) with a balancing entry under other current and non-current liabilities in the consolidated statement of financial position (note 30).

Some of the Group's facilities have already recognised a liability in respect of the Tariff Adjustment at the amount of their NAV, i.e., the net present value of future receipts by way of supplementary remuneration for investment. That is the principally case at the following plants in the Renewable Energy business: the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants. Under prevailing accounting standards, that NAV serves as a limit in determining the liability in respect of the Tariff Adjustments. If that limit did not exist, the Tariff Adjustment liability would have been higher than that recognised by the amount of €33,140 thousand (zero in 2021). Elsewhere, the Group has not recognised any Tariff Adjustment liability in respect of the facilities that qualify for the so-called special co-generation and waste regime that had a NAV of zero from the outset. That is the case of the energy facilities in the Pulp business fuelled by black liquor, the 13-MW Cordoba energy plant, which is fuelled by gas, and the 50-MW Puertollano and 46-MW Huelva facilities.

Under prevailing accounting standards, no Tariff Adjustment is recognised whenever the Group considers that it is highly probable, based on its best estimate of the outlook for pool prices, that the facilities will earn higher returns in the market than those established in Royal Decree 413/2014 and that, therefore, abandoning the remuneration regime would not have significantly more adverse financial consequences than remaining under the regime. The Group considers that, as a rule, remaining within the regulated remuneration regime provides all of its renewable power generation facilities with important economic advantages.

In 2022, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €207 million (2021: €218 million).

10.1 Other operating income

This heading of the consolidated statement of profit or loss mainly includes income derived from grants related to income, leases and claims settled by insurance companies. In 2021, it included income of €14,233 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 that year.

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	2022	2021
Germany	21.0	24.3
Spain	16.5	14.3
Poland	12.1	13.6
Italy	10.2	9.7
UK	6.9	6.4
France	4.4	6.9
Greece	4.9	1.2
Sweden	4.1	3.6
Other	19.9	20.0
	100.0	100.0

(*) Breakdown considering place of delivery

11. Cost of sales

Cost of sales in 2022 and 2021 breaks down as follows:

€ 000	2022			2021		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	292,645	75,541	365,909	258,955	57,694	315,683
Change in raw materials and other inventories	(13,213)	(8,217)	(21,430)	(2,022)	(2,366)	(4,388)
Other external expenses	31,888	25,421	55,777	38,316	18,144	54,606
	311,320	92,745	400,256	295,249	73,472	365,901

(*) The difference between the figures presented under “Consolidated Group” for 2022 and 2021 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 2022 and 2021 in the amounts of €3,809 thousand and €2,820 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 employee benefits expense in 2022 and 2021 is provided below:

€ 000	2022			2021		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Salaries and wages	56,741	13,342	70,083	52,645	10,059	62,704
Social Security	14,051	3,265	17,316	14,144	2,957	17,101
Contributions to pension plans (note 3.13)	2,029	317	2,346	2,038	262	2,300
Other benefit expense	1,410	190	1,600	1,285	178	1,463
	74,231	17,114	91,345	70,112	13,456	83,568
Long-term remuneration plans (note 3.14)	57	31	88	21	(98)	(77)
Termination benefits	1,100	658	1,758	452	228	680
	75,388	17,803	93,191	70,585	13,586	84,171

12.1 Headcount

The average Group headcount by job category and gender in 2022 and 2021:

Job category	Average headcount during the period					
	2022			2021		
	Men	Women	Total	Men	Women	Total
Officers	51	14	65	48	13	61
Managers	60	23	83	60	19	79
Team leaders	68	5	73	69	4	73
Skilled professionals	195	122	317	196	123	319
Clerical staff	16	38	54	14	43	57
Operators	288	34	322	306	30	336
Support and upgrade staff	47	48	95	49	50	99
Maintenance staff	131	2	133	135	2	137
	856	286	1,142	877	284	1,161

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

Job category	Year-end headcount					
	2022			2021		
	Men	Women	Total	Men	Women	Total
Officers	54	15	69	48	14	62
Managers	63	24	87	60	21	81
Team leaders	69	5	74	68	4	72
Skilled professionals	201	134	335	197	119	316
Clerical staff	15	40	55	16	45	61
Operators	277	36	313	284	27	311
Support and upgrade staff	47	42	89	45	47	92
Maintenance staff	123	3	126	135	3	138
	849	299	1,148	853	280	1,133

At year-end 2022, 10 employees had a disability of a severity of 33% or higher (year-end 2021: 12).

The Board of Directors was made up of 13 directors, eight men and five women, at both reporting dates.

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 represented 40% of the total and were paid out 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 four targets related with ENCE's earnings performance, sustainability, workplace climate and share price performance.

At 31 December 2022, the plan covered a total of 74 professionals from the Pulp business and the maximum expected cost of Cycle II, assuming delivery levels of 100%, amounts to €9,436 thousand.

The bonuses are settled 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 2022 and 2021, broken down by their counterbalancing entries, is shown in the table below:

€ 000	2022	2021
Other equity instruments (note 22.7)	38	15
Current and non-current provisions (note 32)	16	6
	54	21

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 and implied the payment of €279 thousand and 111,983 ENCE shares.

Elsewhere, the Parent's Board of Directors agreed in December 2020 to early-settle the plan with respect to a group of 27 persons 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 Magnon Green Energy, 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, fostering Group sustainability, reinforcing management orientation towards delivery of the objectives set down in the 2019-2023 business plan and helping retain talent.

For the bonuses to accrue, it is vital that the minimum levels 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 business (duly registered with the Social Security) on the vesting date, subject to the exceptions customary in incentive schemes such as these.

Vesting is tied to four targets related with the business's earnings performance, sustainability and the development of new power generation plants.

The plan covers a total of 30 professionals from the Renewable Energy business and the maximum cost, assuming a delivery rate of 100%, is €3,191 thousand.

The Group accrued €32 thousand of expense in respect of this plan in 2022, which was recognised under "Non-current provisions" in the accompanying consolidated statement of financial position (note 32).

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 2022 and 2021 for the businesses carried on by ENCE was as follows:

€ 000	2022			2021		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	182,593	72,466	253,848	143,828	58,205	200,589
Use of emission allowances (note 33)	7,838	2,814	10,652	4,862	2,717	7,579
Taxes other than income tax	2,162	2,842	5,004	3,026	1,756	4,782
Electricity generation levy (Appendix III)	-	-	-	3,098	6,290	9,388
Change in trade and other provisions	(227)	86	(141)	2,467	103	2,570
Other non-recurring operating expenses (notes 7 & 32)	21,000	-	21,000	(13,191)	-	(13,191)
	213,366	78,208	290,363	144,090	69,071	211,717

(*) The difference between the figures presented under "Consolidated Group" for 2022 and 2021 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 2022 and 2021 in the amounts of €1,211 thousand and €1,444 thousand, respectively.

13.1 External services

The breakdown of "External services" in 2022 and 2021 is as follows:

€ 000	2022			2021		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	62,512	2,390	64,902	45,955	1,099	47,054
Utilities	56,390	6,822	62,970	42,584	4,605	47,112
Repairs and upkeep	16,224	24,914	41,138	14,824	22,521	37,345
Independent professional services	4,988	2,908	7,896	7,592	1,151	8,743
Insurance premiums	4,388	3,578	7,966	3,835	2,321	6,156
Banking and similar services	1,067	811	1,878	1,348	787	2,135
Rent and fees (note 18.3)	572	202	774	458	275	733
Advertising, publicity and public relations	1,029	119	1,148	795	123	918
Research and development costs	72	-	72	100	-	100
Other services	35,351	30,722	65,104	26,337	25,323	50,293
	182,593	72,466	253,848	143,828	58,205	200,589

(*) The difference between the figures presented under "Consolidated Group" for 2022 and 2021 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 2022 and 2021 in the amounts of €1,211 thousand and €1,444 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 €94 thousand in 2022 (2021: €80 thousand).

13.2 Audit fees

The financial statements of the companies comprising the ENCE Group (Appendix I) were audited by KPMG Auditores, S.L. in 2022 and 2021.

The fees paid to the auditor and entities related to the latter for account auditing and other services in 2022 and 2021 are shown in the next table:

€ 000	2022	2021
Audit services	235	208
Services related with the audit	43	50
Other services	13	18

The only non-audit services provided by the statutory auditor in 2022 related to a financial ratio review as part of the Group's obligations under its financing agreements, the review of certain financial metrics in order to certify the fact that several Group facilities qualify as "electro-intensive consumers" and assurance services related with the Group's non-financial information and internal control over financial reporting system.

14. Finance income and costs

The breakdown of this heading in 2022 and 2021 was as follows:

€ 000	2022			2021		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
Convertible bonds	(2,285)	-	(2,285)	(4,985)	-	(4,985)
Notes	-	(3,091)	(3,091)	-	(3,253)	(3,253)
Loans, credit facilities & other	(3,453)	(2,256)	(5,709)	(4,512)	(3,140)	(7,652)
Fees and other charges	(4,404)	(7,655)	(12,059)	(3,021)	(2,701)	(5,722)
Capitalised borrowing costs (note 19)	247	25	272	244	11	255
Inter-business finance income/cost (note 35)	1,022	(2,031)	(1,009)	1,246	(2,507)	(1,261)
Right-of-use assets (note 18)	(1,927)	(51)	(1,978)	(989)	(34)	(1,023)
Contingent consideration (note 28)	861	144	1,005	(622)	642	20
Other finance income	34	33	67	3,335	1,116	4,451
	(9,905)	(14,882)	(24,787)	(9,304)	(9,866)	(19,170)
Hedging derivatives:						
Settlement of IR swap (note 31)	-	(1,469)	(1,469)	(253)	(2,048)	(2,301)
	-	(1,469)	(1,469)	(253)	(2,048)	(2,301)
	(9,905)	(16,351)	(26,256)	(9,557)	(11,914)	(21,471)

15. Earnings per share

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

Earnings per share	Unit	2022	2021
Consolidated profit/(loss) for the period attributable to owners of the parent	€ 000	247,220	(190,409)
Weighted average ordinary shares outstanding (*)	Millions of shares	242.4	242.3
Weighted average diluted shares	Millions of shares	261.1	262.4
Basic earnings per share	€	1.02	(0.78)
Diluted earnings per share	€	0.95	(0.78)

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

The diluted earnings per share figures in 2022 include the potential ordinary shares originating from the Group's convertible securities (18.7 million shares) and the finance costs associated with those securities (€2,665 thousand) have been subtracted from the consolidated earnings figure. In 2021, those securities were not factored in (19.8 million shares) as doing so would have had an anti-dilutive effect.

Elsewhere, in 2022, the potential shares related with delivery of the 2019-2023 long-term bonus plan targets (note 12.2), estimated at 1,138 thousand shares at year-end 2022, assuming target delivery of 100%, have also been included for diluted EPS calculation purposes. In 2021, those securities were not factored in (1,980 thousand shares) as doing so would have had an anti-dilutive effect.

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 2022 and 2021 is as follows:

2022	€ 000				
	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31 December 2022
Goodwill	2,737	-	-	-	2,737
Software	31,309	47	(29)	3,440	34,767
Development costs	18,452	-	-	-	18,452
Prepayments	2,248	2,970	-	(3,460)	1,758
Electric power generation rights	21,002	-	-	-	21,002
Other intangible assets	10,719	22	-	22	10,763
Total cost	86,467	3,039	(29)	2	89,479
Software	(24,746)	(2,194)	29	(75)	(26,986)
Development costs	(13,383)	(484)	-	-	(13,867)
Electric power generation rights	(1,484)	(1,131)	-	-	(2,615)
Other intangible assets	(1,602)	(156)	-	(9)	(1,767)
Total amortisation	(41,215)	(3,965)	29	(84)	(45,235)
Impairment (notes 7 & 20)	(7,314)	(1,493)	2,386	84	(6,337)
Total	37,938				37,906

2021	€ 000			
	Balance at 1 January 2021	Additions/ (charges)	Transfers	Balance at 31 December 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 20)	(4,595)	(2,719)	-	(7,314)
Total	41,903			37,938

16.1 Additions and other movements

The Group invested significantly in digitalising and standardising its key business processes in both 2022 and 2021.

The Group did not capitalise any own work within intangible assets in 2022 or 2021.

At 31 December 2022 and 2021, the fair value of the Group's electric power generation rights and its watering rights (recognised under "Other intangible assets") was not significantly different from their carrying amount.

At 31 December 2022, there were fully-amortised intangible assets still in use with an original cost of €35,623 thousand (year-end 2021: €26,164 thousand).

16.2 Goodwill

The breakdown of the Group's goodwill at 31 December 2022 and 2021 by the cash-generating units to which it has been assigned is provided in the table below:

2022		€ 000		
CGU allocated to	Technology	Goodwill	Impairment (note 20)	Carrying amount
Renewable Energy:				
Jaen 16 MW - Ciudad Real 16 MW	Biomass	2,737	(2,737)	-
		2,737	(2,737)	-
2021		€ 000		
CGU allocated to	Technology	Goodwill	Impairment (note 20)	Carrying amount
Renewable Energy:				
Jaen 16 MW - Ciudad Real 16 MW	Biomass	2,737	(1,244)	1,493
		2,737	(1,244)	1,493

The goodwill recognised originated from the acquisition of ENCE's shareholdings in Loma, S.A. and Energías de la Mancha ENEMAN, S.A., the companies that own 16-MW biomass energy plants in Jaén and Ciudad Real, respectively. That goodwill was fully written down for impairment at 31 December 2022 (note 20).

17. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2022 and 2021 is as follows:

€ 000						
2022	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 31 December 2022
Forest land	83,794	-	-	-	-	83,794
Other land	14,325	936	-	(7)	8	15,262
Buildings	161,395	-	(2,484)	1,916	-	160,827
Plant and machinery	1,878,953	8,215	(81,546)	30,126	6	1,835,754
Other PP&E	64,339	172	(8,988)	1,176	1	56,700
Prepayments and PP&E in progress	27,293	35,714	(4,626)	(33,211)	(1)	25,169
Right-of-use - Land (note 18)	13,407	3,826	(4,496)	-	-	12,737
Right-of-use assets - Other assets (note 18)	11,602	7,229	15,777	-	-	34,608
Total cost	2,255,108	56,092	(86,363)	-	14	2,224,851
Buildings	(70,116)	(5,225)	2,203	(232)	-	(73,370)
Plant and machinery	(1,052,048)	(76,046)	51,240	(4,205)	(5)	(1,081,064)
Other PP&E	(39,175)	(2,670)	8,029	(431)	(1)	(34,248)
Right-of-use - Land (note 18)	(2,145)	(1,064)	431	-	-	(2,778)
Right-of-use assets - Other assets (note 18)	(4,344)	(3,080)	1,025	-	-	(6,399)
Total depreciation	(1,167,828)	(88,085)	62,928	(4,868)	(6)	(1,197,859)
Impairment (notes 7 & 20)	(203,719)	(38,292)	194,051	4,844	-	(43,116)
Carrying amount	883,561					983,876

€ 000							
2021	Balance at 1 January 2021	Additions/ (charges)	Derecognitions or decreases	Transfer to held-for-sale (note 20)	Transfers	Translation differences	Balance at 31 December 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 amortisation	(1,121,802)	(78,743)	32,728	-	-	(11)	(1,167,828)
Impairment (notes 7 & 20)	(19,646)	(186,565)	2,492	-	-	-	(203,719)
Carrying amount	1,092,876						883,561

The Group's productive assets are all 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:

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

	€ 000	
	Year-end 2022	Year-end 2021
Pulp business:		
Pontevedra & Corporate (*)	16,450	49,047
Navia	17,655	16,201
Other	1,351	128
Renewable Energy business:		
46-MW Huelva	2,098	3,171
50-MW Huelva	1,548	3,941
50-MW Puertollano	2,390	2,144
Other	3,545	6,055
Subtotal	45,037	80,687
Right-of-use assets (note 18)	11,055	5,217
	56,092	85,904

(*) In 2021, it included the asset recognised as a result of the re-estimation of the Pontevedra biomill's dismantling provision in the amount of €42,267 (notes 7 and 32).

Capital commitments

At year-end 2022, the Group was contractually committed to €23.8 million of capital expenditure, to be incurred in 2023.

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	2022	2021
Buildings	24,408	24,237
Plant	128,289	93,004
Machinery & equipment	304,803	340,439
Tools	712	739
Furniture & fittings	2,348	2,200
Other	11,706	17,206
	472,266	477,825

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 2022 and 2021 and is included in "Valuation adjustments" in equity (note 22.6).

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 2022 and 2021:

		€ 000			
2022	Note	Balance at 1 January 2022	Additions/ (charges)	Derecognitions	Balance at 31 December 2022
Cost:					
Pontevedra biomill land	7 & 17	3,791	22,970	(6,863)	19,898
Forest leases	17	9,616	753	(736)	9,633
Other (*)	17	11,602	7,230	(1,449)	17,383
Cost		25,009	30,953	(9,048)	46,914
Depreciation:					
Pontevedra biomill land	7 & 17	-	384	-	384
Forest leases	17	2,145	680	(431)	2,394
Other (*)	17	4,344	2,973	(918)	6,399
Depreciation		6,489	4,037	(1,349)	9,177
Impairment	7 & 20	3,791	-	(3,791)	-
Carrying amount		14,729			37,737

(*) Mainly includes offices and vehicles.

		€ 000			
2021	Note	Balance at 1 January 2021	Additions/ (charges)	Derecognitions	Balance at 31 December 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 & 20	-	3,790	-	3,790
Carrying amount		45,419			14,730

(*) 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 2022 and 2021 is as follows:

		€ 000						
2022	Note	Balance at 1 January 2022	Additions	Installments paid	Retiros	Transfers	Interest	Balance at 31 December 2022
Current debt	29.2	3,995	-	(5,891)	(4,567)	8,161	1,978	3,676
Non-current debt	7 & 29.2	13,576	32,574	-	(2,365)	(8,161)	-	35,624
		17,571	32,574	(5,891)	(6,932)	-	1,978	39,300

		€ 000						
31 December 2021	Note	Balance at 1 January 2021	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 31 December 2021
Current debt	29.2	2,477	-	(5,114)	(434)	6,043	1,023	3,995
Non-current debt	7 & 29.2	43,489	8,932	-	(32,802)	(6,043)	-	13,576
		45,966	8,932	(5,114)	(33,236)	-	1,023	17,571

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 5.8%-6.0% for contracts with a term of between one and five years; of 6.0%-6.2% for contracts with a term of between 5 and 10 years; of 6.3%-6.7% for contracts with a term of between 10 and 20 years; and of 6.7%-7.7% 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 2022 and 2021:

		€ 000		
2022	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	14 & 17	384	1,540	1,570
Other land	14 & 17	680	256	913
Other assets	14 & 17	2,973	182	3,408
		4,037	1,978	5,891

€ 000				
2021	Note	Depreciation	Finance costs	Lease payments
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 2022, the Group capitalised €256 thousand of borrowing costs within the carrying amount of its forest cover (2021: €225 thousand).

The expenses recognised in connection with short-term leases and variable lease payments not included in the measurement of the lease liability amounted to €774 thousand in 2022 (2021: €733 thousand) (note 13.1).

Considering the leases in place at 31 December 2022, depreciation charges and interest expense related to the Group's right-of-use assets will average €2.2 million and €0.4 million, respectively, in the next five years (at year-end 2021: €2.2 million and €0.3 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 2022 and 2021:

€ 000				
2022	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Balance at 31 December 2022
Pulp business:				
Forest cover	115,804	6,574	(5,678)	116,700
Depletion of forest reserve	(51,791)	(6,960)	4,936	(53,815)
Impairment (notes 7 & 20)	(4,430)	(1,000)	2,922	(2,508)
	59,583	(1,386)	2,180	60,377
Renewable Energy business:				
Forest cover	2,381	46	(425)	2,002
Depletion of forest reserve	(2,133)	(30)	411	(1,752)
Impairment (notes 7 & 20)	(109)	-	13	(96)
	139	16	(1)	154
	59,722			60,531

2021	€ 000			
	Balance at 1 January 2021	Additions/ (charges)	Derecognitions or decreases	Balance at 31 December 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 & 20)	(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 20)	(129)	-	20	(109)
	236	(97)	-	139
	71,270			59,722

In 2022, ENCE planted 1,529 hectares of land (2021: 558 hectares) and carried out forest preservation and protection work on 13,843 hectares (2021: 7,217 hectares), work which entailed investment totalling €6,620 thousand (2021: €4,940 thousand). A portion of the above investments - €5,707 thousand in 2022 and €3,957 thousand in 2021 - has been recognised within "Own work capitalised" in the consolidated statement of profit or loss.

In 2022, the Group capitalised €936 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs (2021: €1,058 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 2022 and 2021 is provided below:

Age (years)	Spain & Portugal			
	2022		2021	
	Hectares (*)	Carrying amount (€ 000)	Hectares (*)	Carrying amount (€ 000)
> 17	957	1,490	1,079	1,884
14 - 16	2,357	5,893	3,523	9,598
11 - 13	7,471	17,937	8,833	20,839
8 - 10	7,310	12,357	8,096	12,709
4 - 7	8,018	7,300	8,526	7,038
0 - 3	21,336	18,158	16,831	12,193
Impairment of biological assets	-	(2,604)	-	(4,539)
	47,449	60,531	46,888	59,722

(*) 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. 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						
	Note	01/01/2022	Pontevedra concession arrangement (note 7)	Charges	Amounts used	Amounts reversed	Transfers	31/12/2022
Goodwill	16	1,244		1,493	-	-	-	2,737
Other intangible assets	7 & 16	6,070	(2,386)	-	-	-	(84)	3,600
Property, plant and equipment	7 & 17	203,719	(181,548)	38,292	(12,330)	(173)	(4,844)	43,116
Biological assets	7 & 19	4,539	(2,479)	1,000	(456)	-	-	2,604
Inventories							-	-
Spare parts	7 & 21	18,774	(2,929)	1,022	(4,969)	-	-	11,898
Net realisable amount & other	21	42	-	1,799	-	-	-	1,841
		234,388	(189,342)	43,606	(17,755)	(173)	(4,928)	65,796

		€ 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	7 & 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	21	15,269	2,929	657	(72)	(9)	18,774
Net realisable amount & other	21	977	-	288	-	(1,223)	42
		43,267	194,443	2,194	(4,078)	(1,438)	234,388

The breakdown of "Impairment of and gains/(losses) on disposal of fixed assets" in the 2022 and 2021 consolidated statements of profit or loss is shown below:

		2022			2021		
€ 000	Note	Impairment losses (*)	Gains/(losses) on derecognition/sale	Total	Impairment losses	Gains/(losses) on derecognition/sale	Total
Goodwill	16	1,493	-	1,493	249	-	249
Other intangible assets	7 & 16	(2,386)	-	(2,386)	2,470	-	2,470
Property, plant and equipment	7 & 17	(143,429)	1,905	(141,524)	186,359	(289)	186,070
Biological assets	7 & 19	(1,479)	-	(1,479)	3,479	1,231	4,710
		(145,801)	1,905	(143,896)	192,557	942	193,499

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

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. Virtually all of those assets had been derecognised by 31 December 2022 (the Group continued to recognise an impairment loss of €12 million against those assets at year-end 2021).

At year-end 2022, the Group calculated the recoverable amount of several renewable energy power generation plants, all of which are part of the Renewable Energy business (Appendix II), for which it identified indications of impairment. The Group ran impairment tests for those assets using the criteria and methodology outlined in note 3.5 and below. In determining their value in use, it relied on expected cash flow projections until the end of life of each cash-generating unit (CGU). Those projections incorporate assumptions about output, costs and other fundamental variables substantiated by specific studies prepared by experts or borne out by historical data, sales price assumptions based on available information gleaned from the futures markets and assumptions regarding macroeconomic developments based on data sourced from reliable independent sources.

Those tests revealed that the recoverable amount of the facilities with shorter regulatory useful lives (41-MW Huelva; 16-MW Jaen; 16-MW Ciudad Real; and 27-MW Cordoba), totalling €18,101 thousand, was lower than their aggregate carrying amount by €38,291 thousand, prompting the Group to recognise 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 2022. That impairment loss includes €1,368 thousand corresponding to the remaining goodwill allocated to the 16-MW Jaen and 16-MW Ciudad Real plants (note 16).

The recoverable amount and carrying amount of the cash generating units tested for impairment in 2022 amount to €445 million and €424 million, respectively.

20.1 Impairment. 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 and are located on the same sites, as well as the biological assets it earmarks for sale to third parties. Its right-of-use assets are included in the CGU in which they are being used.

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

Pulp

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

Sales prices: through 2026 the projections assume the mid-point of the projections compiled by the top three pulp sector analysts, specifically pulp prices ranging between USD1,040 and USD1,280. The exchange rate modelled is USD/EUR1.10-1.15.

Cash cost and capex. The cash cost modelled is in line with that incurred in 2022 (considering the energy produced at the mills as a deduction in cost) while maintenance capex is projected at around €10 million per biomill.

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

Renewable Energy

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

Sales price. The projections are based on the prices indicated in the futures market, of around €180/MWh in 2023, €130/MWh in 2024 and within a range of between €49/MWh and €72/MWh from 2025, 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 maintenance capex, which varies by facility, ranges between €0.3 million and €2 million per plant.

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

Other

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.

20.2 Sensitivity analysis

The projections for the Pulp business were then tested by varying the sales prices by 5% and the discount rate by 100bp. Those sensitivity analyses, carried out independently for each key input, did not indicate the existence of impairment at any of the CGUs, i.e., either of the pulp biomills.

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. A decrease of 5% in the pool price in 2023-2024 would not have a significant impact on the impairment loss recognised, while a 5% increase in fuel costs would increase it by €2.7 million.

At 31 December 2022, impairment losses on biological assets stood at €5,083 thousand (year-end 2021: €4,539 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 €4.5 million of impairment losses.

21. Inventories

The breakdown of the Group's inventories at 31 December 2022 and 2021 is as follows:

€ 000	31/12/2022	31/12/2021
Timber and biomass	34,214	16,468
Other raw materials	2,388	4,192
High-turnover spare parts (*)	13,321	9,005
Greenhouse gas emission allowances	13,938	7,332
Finished goods and work in progress	30,253	26,686
Prepayments to suppliers	363	390
Projects under development (note 6)	9,710	1,662
Impairment (note 20)	(1,841)	(42)
	102,346	65,693

(*) Presented net of impairment allowances of €11,989 thousand and €18,744 thousand at 31 December 2022 and 2021, respectively (notes 7 and 26).

There are no restrictions on title to inventories.

At 31 December 2022, the Group had entered into agreements with suppliers for the purchase, during the next three years, of (i) 1.7 million tonnes of biomass for use at the power plants constituting the Renewable Energy business; and (ii) gas equivalent to 323 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.

21.1 Emission allowances

The reconciliation of the opening and year-end Group-owned greenhouse gas (GHG) emission allowance balances for 2022 and 2021 is provided in the next table:

	2022		2021	
	Number of allowances	€ 000	Number of allowances	€ 000
Opening balance	277,467	7,332	345,225	6,015
Allocations	108,990	9,103	148,705	5,469
Delivered (*)	(192,355)	(7,130)	(216,463)	(4,152)
Purchased	28,000	1,771	-	-
Closing balance	222,102	11,076	277,467	7,332

(*) 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 108,990 tonnes of carbon emissions, valued at €9,103 thousand, in 2022 (148,705 tonnes valued at €5,469 thousand in 2021).

“Current provisions” on the liability side of the consolidated statement of financial position includes €11,100 thousand at 31 December 2022 (€7,578 thousand at year-end 2021) corresponding to the liability derived from the consumption of 172,066 allowances in 2022 (203,791 allowances in 2021) (note 32).

At 31 December 2022, the Group was contractually committed to the forward purchase of 20,000 allowances at an average price of €88.65/tonne. Those contracts are expected to be executed in 2023. Elsewhere, in 2021 the Group executed forward purchase contracts over 28,000 allowances at a price of €16.24/tonne.

22. Equity

22.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2022 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 2022 and 2021 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	%	
	31/12/2022	31/12/2021
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
Own shares	1.56	1.59
Directors with ownership interest of < 3%	0.62	0.55
Free float	54.71	54.75
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.

22.2 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.

22.3 Reserves

Below is the reconciliation of the opening and closing reserve balances for 2022 and 2021:

	Parent company reserves					Reserves in fully-consolidated investees	Reserves in equity-accounted investees	Total reserves
	Legal reserve	Cancelled capital reserve	Capitalisation reserve	Voluntary reserves	Retained earnings (prior-year losses)			
€ 000								
Balance at 31 December 2020	45,049	10,566	14,660	99,141	(5,573)	144,329	(8)	308,164
Appropriation of prior-year profit/(loss)	-	-	5,041	33,220	5,573	(70,195)	(71)	(26,432)
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
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	-	-	(181,378)	(9,004)	(27)	(190,409)
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	1,033	-	-	-	1,033
Non-controlling interests and other movements	-	-	-	4,220	-	-	-	4,220
Balance at 31 December 2022	45,049	10,566	19,701	155,533	(181,378)	44,642	(106)	94,007

Legal reserve

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

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

22.4 Reserves in fully-consolidated companies

The balance of reserves in consolidated companies that is restricted stood at €21,143 thousand at both year-ends and corresponds mainly to the legal reserves endowed by the various Group companies.

22.5 Own shares

The reconciliation of "Own shares" at the beginning and end of 2022 and 2021 is as follows:

	2022		2021	
	No. of shares	€ 000	No. of shares	€ 000
Opening balance	3,923,750	12,296	3,393,738	11,856
Purchases	15,240,479	47,629	17,364,821	54,926
2019-2025 LT bonus plan (note 12.2)	(73,853)	(241)	(9,889)	(32)
Sales	(15,247,265)	(46,726)	(16,824,920)	(54,454)
Closing balance	3,843,111	12,958	3,923,750	12,296

The own shares held by the Company at 31 December 2022 represent 1.56% of its share capital (1.59% at 31 December 2021) and were carried at €3,458 thousand (€3,531 thousand at 31 December 2021). Those shares were acquired at an average price of €3.37 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..

22.6 Valuation adjustments

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

€ 000	31/12/2022			31/12/2021		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Revaluation of land (note 17.3)	54,102	13,510	40,592	54,102	13,509	40,593
Hedging transactions (note 31)						
IR swap	3,562	890	2,672	(1,981)	(495)	(1,486)
Foreign currency	(358)	(90)	(266)	(6,977)	(1,745)	(5,232)
	57,306	14,310	42,998	45,144	11,269	33,875

22.7 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 2022 and 2021 is as follows:

€ 000	Balance at 1 January 2022	Bonds bought back	Settlement	Reclassified to profit or loss	Tax effect	Balance at 31/12/2022
Convertible bonds (note 29)	8,778	(5,631)	-	-	-	3,147
Long-term bonus plan (note 12.2)	1,119	-	(541)	38	(10)	606
	9,897	(5,631)	(541)	38	(10)	3,753

€ 000	Balance at 1 January 2021	Bonds bought back	Settlement	Reclassified to profit or loss	Tax effect	Balance at 31/12/2021
Convertible bonds (note 29)	10,431	(2,365)	-	-	712	8,778
Long-term bonus plan (note 12.2)	1,256	-	(73)	(86)	22	1,119
	11,687	(2,365)	(73)	(86)	734	9,897

22.8 Corporate credit ratings

ENCE suspended its credit ratings services in 2022.

The last rating awarded by Standard & Poor's, dated 6 December 2021, was BB- (negative outlook). Meanwhile, the last rating awarded by Moody's, dated 14 October 2021, was Ba3 (negative outlook). Both agencies' negative outlooks were influenced by the risk of annulment of ENCE's concession in Pontevedra.

22.9 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2022 and 2021 is as follows:

2022	€ 000				
	Balance at 1 January 2022	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 31 December 2022
Company					
Energía de la Loma, S.A.	4,818	961	(211)	-	5,568
Energías de la Mancha Eneman, S.A.	5,535	528	(573)	-	5,490
Bioenergía Santamaría, S.A.	439	(2,970)	(198)	-	(2,729)
Ence Energía, S.L. and subsidiaries	102,066	3,187	-	3,266	108,519
BioCH4 Developments, S.L.	-	-	-	400	400
Total	112,858	1,706	(981)	3,666	117,249

2021	€ 000				
	Balance at 1 January 2021	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 31 December 2021
Company					
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

In 2022, BioCH4 Developments, S.L. was incorporated as a 60%-owned investee of Ence Biogás, S.L., a subsidiary wholly-owned by the Parent.

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

23.1 Shareholder remuneration

The Board of Directors of ENCE approved a new shareholder remuneration policy on 28 February 2022, applicable from 2022. The purpose of the policy is to establish, within the scope of applicable legislation, the Company's Bylaws and prevailing corporate governance recommendations, a series of remuneration criteria designed to tie its financial performance to the remuneration received by its shareholders, framed by principles of sustainability, profitability and financial prudence.

To that end, the criteria that articulate and guide the policy are cash generation at ENCE and its subsidiaries, coupled with the ability to keep leverage at a level deemed prudent for the types of business carried on by the Group and comply with its legal and contractual obligations.

As a result, annual shareholder remuneration will be determined by the cash available for distribution while ensuring an appropriate level of leverage of, by way of reference, a factor of ENCE's earnings before interest, tax, depreciation and amortisation ("EBITDA") of 2.5 times in the Pulp business and 5 times in the Renewable Energy business, using mid-cycle prices, and considering existing commitments and investment plans.

In order to align remuneration with the Company's actual cash generation, the Board proposes the following dividend payment time schedule: (i) two interim dividends agreed at the end of the second and third

quarters of each year, i.e., in the months of July and October; and (ii) a final dividend for submission at the Company's Annual General Meeting within the first six months of the following year.

The Board of Directors may propose the forms of shareholder remuneration it deems most fitting at any given point in time, potentially including the repurchase of shares for cancellation, flexible remuneration schemes or in-kind distributions.

23.2 Interim dividend

In 2022, the Parent's Board of Directors approved four interim cash dividends from 2022 profits in an aggregate amount of €0.564 per share (€0.054 per share paid in May 2022, €0.13 per share paid in August 2022, €0.09 per share paid in November 2022 and €0.29 paid in March 2023).

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

€ m	31/03/2022	30/06/2022	30/09/2022	28/02/2023
Available liquidity at the resolution date:				
Cash	289.1	270.5	310.6	276.6
Payment of interim dividend (maximum amount considering the number of shares outstanding at the resolution date)	-13.1	-31.6	-21.8	-70.3
Forecast net cash flows until date of approval of interim dividend	-	-	-	-37.4
Forecast liquidity as of date of approval of interim dividend	276.0	238.9	288.8	168.9
Forecast collections over next 12 months:				
Cash flows from operating activities (proceeds net of payments)	62.6	60.5	35.6	4.4
Dividends collected	25.5	20.4	54.2	55.2
Debt drawdowns on new financing	-	-	-	100.0
Forecast payments over next 12 months:				
Capital expenditure and income tax payments	-10.3	-18.9	-28.1	-18.4
Repayment of debt and payment of interest	-126.8	-88.3	-96.4	-80.0
Dividends paid	-62.0	-60.4	-47.9	-69.7
Forecast liquidity position in 12 months' time	165.0	152.3	206.2	160.4

23.3 Proposed appropriation of the Parent's profit

In 2022, Ence Energía y Celulosa, S.A. separately recognised a profit of €228,656 thousand. The Parent's directors therefore propose the following appropriation of the Company's profit, a motion that will be submitted for approval at the Annual General Meeting:

	Miles de Euros
Basis of distribution:	
Profit for the year	228,656
Application:	
To interim dividends	136,858
To final dividend	70,305
To offset: Prior years' losses	21,493

The Board of Directors will also ask the Parent's shareholders to agree to offset the remaining balance under "Retained earnings (prior-period losses)", in the amount of €159,884 thousand, from "Voluntary reserves".

24. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2022 and 2021 is as follows:

€ 000	Subsidised loans (note 29.2)	Grants relating to assets	Emission allowances (note 21.1)	Other	Total
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
Additions, new grants (*)	-	2,191	-	-	2,191
Emission allowances granted	-	-	9,103	-	9,103
Reclassified to profit or loss	-	(668)	(9,103)	-	(9,771)
Other	-	-	-	6	6
Balance at 31 December 2022	1	6,401	-	-	6,408

(*) 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 has 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 29.2).

Lastly, the Group had been granted aid totalling €1,600 thousand at year-end 2022 and 2021, 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.

25. 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 2022					
€ 000	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	At 31 Dec. 2022
Investments accounted for using the equity method		-	-	40	40
Derivative financial instruments	31	-	5,910	-	5,910
Trade and other receivables	26	49,168	-	-	49,168
Trade receivables and other financial assets - Group companies and related parties	26 & 35	491	-	-	491
Other financial assets	28.2	18,935	-	23,779	42,714
Cash and cash equivalents	28.1	412,913	-	-	412,913
Total financial assets		481,507	5,910	23,819	511,236
Derivative financial instruments	31	-	358	-	358
Trade payables	27	344,485	-	-	344,485
Other accounts payable	30	111,234	-	-	111,234
Trade payables and other financial liabilities - Group companies and related parties	27 & 35	19,663	-	-	19,663
Notes and other marketable securities	29.1	141,736	-	-	141,736
Bank borrowings	29.1	166,190	-	-	166,190
Other financial liabilities	29.2	89,273	-	-	89,273
Total financial liabilities		872,581	358	-	872,939
Year-end 2021					
€ 000	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	At 31 Dec. 2021
Investments accounted for using the equity method		-	-	26	26
Trade and other receivables	26	78,258	-	-	78,258
Trade receivables and other financial assets - Group companies and related parties	26 & 35	736	-	-	736
Other financial assets	28.2	18,821	-	22,774	41,595
Cash and cash equivalents	28.1	379,964	-	-	379,964
Total financial assets		477,779	-	22,800	500,579
Derivative financial instruments	31	-	11,753	-	11,753
Trade payables	27	258,068	-	-	258,068
Other accounts payable	30	86,147	-	-	86,147
Trade payables and other financial liabilities - Group companies and related parties	27 & 35	40,397	-	-	40,397
Notes and other marketable securities	29.1	217,674	-	-	217,674
Bank borrowings	29.1	204,966	-	-	204,966
Other financial liabilities	29.2	75,609	-	-	75,609
Total financial liabilities		882,861	11,753	-	894,614

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 100.2% of par at 31 December 2022. The fair value of the rest of the Group's financial assets and liabilities carried at amortised cost, which include financing arranged at fixed rates of interest (note 29), is not significantly different from their amounts at which they are carried.

26. 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	31/12/2022	31/12/2021
Trade receivables:		
Pulp	32,255	42,325
Renewable Energy	13,163	29,521
Other items	3,551	1,058
Trade receivables, group companies and related parties (note 35)	455	700
Sundry receivables	4,501	9,839
Provision for impairment	(4,302)	(4,485)
	49,623	78,958

The credit period on pulp sales averages between 51 and 55 days. With respect to the trend in the balances receivable in exchange for the sale of renewable energy, the reader should note that sales to the pool are usually collected within a period of approximately 10 days, while balances due from the regulator are collected at approximately 60 days. The fair values of these balances do not differ significantly from their carrying amounts.

26.1 Discounting facilities

The Group had drawn down €45,166 thousand under non-recourse factoring agreements (note 3.7) with an aggregate limit of €115,000 thousand at 31 December 2022 (€67,016 thousand and €135,000 thousand, respectively, at 31 December 2021). 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 31 December 2022 are expected to be collected from the corresponding debtors, rather than via sale.

27. 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	31/12/2022	31/12/2021
Trade and other accounts payable	311,132	228,547
Trade payables, group companies and related parties (note 35)	1,457	2,301
Payable to fixed-asset suppliers	22,465	24,452
Employee benefits payable	10,888	6,597
	345,942	261,897

“Trade and other payables” includes the amount collected from the electricity sector regulator in 2022 which has to be returned during the first half of 2023, as a result of application of the regulations passed in 2022 to the provisional settlements the regulator had been issuing that year, in the amount of €85.4 million.

The Group had drawn down €99,566 thousand under non-recourse reverse factoring agreements with an aggregate limit of €178,500 thousand at 31 December 2022 (€97,601 thousand and €181,000 thousand, respectively, at 31 December 2021). 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.

Below are the average payment period disclosures required under Law 15/2010, amending Law 3/2004, on combating late payment in commercial transactions, and Law 18/2022, on business creation and growth, in accordance with the Resolution issued by the Spanish Audit and Accounting Institute (ICAC) on 29 January 2016 regarding financial statement disclosures on the deferral of payment to trade suppliers.

	Days	
	2022	2021
Average supplier payment term (days)	64	73
Paid transactions ratio (days)	66	77
Outstanding transactions ratio (days)	53	53

	€ 000	
	2022	2021
Total payments made	908,982	712,188
Total payments pending	156,619	154,446

€ 000	2022		2021	
	Amount	%	Amount	%
Payments made in a period shorter than the legal term	405,961	45%	255,149	36%
No. of invoices paid in a period shorter than the legal term	20,062	33%	19,886	32%

That criteria underpinning the preparation of those disclosures are as follows:

Paid transactions ratio: the number of days resulting from dividing the sum of the products of the amounts paid in each transaction by the number of days of payment and the total amount paid during the year.

Outstanding transactions ratio: the number of days resulting from dividing the sum of the products of the amounts of transactions outstanding by the number of days by which they are outstanding and the total amount outstanding.

The figures exclude payment obligations that have been withheld, balances with public entities and standing orders.

The disclosures relate to the Spanish companies consolidated after eliminating accounts payable and receivable between those subsidiaries.

28. Financial assets

28.1 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 €412,913 thousand of cash and cash equivalents at 31 December 2022 (€379,964 thousand at year-end 2021), €278,376 thousand of which corresponding to the Pulp business and €134,537 thousand to the Renewable Energy business (year-end 2021: €318,496 thousand and €61,648 thousand, respectively).

28.2 Other financial assets

The breakdown of this consolidated statement of financial position heading at year-end 2022 and 2021:

€ 000	31/12/2022		31/12/2021	
	Current	Non-current	Current	Non-current
ENCE's share liquidity agreement (note 22.5)	2,058	-	318	-
Contingent consideration (note 6)	5,630	18,149	8,510	14,264
Receivable under asset sub-leases	-	2,557	-	-
Debt cash reserve	-	10,000	-	10,000
Security deposits and other accounts receivable	2,210	2,110	6,287	2,216
	9,898	32,816	15,115	26,480

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 29), which was fully undrawn at both 31 December 2022 and 31 December 2021.

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, Magnon Green Energy, S.L., ENCE's Renewable Energy business holding company. A portion of the sale price - €134 million - is variable and depends on successful development of the pipeline of biomass 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 and the associated rate of return; 3) up to €18 million depends on the level of investment required to commission the facilities and the associated rate of return; and 4) up to €63 million depends on the return earned by business, subject to the terms set in the agreement, by year-end 2028.

At 31 December 2022, ENCE recognised a balance receivable of €21,920 thousand (year-end 2021: 21,059 thousand euros), which is the present value, discounted using the business’s cost of capital of 8.4%, of the amount of the contingent consideration it expects to collect between 2021 and 2028. Of that amount, the

Group collected €5,630 thousand in January 2023, the balance associated with announcement of the biomass auction, which took place in July 2022.

Elsewhere, “Contingent consideration” includes a receivable in the amount of €1,859 thousand at 31 December 2022 (€1,715 thousand at year-end 2021) corresponding to the present value of the contingent price agreed on the sale in 2020 of the Group’s investment in Ence Energía Termollano, S.A., a company that owned a solar thermal electric generation plant.

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 €1,005 thousand (note 14).

29. Borrowings

29.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2022 and 2021 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

2022	€ 000	Limit	Drawn down	Maturity				Total non-current
				Current	2024	2025	2026	
			2023					
Borrowings - Pulp business								
Notes issued		63,300	63,300	63,300	-	-	-	-
Revolving credit facility		130,000	-	-	-	-	-	-
Bank loans		95,000	95,000	7,500	28,414	43,981	15,105	87,500
Arrangement fees		-	(539)	-	(309)	(154)	(76)	(539)
Interest and coupons payable and other		-	1,186	1,186	-	-	-	-
		288,300	158,947	71,986	28,105	43,827	15,029	86,961
Borrowings - Renewable Energy business								
Notes issued		79,000	79,000	-	-	79,000	-	79,000
Revolving credit facility		20,000	-	-	-	-	-	-
Bank loans		71,050	71,050	27,067	33,733	10,250	-	43,983
Arrangement fees		-	(1,094)	-	(949)	(145)	-	(1,094)
Interest and coupons payable and other		-	23	23	-	-	-	-
		170,050	148,979	27,090	32,784	89,105	0	121,889
		458,350	307,926	99,076	60,889	132,932	15,029	208,850

2021	€ 000	Limit	Drawn down	Maturity					Total non-current
				Current	2023	2024	2025	2026	
				2022					
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)
Notes issue		-	(499)	-	-	-	-	-	(499)
Bank loan		-	(695)	-	-	-	-	-	(695)
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

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 four 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 €0.7 million and €5.1 million. In the Renewable Energy business, annual interest payments during the next four years are estimated at between €5.2 million and €8.4 million.

ENCE's average borrowing cost was 2.13% in 2022 (2021: 2.52%). The average borrowing cost in the Pulp business was 1.55% (2021: 1.52%), compared to 4.03% in the Renewable Energy business (2021: 4.19%).

At 31 December 2022, 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 to 8.5636 on 1 July 2022

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 2022, ENCE bought back bonds with a face value of €65,400 thousand at an average price of 99.82% of par. In previous years it had repurchased bonds with a face value of €31,300 thousand.

Under the scope of this issue, the Group also arranged a €130 million revolving credit facility with a syndicate of Spanish and international banks. That facility accrues interest benchmarked to EURIBOR and is due in 2026. The revolving credit facility was fully undrawn at 31 December 2022. 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.

Loans

As of 31 December 2022, ENCE had arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan in a combined amount of €95 million; those loans fall due between 2023 and 2026. A portion of those loans, with a face value of €37 million, accrues interest at fixed rates ranging between 1.80% and 1.95%. 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 Sustainability environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing.

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 24 November 2017, Magnon Green Energy, S.L. (hereinafter, "Magnon"), 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, Magnon 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		Maturity	Interest rate (*)
	Undrawn	Drawn		
Senior notes (iv)	36,000	36,000	Dec. 2025 (ii)	3.45%
Tranche 1	21,000	21,000	Dec. 2024	1.75%-3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	33,000	33,000	Dec. 2024	1.75%-3.25%
Tranche 4	20,000	-	Dec. 2024	1.25%-2.75%
Senior notes (iv) and (v)	43,000	43,000	Dec. 2025 (ii)	3.45%
Tranche 5 (v)	11,050	11,050	Dec. 2025	1.75%-3.25%
	170,050	150,050		

- (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.

In 2022, the Group bought back notes with a face value of €14,000 thousand for €14,300 thousand.

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. It is believed that the Group fully complied with those obligations at both reporting dates.

In calculating EBITDA for the purpose of calculating the net debt / EBITDA ratio, as defined in the loan agreement, the following non-recurring items were excluded from the 2021 calculation: 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 bilateral energy contracts for physical delivery arranged exceptionally by Magnon Green Energy, 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. 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 Renewable Energy business of at least €30 million, including any amounts drawn down under tranche 4, and compliance with certain ratios related with the business's leverage, financial position and cash flow generation capabilities in order to be able to pay dividends and secure additional financing.

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

In order to hedge the risk deriving from this floating-rate facility, when it was arranged, the Group restructured the hedge agreements it had written for the purposes of its previous facilities. The new interest-rate swaps cover 89% of the financing drawn down and lock in an average rate of 1.22% (note 31).

Standard & Poor's assigned Magnon Green Energy, 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.

29.2 Other financial liabilities

The breakdown of this consolidated statement of financial position heading at year-end 2022 and 2021:

2022			Maturity					Total non-current
	Drawn down	Current 2023	2024	2025	2026	2027	Beyond	
€ 000								
Other financial liabilities - Pulp business								
Financing granted by public organisms	49,973	8,340	8,234	8,109	8,109	6,221	10,960	41,633
Liabilities for right-of-use assets (note 18)	37,603	3,015	2,508	2,939	1,830	1,479	25,832	34,588
	87,576	11,355	10,742	11,048	9,939	7,700	36,792	76,221
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 18)	1,697	661	389	288	192	50	117	1,036
	1,697	661	389	288	192	50	117	1,036
	89,273	12,016	11,131	11,336	10,131	7,750	36,909	77,257

2021	€ 000	Drawn down	Maturity					Total non-current
			Current	2023	2024	2025	2026	
			2022					
Other financial liabilities - Pulp business								
Financing granted by public organisms		58,038	6,371	8,049	8,618	8,464	8,464	51,667
Liabilities for right-of-use assets (note 17)		16,444	3,614	3,267	1,403	1,773	940	12,830
		74,482	9,985	11,316	10,021	10,237	9,404	64,497
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 17)		1,127	381	227	191	111	35	746
		1,127	381	227	191	111	35	746
		75,609	10,366	11,543	10,212	10,348	9,439	65,243

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. 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..

29.3 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 2022 and 2021 statement of cash flows:

2022	Balance at 01/01/2022	Cash flows				Changes in financial liabilities with no impact on statement of CF				
		Issues and drawdowns (net of fees)	Repayments/ installments paid	Notes bought back	Interest paid	Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Unwinding of discount and other	Balance at 31/12/2022
Borrowings - Pulp business										
Notes and bonds (note 29.1)	125,568	-	-	(65,279)	-	-	498	-	2,513	63,300
Bank loans	104,305	-	(10,000)	-	-	-	156	-	-	94,461
Other financial liabilities	58,038	66	(8,093)	-	-	(61)	-	-	23	49,973
Interest and coupons payable and other	1,208	-	-	-	(5,174)	5,152	-	-	-	1,186
Liabilities related with right-of-use assets	16,444	-	(4,722)	-	-	1,927	-	23,954	-	37,603
	305,561	66	(22,815)	(65,279)	(5,174)	7,018	654	23,954	2,536	246,522
	305,561	66	(22,815)	(65,279)	(5,174)	7,018	654	23,954	2,536	246,522
Borrowings - Renewable Energy business										
Notes and bonds	92,106	-	-	(14,000)	-	-	330	-	-	78,436
Bank loans	99,447	-	(29,400)	-	-	-	473	-	-	70,520
Interest and coupons payable and other	7	-	-	-	(5,065)	5,081	-	-	-	23
Liabilities related with right-of-use assets	1,127	-	(1,169)	-	-	51	-	1,688	-	1,697
	192,687	-	(30,569)	(14,000)	(5,065)	5,132	803	1,688	-	150,676
Derivatives associated with financing	4,781	-	-	-	(2,121)	-	-	-	-	5,910
	197,468	-	(30,569)	(14,000)	(7,186)	5,132	803	1,688	-	156,586
	503,030	66	(53,384)	(79,279)	(12,360)	12,150	1,457	25,642	2,536	403,108

		Cash flows				Changes in financial liabilities with no impact on statement of CF				
2021	Balance at 01/01/2021	Issues and drawdowns (net of fees)	Repayments/ installments paid	Notes bought back	Interest paid	Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Unwinding of discount and other	Balance at 31/12/2021
€ 000										
Borrowings - Pulp business										
Notes and bonds (note 29.1)	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
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
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

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

The breakdown at year-end 2022 and 2021:

€ 000	31/12/2022		31/12/2021	
	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus	6,892	103,099	1,528	83,514
Other	-	1,243	-	1,105
	6,892	104,342	1,528	84,619

The line items "Other non-current liabilities" and "Other current liabilities" on the accompanying consolidated statement of financial position at year-end 2022 and 2021 reflect the "Adjustment for tariff shortfall/surplus" account, which includes the Group's non-current payables to the sector regulator, the CNMC, under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste, in respect of the Tariff Adjustments concept (notes 3.14, 10 and Appendix III).

The breakdown of "Adjustment for tariff shortfall/surplus" at 31 December 2022 and 2021, classified by the year in which the balances are due settlement by the regulator (which happens when a facility enters its last regulatory stub period) and/or reclassification to profit or loss, is provided below:

2022	Maturity							Total non-current
	Total	Current	2023	2024	2025	2026	2027	
Balances payable:								
Pulp business:	34,321	1,930	2,073	2,226	2,391	2,568	23,133	32,391
Renewable Energy business:	75,670	4,962	5,329	5,723	5,549	5,959	48,148	70,708
	109,991	6,892	7,402	7,949	7,940	8,527	71,281	103,099
Net receivable/(payable)	109,991	6,892	7,402	7,949	7,940	8,527	71,281	103,099

2021	Maturity							
	Total	Current						Total non-current
		2022	2023	2024	2025	2026	Beyond	
Balances payable:								
Pulp business:	19,817	223	1,106	1,188	1,276	1,370	14,654	19,594
Renewable Energy business:	65,225	1,305	7,737	8,309	8,924	5,352	33,598	63,920
	85,042	1,528	8,843	9,497	10,200	6,722	48,252	83,514
Net receivable/(payable)	85,042	1,528	8,843	9,497	10,200	6,722	48,252	83,514

31. 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 2022 and 2021 (showing the fair value of the derivatives at year-end), is provided in the next table:

€ 000	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash flow hedges:								
IR swap	3,224	-	2,579	-	-	2,441	-	2,615
IR swap arrangement fee	107	-	-	-	-	(280)	-	-
Currency hedges	-	-	-	-	-	-	358	6,977
Total	3,331	-	2,579	-	-	2,161	358	9,592

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in 2022 and 2021 are shown below:

€ 000 - Gain/(loss)	2022	2021
Impact on operating profit:		
Currency hedges	(20,425)	437
Pulp price hedges	73	(53,192)
Energy sales price hedges	9	(35,411)
Energy purchase price hedges	-	-
Subtotal	(20,343)	(88,166)
Impact on net finance costs:		
IR swap (note 14)	(1,469)	(2,301)
Total	(21,812)	(90,467)

All of the derivatives arranged by ENCE at 31 December 2022 qualify for hedge accounting.

31.1 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 2022:

Underlying	Maturity	Strike price	Strike price	Notional amount (USD m)
		Call	Put	
EUR/USD	1Q23	1.114	1.144	24.5
EUR/USD	2Q23	1.033	1.120	15.0
EUR/USD	3Q23	0.999	1.077	15.0
EUR/USD	4Q23	1.035	1.060	10.0
				64.5

The contracts outstanding at 31 December 2022 cover approximately 10.11% and 8.13% of forecast pulp sales in the first and second halves of 2023, respectively. Those outstanding at 31 December 2021 covered approximately 54% and 21% of forecast pulp sales in the first and second halves of 2022, respectively.

The instruments presented a negative fair value of €358 thousand at 31 December 2022 (negative fair value of €6,977 thousand at 31 December 2021).

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 2022 is shown below:

€ 000	Change in USD/EUR	Operating profit	Impact on equity
	exchange rate	(-)/+	(-)/+
2022	5% depreciation	2,087	1,565
	5% appreciation	(2,488)	(1,866)
2021	5% depreciation	7,770	5,828
	5% appreciation	(10,474)	(7,856)

31.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2022 and 2021 are shown below:

€ 000	Fair value	Notional amounts at year-end:			
		2021	2022	2023	2024
2022					
Renewable Energy business	5,803	-	134,038	111,371	3,188
2021 (*)					
Renewable Energy business	5,056	158,688	134,038	111,371	3,188

(*) Balance payable.

There were inefficiencies in the interest rate derivatives in 2022, prompting the Group to recognise a gain of €301 thousand under “Change in fair value of financial instruments” in the consolidated statement of profit or loss for year ended 31 December 2022.

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 2022 is shown below:

€ 000	Change in interest rates	Impact on finance	Impact on equity
		cost (-)/+	(-)/+
2022	50bp increase	(308)	(900)
	50bp decrease	308	913
2021	50bp increase	(370)	(1,746)
	50bp decrease	370	1,715

31.3 Pulp price hedges

The Group had no pulp price hedges outstanding at either year-end 2022 or 2021.

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. Those hedges were settled in 2021, entailing a cash outflow of €53,192 thousand, which was recognised under “Gains/(losses) on hedging transactions” in the consolidated statement of profit or loss for that year.

31.4 Energy sale-purchase price hedges

The Group had no energy price hedges outstanding at either year-end 2022 or 2021.

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. Those hedges were settled in 2021, entailing a cash outflow of €35,411 thousand, which was recognised under “Gains/(losses) on hedging transactions” in the consolidated statement of profit or loss for that year. Likewise, 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.

32. Provisions, guarantees and contingent liabilities

32.1 Provisions

The reconciliation of the opening and closing balances of current and non-current provisions in 2022 and 2021 is as follows:

€ 000				
2022	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Balance at 31 December 2022
Non-current:				
Long-term remuneration plan (note 12.2)	375	48	-	423
Provision for dismantling (note 7)	42,631	2,999	(21,032)	24,598
Provision for contractual obligations (note 7)	6,059	62	(6,121)	-
Other	2,160	1,121	(319)	2,962
	51,225	4,230	(27,472)	27,983
Current				
Long-term remuneration plan (note 12.2)	309	-	(309)	-
Emission allowances (notes 13 & 21.1)	7,578	11,100	(7,578)	11,100
Pontevedra Environmental Pact (note 7)	-	-	21,000	21,000
Other provisions	10,935	-	(235)	10,700
	18,822	11,100	12,878	42,800

€ 000					
2021	Balance at 1 January 2021	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31 December 2021
Non-current:					
Long-term remuneration plan (note 12.2)	715	93	(39)	(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	49,684	(897)	(394)	51,225
Current					
Long-term remuneration plan (note 12.2)	-	(85)	-	394	309
Emission allowances (notes 13 & 21.1)	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

“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.

Provision for dismantling:

In 2021, ENCE, with the assistance of a renowned independent expert, 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 2023 or 2024, at an amount of €42,631 thousand.

In the wake of the Supreme Court rulings upholding the legality of the extension of the Pontevedra biomill’s concession until 2073, that liability was re-estimated at €24,598 thousand at 31 December 2022.

That obligation was estimated assuming a present cost of €43 million, annual growth in costs of around 2%-3% and a discount rate of around 7.7%.

32.2 Guarantees extended to third parties

At 31 December 2022, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €96,543 thousand (€95,434 thousand at 31 December 2021), as broken down in the table below.

	€ 000
Government permitting of renewable energy power generation plants	37,898
Subsidised loans (note 29.2)	9,004
Grid access - Pre-allocations	15,764
Receivable discounting lines	7,500
Estate leases	3,703
Execution of forest projects	5,814
Pontevedra concession	3,050
Electricity market	9,000
Environment related	1,598
Payments to suppliers	1,960
Other	1,252
	96,543

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.

32.3 Contingent assets and liabilities

At year-end 2022, the Group was party to legal claims and controversies arising in the ordinary course of its business. The most significant claims are summarised below:

Energy crops:

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. Those new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged the Group 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, the Parent and certain Group companies (hereinafter, "ENCE") presented a claim for damages from the Spanish state (the "Claim") 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 concluding that its claim for damages is not admissible.

Given the lack of response to its Claim submission, on 10 February 2023, ENCE lodged an appeal seeking damages for the financial loss caused directly by the undue retroactive application of the remuneration regime introduced for facilities generating power from biomass sourced from energy crops by Ministerial Order IET/1045/2014 (16 June 2014), enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, so implementing Royal Decree 413/2014 (6 June 2014), both of which emanated from implementation and application of the Electricity Sector Act (Law 24/2013, of 26 December 2013) and Royal Decree-Law 9/2013, adopting urgent measures towards guaranteeing the financial stability of the electricity system. The lodging of that appeal could imply, under the scope of Royal Decree-Law 17/2019 (22 November 2019), application of a reasonable return of 7.09% from 1 January 2020 (Appendix III).

Electricity market regulations:

On 20 December 2022, the Group companies whose business activities are in any way subject to the electricity sector regulatory framework, lodged appeals before the Supreme Court's Chamber for Contentious Administrative Proceedings against the following ministerial orders: Order TED/989/2022; Order TED/995/2022; and Order TED/1232/2022. They are likewise planning to file an appeal against Order TED/1295/2022 (Appendix III) in the days to come.

The arguments underpinning the above-listed ministerial order challenges include: breach of the remuneration regime timeframes stipulated in the Electricity Sector Act; infraction of the rules regulating the remuneration methodology; violation of the prohibition against public powers acting arbitrarily in light of the lack of substantiation for the underlying parameters; a lack of methodology in determining the remuneration due to biomass; and the failure to include transport costs in the remuneration calculations. In addition to arguments of a legal character, the challenges will be based on an expert analysis determining the existence of a significant economic impact, insofar as the ministerial orders being challenged set remuneration for operations parameters that are removed from current real operating costs.

33. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2022 and 2021 are shown below:

€ 000	31/12/2022		31/12/2021	
	Assets	Liabilities	Assets	Liabilities
Non-current:				
Deferred tax assets	73,014	-	64,149	-
Deferred tax liabilities	(19,923)	-	(18,586)	-
Total	53,091	-	45,563	-
Current:				
VAT	20,555	4,101	15,414	11,474
Current tax on profits for the year	8,028	13	1,842	78
Electricity generation levy	-	(7,866)	-	149
Sundry other taxes	455	12,549	481	3,955
Total	29,038	8,797	17,737	15,656

33.1 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. has been filing its income 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.
- Magnon Green Energy, S.L. has been filing its income tax returns under the consolidated tax regime provided for in Chapter VI 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 rest of the Group companies file individual tax returns.

The statutory income tax rate in Spain is 25%. Corporate income is taxed at 21% and 25% in Portugal and Uruguay, respectively.

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

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2022 and 2021 is provided below:

	€ 000	
	2022	2021
Accounting profit: Profit/(loss) before tax (*)	253,589	(192,539)
Permanent differences:		
Arising in profit or loss	12,681	3,015
Arising in profit or loss - Pontevedra concession (note 7)	(163,830)	163,830
Arising in equity	(45)	(46)
Temporary differences:		
Arising during the current year	24,052	18,543
Arising in prior years	(9,317)	(22,724)
Consolidation adjustments	(6,185)	(10,417)
Utilisation of tax losses	(24,959)	(625)
Taxable income/(tax loss)	85,986	(40,963)

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

The permanent differences arising in profit or loss stem mainly from the impairment charges recognised against equity interests in Group companies and against items of property, plant and equipment. This heading also includes a reduction in permanent differences of €4.8 million corresponding to the inclusion in taxable income of the tax impairment equivalent to the charges for the depreciation of the impaired assets at the Pontevedra biomill in 2021, now assuming that the facility can be operated until 2073 (notes 7 and 17).

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. Elsewhere, the temporary differences originating in the current year not recognised in these financial statements, and therefore not treated as permanent differences, relate to impairment losses recognised against non-financial assets in the amount of €13.9 million (note 20).

In 2021, the difference under the line item “Arising in profit or loss - Pontevedra concession” stemmed from the rulings annulling the concession over the land on which the Pontevedra biomill is located, which generated an increase of €194,897 thousand, partially offset by a decrease of €31,067 thousand corresponding to the inclusion in taxable income of the tax impairment equivalent to the charges for the depreciation of the impaired assets assuming their remaining estimated useful lives (note 7). Those differences were fully reversed in 2022 following the Supreme Court rulings upholding the legality of the concession term in Pontevedra until 2073.

33.3 Reconciliation of accounting profit/loss and tax expense/income

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2022 and 2021 is provided below:

	€ 000	
	2022	2021
Accounting profit: Profit/(loss) before tax (*)	253,589	(192,539)
Permanent differences:		
Arising in profit or loss	12,681	3,015
Arising in profit or loss - Pontevedra concession (note 7)	(163,830)	163,830
Derecognition/(recognition) of deferred tax assets (unused tax losses)	(81,927)	85,699
Elimination of the accounting profit of entities not resident in Spain	228	615
Consolidation adjustments and eliminations	(5,610)	(10,521)
Taxable income/(tax loss)	15,131	50,099
Tax payable before adjustments	3,783	12,525
Deductions and adjustments in respect of prior year	861	(3,120)
Tax corresponding to entities not resident in Spain	19	15
Tax expense /(income)	4,663	9,420

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

The breakdown of tax expense / (income) in 2022 and 2021:

	€ 000	
	2022	2021
Current tax and other	15,079	2,140
Deferred tax	(10,416)	7,280
Tax expense /(income)	4,663	9,420

33.4 Recognised deferred tax assets and liabilities

The reconciliation of this consolidated statement of financial position heading at the beginning and end of 2022 and 2021:

Deferred tax assets

	€ 000				Balance at 31
2022	Balance at 1			Transfers and	December
	January 2022	Increases	Decreases	other	2022
Deferred tax assets recognised in profit or loss:					
Non-current asset depreciation	2,818	-	(940)	1	1,879
Non-current asset impairment	2,543	5,101	(1,796)	(48)	5,800
Provisions	2,955	307	(3)	-	3,259
Commitments to employees	1,406	66	(96)	84	1,460
Impairment of current assets	1,917	716	(56)	-	2,577
Limit on deductibility of interest expense and other	1,567	-	(1,450)	1	118
Non-resident companies and consolidation adjustments	3,618	-	(244)	-	3,374
Unused tax losses	30,339	65	(6,240)	20,419	44,583
Unused tax credits	14,513	17	(4,696)	41	9,875
	61,676	6,272	(15,521)	20,498	72,925
Deferred tax assets recognised in equity:					
Hedging derivatives (note 32)	2,473	49	(2,434)	-	89
	2,473	49	(2,434)	-	89
Total	64,149				73,014

€ 000					
2021	Balance at 1 January 2021	Increases	Decreases	Transfers and other	Balance at 31 December 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
Commitments to employees	1,330	49	(59)	86	1,406
Impairment of current assets	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

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 20); 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 Group's deferred tax assets are mostly recoverable within a period of around 10 years. The balance of unused tax credits and unused tax losses certified but not recognised in the statement of financial position at 31 December 2022 amounts to €18.0 million (year-end 2021: €88.4 million).

The general state budget for 2022 published in Spain on 29 December 2021 (Law 22/2021, of 28 December 2021) modified 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

2022	€ 000				Balance at 31 December 2022
	Balance at 1 January 2022	Increases	Decreases	Transfers and other	
Recognised in profit or loss:					
Accelerated depreciation (RDL 4/2004)	731	-	(182)	-	549
Finance costs	51	-	(16)	-	35
Consolidation and other adjustments	3,690	1,948	(1,926)	2	3,714
	4,472	1,948	(2,124)	2	4,298
Recognised in equity:					
Revaluation of forest land (note 17.3)	13,510	-	-	-	13,510
Convertible bonds (note 30)	196	-	(59)	-	137
Consolidation and other adjustments	408	2,199	(629)	-	1,978
	14,114	2,199	(688)	-	15,625
Total	18,586				19,923

2021	€ 000				Balance at 31 December 2021
	Balance at 1 January 2021	Increases	Decreases	Transfers and other	
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

33.5 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).

In July 2022, the Spanish tax authorities initiated a review of the corporate income tax of Ence Energía y Celulosa, S.A. (parent of the consolidated tax group), Celulosas de Asturias, S.A. and Magnon Green Energy, S.L. in respect of 2018, 2019 and 2020. That review includes value added tax (VAT) and withholdings in 2019 and 2020.

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.

34. Director and key management personnel pay and other benefits

34.1 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 2022, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2022-2024 (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 2022 and 2021 in their capacity as directors:

2022 - Director	Type	€ 000			
		2022			2021
		Fixed remuneration	Attendance fees & other	Total	
Fernando Abril-Martorell Hernández	Other external	45	63	108	133
Gorka Arregui Abendivar	Proprietary	45	60	105	87
Javier Arregui Abendivar	Proprietary	45	65	110	81
Oscar Arregui Abendivar	Proprietary	45	54	99	105
José Ignacio Comenge Sánchez-Real	Proprietary	45	50	95	111
Ignacio de Colmenares Brunet	Executive	135	-	135	135
Víctor de Urrutia Vallejo	Proprietary	11	7	18	83
Rosa María García Piñeiro	Independent	45	69	114	118
Miren Amaia Gorostiza Tellería	Independent	11	21	32	108
Irene Hernández Álvarez	Independent	44	89	133	145
María Paz Robina Rosat	Independent	44	65	109	72
Isabel Tocino Biscarolasaga	Independent	11	21	32	116
José Guillermo Zubía Guinea	Other external	44	73	117	154
Rosalía Gil-Albarellos Marcos	Independent	33	44	77	-
Carmen Alicia Aquerreta Ferraz	Independent	33	36	69	-
Ángel Agudo Valenciano	Proprietary	33	33	66	-
Juan Luis Arregui Ciarsolo	Proprietary	-	-	-	11
José Carlos del Álamo Jiménez	Independent	-	-	-	31
Javier Echenique Landiribar	Other external	-	-	-	25
Retos Operativos XXI, S.L.	Proprietary	-	-	-	28
Turina 2000, S.L.	Proprietary	-	-	-	31
		669	750	1,419	1,574

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, the Company offers its directors and their spouses an annual medical check-up.

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 2022 or 2021.

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 2022, including his fixed and variable remuneration, totalled €1,323 thousand (2021: €586 thousand). 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 €184 thousand in 2022 (2021: €187 thousand).

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 (note 12). The Chairman & CEO received €59 thousand and 23,712 ENCE shares (valued at €77 thousand) under that settlement.

Lastly, the Chairman & CEO is a beneficiary under Cycle II of the 2019-2023 long-term bonus plan (note 12). Assuming full delivery of the targets to which that incentive scheme is tied, he stands to receive €598 thousand and 240,330 ENCE shares.

Other aspects

The Group companies have not extended ENCE's directors any advances or loans. Nor have ENCE's directors received any termination benefits. 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 2022 or 2021.

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 changes in the composition of the Board of Directors in 2022 are outlined below: (i) Carmen Aquerreta Ferraz and Rosalía Gil-Albarellos Marcos joined the Board of Directors as independent directors and Ángel Agudo Valenciano joined as proprietary director; (ii) Victor Urrutia Vallejo, Isabel Tocino Biscarolasaga and Amaia Gorostiza Tellería stepped down from the Board of Directors.

The changes in the composition of the Board of Directors in 2021 were the following: (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 Ciarsoles stepped down from the Board of Directors.

The members of the Board of Directors did not receive any termination benefits in either 2022 or 2021. The termination benefits to which the directors are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Reports for the corresponding years, 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 in 2022 or 2021 on the part of the directors or their related parties vis-à-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

34.2 Key management personnel remuneration

Key management personnel (KMP) comprise the executives who report directly to the Chairman & CEO or the Board of Directors, 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
D. Ignacio de Colmenares y Brunet	Chairman & Chief Executive Officer
D. Alfredo Avello de la Peña	Finance, Corporate Development and Forest Assets Officer
D. Jordi Aguiló Jubierre	Pulp Business Officer
D. Guillermo Negro Maguregui (i)	Managing Director of Magnon Green Energy, S.L.
D ^a Reyes Cerezo Rodríguez-Sedano	General Secretary Sustainability Officer
D ^a María José Zuera Saludas	Human Capital Officer
D. Modesto Saiz Suárez	Pulp Sales and Logistics Manager
D. Fernando González-Palacios Carbajo	Planning and Control Manager
D. Ángel J. Mosquera López-Leyton	Internal Audit Manager

- (i) With effect from 1 January 2023, the Managing Director of Magnon Green Energy, S.L. (the holding company for ENCE's Renewable Energy business), Guillermo Negro Maguregui, has joined the KMP team, while Marc Gómez Ferret has left it.
- (iii) In 2022, Consuelo Criado (Director of Communication and Institutional Relations) left the KPM team.

The table below provides disclosures regarding the remuneration and other benefits received by ENCE's key management personnel in 2022 and 2021:

€ 000	2022	2021
Fixed remuneration	1,843	1,753
Variable remuneration	1,169	120
Savings schemes (note 3.13)	92	102
In-kind & other remuneration	100	89
	3,204	2,064
2019-2023 LT bonus plan (note 12.2)	196	26
Termination benefits	654	220
	4,054	2,310

The key management personnel are the beneficiaries of a mixed savings, life and accident insurance policy. 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.

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 (note 12). ENCE's key management personnel received €88 thousand and 35,337 ENCE shares (valued at €111 thousand) under that settlement.

In addition, the Group's key management personnel are beneficiaries of Cycle II of ENCE's 2019-2023 long-term bonus plan and of Magnon Green Energy, S.L.'s 2020-2025 long-term bonus plan (note 12). Assuming full delivery of the targets to which those incentive schemes are tied, they stand to receive €1,986 thousand and 330,069 ENCE shares.

The termination benefits to which key management personnel are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Report, which is included as part of the Management Report accompanying the Group's annual consolidated financial statements.

35. Transactions with Group companies and related parties

35.1 Transactions with investees accounted for using the equity method

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

		€ 000	
31 December 2022	Current loans	Current receivables (note 26)	Current payables (note 27)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	417	737
	36	417	737

		€ 000	
31 December 2021	Current loans	Current receivables (note 26)	Current payables (note 27)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	464	864
	36	464	864

The transactions performed with investees accounted for using the equity method of consolidation in 2022 and 2021 were as follows:

		€ 000	
2022		Services rendered	Operating expenses
	Capacitación de Servicios Forestales, S.L.	757	2,792
		757	2,792

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

35.2 Transactions with non-controlling interests

The balances outstanding with non-controlling interests at 31 December 2022 and 2021 are as follows:

31 December 2022	€ 000					
	Non-current financial assets (note 28.2)	Current financial assets (note 28.2)	Current receivables (note 26)	Non-current borrowings	Current borrowings	Current payables (note 27)
Woodpecker Acquisitions S.á r.l.	16,290	5,630	-	17,843	363	-
San Miguel Arcángel, S.A.	-	-	-	-	-	16
Aceites y Energía Santamaría, S.A.	-	-	38	-	-	704
	16,290	5,630	38	17,843	363	720

31 December 2021	€ 000					
	Non-current financial assets (note 28.2)	Current financial assets (note 28.2)	Current receivables (note 26)	Non-current borrowings	Current borrowings	Current payables (note 27)
Woodpecker Acquisitions S.á r.l.	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

The non-current debt corresponds to a loan extended by Woodpecker Acquisitions S.a.r.l. to Magnon Green Energy, S.L. The sum of €18,992 thousand was prepaid in 2022.

The transactions carried out with non-controlling shareholders in 2022 and 2021:

2022	€ 000			
	Sales	Purchases	Operating expenses	Finance costs (note 14)
Woodpecker Acquisitions S.á r.l.	-	-	-	1,009
San Miguel Arcángel, S.A.	-	2,942	-	-
Aceites y Energía Santamaría, S.A.	320	1,955	315	-
	320	4,897	315	1,009

2021	€ 000			
	Sales	Purchases	Operating expenses	Finance costs (note 14)
Woodpecker Acquisitions S.á r.l.	-	-	-	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

35.3 Transactions with directors

ENCE had no balances outstanding with its directors at either year-end 2022 or 2021. Moreover, ENCE did not perform any transactions with directors in either year.

36. Environmental management

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.
- ✓ Framed by its diversification strategy, Ence looks for business opportunities aligned with its circular bioeconomy model. Against that backdrop, in 2022, it set up a new subsidiary in order to start to produce biomethane and fertilisers from organic waste. This new business line, based on the recycling of farming and breeding waste, will not only address the waste management issue but will transform it into value-added products such as organic fuels and fertilisers with smaller environmental footprints than their chemical counterparts.

In addition to helping protect the environment through its business activities, the Group 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 use 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 2022 is shown below:

	€ 000
Pulp business	16,564
Renewable Energy business	3,093
	19,657

In short, the Group 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 commitments 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 2022, 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 technological, operational and managerial improvements. Specifically, in 2022, the Navia biomill executed a project whereby, from 2023, it will be able to abate the hydrogen chloride (HCl) emissions from its biomass furnace to levels that are below those proposed in the BREF for Large Combustion Plants.

All of ENCE's industrial facilities have integrated environmental or sector permits, which establish facility operating requirements from an environmental standpoint. Those permits also 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 model and system

ENCE's environmental management principles are set down in its Management Policy and are based on going beyond compliance with prevailing legislation, prioritising prevention, taking a precautionary stance and upholding continuous improvement principles. ENCE implemented its total quality management (TQM) programme over 10 years ago as its standard for cultural and management transformation, addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Under the scope of that model it has a dedicated Environmental Policy, which defines the Group's general

objectives in this arena and a series of key improvement targets focused on a range of environmental thrusts:

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

Within the TQM, the Group has developed operating standards (procedures, etc.) that enable control and management of potential environmental impacts by identifying and managing risks with potential consequences for the environment. Under the scope of that model, and in line with the key improvement targets set, the Group executes improvement plans in response to specific issues or to generally improve day-to-day management and control over process stability so as to improve its facilities' environmental performance.

ENCE also has an integrated management system to ensure all of its business activities are aligned with its Management Policy. That system complies with the following international standards:

- 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

It is certified by an accredited organism that carries out the corresponding audits. In 2022, having attained certification at the La Loma and Enemansa energy plants and certified the system at the Lucena plant, the Group has managed to certify the environmental management system at all its plants under UNE-EN 14001.

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). To be included in that register, facilities have to have their environmental statements audited by a certified independent verifier every year; those statements provide an account of their key performance indicators, annual targets and delivery thereof.

Other environmental excellence certifications

The biomills' excellent environmental credentials mean that, since 2014, the pulp they produce also boasts the Nordic Swan Ecolabel, certifying compliance with the most stringent environmental standards. 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 ENCE's 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.

Attesting to its circular economy achievements, in 2022, ENCE managed to attain AENOR Zero Waste management certification at all its facilities. That seal distinguishes facilities that stand out for their waste management and recovery efforts, recouping at least 90% of their waste.

In 2021, ENCE implemented a management system to demonstrate the sustainability criteria of its biomass under the SURE scheme. That certification system is one of the tools developed to ensure compliance with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001), the European rules stipulating stringent sustainability criteria for biomass used to generate power. As of 2022, all ENCE facilities have that certification. Meanwhile, the Company worked all year to encourage its suppliers to likewise certify their biomass.

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.

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. However, 2022, ENCE was forced to modify its decarbonisation plan due to the exceptional circumstances in the energy market as a result of the war in Ukraine. Specifically, the surge in natural gas prices and the potential risk of supply disruption prompted ENCE to decide in December 2021 to switch the fuel used to feed the lime kilns at the Navia biomill from natural gas to fuel-oil. That decision ensured the viability of the plant's operations but the replacement of gas with fuel-oil led to an increase in GHG emissions by comparison with the 2021 readings. That increase is circumstantial and exceptional and the plant will revisit its standard emission levels once the energy markets return to normal. In parallel, ENCE continues to work on the roadmap devised for decarbonising its biomills, making progress on the engineering details for the projects for replacing fossil fuels with renewable sources, with execution due to begin in 2023.

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 2022.

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 makes sizeable investments in the forests it manages every 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 Group 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 extension 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 73% overall. As for the forests under its management, over 85% of the land area managed by ENCE is certified under one or other scheme.

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 timber 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 2022, ENCE purchased timber from around 1,700 forest owners and nearly 200 traders, over 85% 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 2022, 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 2022, 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.

Last year it also renewed SURE certification at all its facilities (biomills and independent energy plants), so complying with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001). 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.

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 2022, in addition to renewing SURE certification at its own facilities, ENCE emphasised 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.

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 2022, its biomass procurement effort involved more than 800 suppliers in total between owners, traders, carriers and outsourced harvesters.

Pulp

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 which have increased capacity by 80,000 ADt, while also 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.

As for wastewater volumes, ENCE's Master Sustainability Plan prioritises management and improvement of the Company's water footprint in terms of both its water consumption and the quality of its discharges. The biomills have been working towards specific unit consumption reduction targets (m³ per tonne of pulp produced) for several years already. Last year, the Navia biomill also launched an ambitious plan for reducing its water consumption by means of the following process improvement initiatives: circuit closures; reuse of condensates; recovery of water from backwashing; reuse of water from the scrubbers, among others. As a result, the biomill reduced its unit water consumption by 14% by comparison with 2021.

In terms of wastewater quality, improvements were introduced at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, while also improving the aeration and refrigeration systems. 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.

The pulp production process generates reduced sulphur compounds which, if not properly treated, can leave a pungent smell in the vicinity of the biomills. Aware of the importance of adequately managing this environmental impact in order to maintain its social licence to operate, ENCE is prioritising minimisation of those smells around its biomills, having launched its Zero Odour Plan a decade ago already. Thanks to the initiatives undertaken under the scope of that plan, both biomills have slashed their odour emissions by over 99%. Nevertheless, ENCE continues to set new reduction targets year after year.

In 2022, it continued to make progress on that effort. At the Navia biomill, it implemented a project for controlling diffuse odour sources including the following measures: odour abatement in the vicinity of the DAF unit by means of an anti-odour additive, enhanced operational control at the discharge treatment facility, installation of new SH2 meters and development of a mathematical odour prediction model. The investment has been approved and engineering work performed for canoping the DAF in order to better abate the condensation at the mixing sump and neutralise incoming discharges to the treatment facility, two of the locations identified as key diffuse odour desorption points.

Thanks to those initiatives and improved process operation and controls, in 2022 the related indicators improved considerably: odour at the Navia biomill, measured in minutes, decreased by 65% from 2021 levels.

In July 2022, 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 close to 97%. That certification complements the others already constituting the externally audited integrated management system. The latest renewal reviews did not reveal any shortcomings and endorse ENCE's steady progress towards environmental excellence.

In May 2022, 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 2021 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 September 2022, it renewed certification of 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.

In 2021, the Navia biomill implemented a management system to demonstrate the sustainability criteria of its biomass under the SURE scheme. That certification system is one of the tools developed to ensure compliance with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001) (RED II), the European rules stipulating stringent sustainability criteria for biomass used to generate power.

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 2022, ENCE continued to work on implementation of the BATs, focusing specifically on implementation of different types of emissions filtering systems depending on the needs of each facility. Specifically at the Navia biomill, a project was designed, for implementation in 2023, in order to abate HCl emissions at its biomass furnace, bringing them below the levels proposed in the BREF for Large Combustion Plants.

Lastly, with respect to the emissions from the lime furnaces, note that as a result of the exceptional circumstances in the energy market derived from the war in Ukraine (surge in natural gas prices and risk of supply cuts), the Navia biomill switched fuel source in order to guarantee the facility's operational viability. Nevertheless, it completed a number of process improvements and controls in order to mitigate the additional emissions derived from that business decision.

Pontevedra biomill¹

The Pontevedra biomill strategically prioritises harmonious coexistence with and respect for the communities surrounding its facilities to ensure its social licence to operate. That is why its priority environmental targets include aspects that could affect the neighbouring communities, such as noise impact, air quality and odour impacts.

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

Responsible management of water resources is a cornerstone of the sustainability strategy, to which end ENCE is working to rationalise consumption and improve the quality of its wastewater. Thanks to the TQM methodology and process fine-tuning to boost efficiency and maximise the reuse of water, a new milestone was attained in 2022 when the facility recorded consumption of 27.7m³ per tonne of pulp, a new record low in the biomill's history.

Due to exceptionally dry conditions in Galicia last summer, the biomill was forced to temporarily idle its operations due to the lack of water in the Lerez River. That situation was exacerbated by incidents sustained in the facility's water withdrawal infrastructure as a result of floods in the galleys they cross. A contingency plan has been designed to allow the factory to operate in the absence of fresh water.

That solution is fully aligned with circular economy principles as it is based on the reuse of water taken from the nearby urban wastewater treatment centre, in Placeres, and the treatment of its own wastewater to enable its reuse in the pulp production process. In that manner, by way of temporary and exceptional solution, instead of sending the water from the two treatment facilities (municipal and industrial) to the sea, it is suitably treated and reused at biomill to make pulp. That solution will allow ENCE, having repaired its water withdrawal infrastructure, to continue to operate as normal in the event of new episodes of drought in the future.

As for its wastewater, in 2022, the Pontevedra biomill defended the results attained in prior years. All of the biomill's wastewater readings are well below the limits set in its 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 2.9 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's production model is an example of circularity as it based on the use of renewable raw materials (timber and biomass) and closed-cycle productive processes in which most of the materials used are recovered. In addition, given that the raw materials used are natural and renewable, the vast majority of the waste generated can be recovered and used to make technical flooring. That has enabled the Pontevedra biomill to renew its AENOR's Zero Waste certification, which distinguishes organisations that reuse the various waste fractions they generate, avoiding the use of landfills. The Pontevedra biomill was the first of ENCE's facilities to obtain that seal. In 2022, it recovered over 99% of its waste.

¹ Due to the exceptional circumstances at the Pontevedra biomill caused by the shortage of water in the Lerez River, forcing the closure of the factory for four months, the data provided in this section cover the months between January and July, plus the month of December.

By the same token, ENCE's circular economy approach towards its productive model encompasses the reduction of emissions into the air. Another of the biomill's targets is to monitor and improve its emissions metrics. To that end, it has been equipped with continuous measurement systems to monitor the main emissions parameters and ensure not only that they not do breach the limits set in the integrated environmental permit but actually come down steadily over time, framed by the integrated management system predicated on continuous improvement.

ENCE's biomill in Pontevedra is self-sufficient energy-wise as it generates 100% of the energy it consumes from renewable sources. Thanks to that energy, produced using biomass, in Pontevedra, ENCE contributes to reducing the Group's energy intensity and carbon footprint, while helping attain the decarbonisation targets set by the European Commission.

ENCE's commitment to environmental sustainability is also evident in the fact that the Pontevedra biomill is certified under ISO 50001. That certification attests to the fact that ENCE as an organisation takes a systematic approach to the performance, acquisition and consumption of energy during its production process and endorses the biomill's environmental excellence.

Climate change is one of the major threats facing the planet and a challenge for all industries, governments and society at large. In the current situation marked by a global crisis, it is key to place the environment at the centre of decision-making in order to achieve positive and transformational change. The European Union has therefore articulated a series of ambitious climate- and biodiversity-related targets around the 2030 Agenda targets.

In that context, the business model in Pontevedra, "Ence Advanced", based on the use of renewable natural resources to generate bioenergy and bioproducts, is especially important in terms of offering society natural and low-carbon products that also contribute to rural development.

Naturcell, pulp designed and developed at the Pontevedra biomill, is an example of the circular economy and the ecological transition to a new consumption model. Naturcell is a natural, renewable, biodegradable and highly versatile fibre made using a sustainable and environmentally-friendly production process. It is unbleached pulp apt for making unbleached tissue paper and packaging papers, as well as bags, trays and containers for food, marking a step forward in sustainability. Its production requires less timber, water and energy than conventional pulp and leaves a smaller carbon footprint, providing a renewable and nature-based alternative to synthetic and plastic fibres.

In 2016, Ence Energía y Celulosa, S.A. 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 the people of Galicia, particularly those living in the Pontevedra Bay area, 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, investments already executed in prior years; 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).

Renewable Energy business

In 2022, the Renewable Energy business worked on a number of key environmental improvement targets, leveraging its TQM methodology. Those targets included certifying all of the plants' environmental management systems under the UNE 140001 standard. Other specific targets included reducing water consumption and noise emissions, enhancing waste management and reviewing the environmental risks faced by the various operations centres.

Work also continued in 2022 on cross-cutting projects such as the Reliability of Environmental Indicator Measurements initiative, analysis and quantification of climate change risks and assessment of our activities' alignment with the EU Taxonomy criteria.

Environmental risk assessment

The environmental risk assessments at the Huelva, Merida and Biollano plants were all updated following modifications made at those facilities. Those risk assessments serve as a tool for identifying potential emergency situations and higher-impact scenarios. After completing that analysis, ENCE takes the pertinent risk and impact prevention and mitigation measures, leveraging its various environmental management tools.

Circular economy

In 2022, the Group set up a taskforce to study and drive sustainable alternatives for managing the waste generated during its energy plants' operation. The idea is to optimise waste management taking a holistic approach based on deep knowledge of its characteristics and utility for reuse in different processes both in our facilities and at those of third parties.

The principles being applied include waste generation prevention and reuse, synergistic mechanisms and circular material loops. All of which is designed to reduce the use of natural resources, cut the emissions associated with the various processes and, in short, reduce the footprint of the industrial process in general and increase the sustainability of the energy produced from biomass by eking out continuous process efficiency.

The Group carries out studies in partnership with specialist entities, such as CSIC (Upper Council of Scientific Research) in order to continue to explore the scope for using the waste produced in the combustion of biomass in other processes, such as the production of artificial and/or technical flooring, construction material reinforcement and resin additives, among others.

Attesting to its circular economy achievements, in 2022, ENCE managed to attain AENOR Zero Waste management certification at all its facilities. That seal distinguishes facilities that stand out for their waste management and recovery efforts, recouping at least 90% of their waste.

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 in 2022.

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 new photovoltaic solar plant was built in 2022 to reduce consumption from the grid and boost the centre's performance. The solar facilities cover part of the auxiliary installations' consumption requirement and improve the complex's overall energy efficiency.

Lastly, the dismantling of the pulp-making facilities concluded in 2022, complying notably with the stipulated workplace safety and environmental standards, particularly those related with diffuse emissions, noise and waste management.

One notable development was completion of a study researching the scope for reusing the ash produced in Huelva to replace some of the cement in the paste fill used in underground mining operations, providing a clear example of how the Group is partnering with other entities on the circular economy front. The results include the recovery of a source of waste, a reduction in management costs and replacement of a raw material to avoid degradation of the natural surroundings.

Merida operations centre

In 2022, Merida continued to comply with its wastewater and emissions requirements.

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 achieved its water consumption reduction target for 2022 thanks to a number of improvements made to the cooling towers and other parts of the energy generation process.

On the waste front, since November 2022, the plant has been participating in the restoration of a nearby mine using ash from the plant's furnace. In light of the positive feedback from the authorities and the enhanced quality of the restoration work, the waste recovery team plans to replicate this initiative in other degraded areas close to other Group plants, as is already underway in Puertollano. BIO-ECOMATTER is another project involving ash from the Merida plant: the idea is to design a mortar without cement or sand made from ash generated during the biomass plant's combustion process.

Enemansa operations centre

In 2022, work at the Enemansa 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.

This plant has adapted for the BATs for large combustion plants. Its advanced NO_x emission filtering system, called a selective catalytic reduction (SCR) system, stands out.

La Loma operations centre

Work continued to modify the discharge point and better separate the discharges in 2022.

As for emissions, aware of the air quality situation in the nearby town, 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.

As is the case at the Enemansa plant, La Loma has adapted for the BATs for large combustion plants, likewise using an selective catalytic reduction (SCR) system to reduce NO_x emissions.

Lucena operations centre

All the atmospheric emissions and wastewater readings at the Lucena plant remained within the limits established in the environmental permit in 2022.

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

Another milestone last year was the plant's integration in the Group's environmental management system, so including it in that certification, while also obtaining Zero Waste certification.

Biollano operations centre (Puertollano)

Work continued to focus on reducing emissions at Biollano in 2022. The plant renewed its Zero Waste certification from AENOR which guarantees maximum recovery of the waste generated at the facility.

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

Lastly, noteworthy work was done at the Biollano plant to implement and optimise environmental management tools such as the preventive environmental observations tool.

37. Events after the reporting date

On 8 March 2023, ENCE received formal notification of the Supreme Court's rulings upholding the appeals lodged by the Company against the two National Appellate Court rulings of 15 July 2021 in response to cases brought by Greenpeace Spain and the town council of Pontevedra regarding the extension of the concession for the use of the public-domain coastal land on which the Pontevedra biomill is located.

Both Supreme Court rulings render the above-mentioned National Appellate Court rulings null and uphold the legality of the concession extension and, thereby, its 60-year term, which runs from the day on which the extension was originally applied for.

Elsewhere, on 31 March 2023, ENCE's Board of Directors resolved to submit a long-term incentive plan for certain executives, including its Chairman & CEO and other Group employees (the "Plan"), for approval at the upcoming Annual General Meeting. The Plan would give the beneficiaries the right to receive, following the passage of a specific period of time, an incentive payable in a combination of ENCE shares and cash, insofar as certain multi-year targets are met, along with the other requirements contemplated in the Plan Rules.

The Plan's initial potential beneficiaries include the Company top executives and other key management personnel who, either on account of their duties or background, have the ability to have a direct influence on the outcome of the Group's business plans. The Plan will run for five years, from 1 January 2023 to 31 December 2027 divided into three overlapping, independent three-year cycles. The specific number of ENCE shares, within the established ceiling, to be delivered to the Plan beneficiaries at the end of each cycle, will depend on the degree of delivery of a series of financial, non-financial and shareholder value creation targets.

On 28 March 2023, Magnon Green Energy, S.L. has completed the sale of a photovoltaic plant under construction, in the town of Andújar (Jaén), with a capacity of 100 MW, which has meant the collection of €27.7 million (note 1).

No other significant events have taken place since 31 December 2022, other than those already disclosed in the accompanying consolidated financial statements, that would imply having to modify them.

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 2022 and 2021 and each of their core businesses:

	Company	Registered office	Business activity	Interest held directly or indirectly		Consolidation method (b)
				2022	2021	
	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	-	-	Full
	Las Pléyades Uruguay, S.A. – Branch in 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
(*)	Ence Biogás, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Production and sale of biogas and fertilisers	100	-	Full
(*)	BioCH4 Developments, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Development and construction of biogas plants	60	-	Full
	Renewable Energy business:					
(****)	Magnon Green Energy, S.L. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	51	51	Full
	Celulosa Energía, S.A.U. (a)	Armental s/n 33710-Navia (Asturias)	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
	Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Cordoba)	Generation and sale of electric energy	35.7	35.7	Full
(****)	Ancen Solar VI, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Ancen Solar II, 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)	Management of non-hazardous waste	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
(****)	Lepe 40 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Huelva 10 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Andújar 100 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Ancen Solar III, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Granada 133 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Sevilla 90 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Ancen Solar IV, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(***)	51	51	Full
(****)	Ancen Solar V, 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

(c) Fuerzas Energéticas Sur Europa XXIX, S.L merged into Ence Energía Puertollano, S.L.U. in 2022.

(*) Changes in consolidation scope in 2022 (note 6).

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

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

(****) Name changed in 2022

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 2022 AND 2021

Thousands of euros	2022				2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	-	-	-	-	1,493	-	1,493
Other intangible assets	15,617	35,000	(12,711)	37,906	13,161	36,571	(13,287)	36,445
Property, plant and equipment	603,372	389,020	(8,516)	983,876	436,856	456,297	(9,592)	883,561
Biological assets	60,375	156	-	60,531	59,582	140	-	59,722
Non-current financial assets:								
Securities portfolio	112,528	-	(112,528)	-	112,528	-	(112,528)	-
Investments accounted for using the equity method	39	1	-	40	25	1	-	26
Loans to group companies and associates	18,575	-	(18,575)	-	38,342	-	(38,342)	-
Hedging derivatives	-	3,331	-	3,331	-	-	-	-
Other financial assets	20,753	12,063	-	32,816	14,560	11,920	-	26,480
Deferred tax assets	30,507	19,394	3,190	53,091	20,106	22,123	3,334	45,563
	861,766	458,965	(149,140)	1,171,591	695,160	528,545	(170,415)	1,053,290
CURRENT ASSETS:								
Inventories	80,486	21,860	-	102,346	53,598	12,095	-	65,693
Trade and other receivables	39,650	39,187	(29,214)	49,623	59,768	36,673	(17,483)	78,958
Other taxes receivable	19,722	1,288	-	21,010	10,413	5,482	-	15,895
Income tax receivable	6,761	1,267	-	8,028	1,507	335	-	1,842
Current financial assets:								
Loans to group companies and associates	389	45	(398)	36	-	36	-	36
Hedging derivatives	-	2,579	-	2,579	-	-	-	-
Other financial assets	9,870	28	-	9,898	15,107	8	-	15,115
Cash and cash equivalents	278,376	134,537	-	412,913	318,496	61,468	-	379,964
Other current assets	1,874	408	-	2,282	2,191	(14)	-	2,177
	437,128	201,199	(29,612)	608,715	461,080	116,083	(17,483)	559,680
TOTAL ASSETS	1,298,894	660,164	(178,752)	1,780,306	1,156,240	644,628	(187,898)	1,612,970

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

ESTADOS DE SITUACIÓN FINANCIERA CONSOLIDADOS POR NEGOCIOS AL 31 DE DICIEMBRE DE 2022 Y 2021

Thousands of euros	2022				2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share 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	48,955	(48,955)	170,776
Reserves	118,887	(31,752)	6,872	94,007	225,596	10,964	(10,964)	225,596
Interim dividend	(66,553)	-	-	(66,553)	-	-	-	-
Translation differences	1	-	-	1	9	-	-	9
Own shares - parent company shares	(12,958)	-	-	(12,958)	(12,296)	-	-	(12,296)
Valuation adjustments	40,327	5,237	(2,566)	42,998	35,360	(2,182)	697	33,875
Other equity instruments	3,753	-	-	3,753	9,897	-	-	9,897
Other owner contributions	-	170,517	(170,517)	-	-	170,517	(170,517)	-
Consolidated profit/(loss) for the year	243,496	4,542	(818)	247,220	(183,387)	(25,546)	18,524	(190,409)
Equity attributable to owners of the parent	719,374	220,103	(238,588)	700,889	539,026	208,136	(234,502)	512,660
Non-controlling interests	400	8,831	108,018	117,249	-	10,429	102,429	112,858
TOTAL EQUITY	719,774	228,934	(130,570)	818,138	539,026	218,565	(132,073)	625,518
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	-	78,436	-	78,436	125,567	92,107	-	217,674
Bank borrowings	86,960	43,454	-	130,414	99,305	70,047	-	169,352
Other financial liabilities	76,221	1,036	-	77,257	64,497	746	-	65,243
Derivative financial instruments	-	-	-	-	-	2,161	-	2,161
Grants	5,783	625	-	6,408	4,113	766	-	4,879
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	27,881	102	-	27,983	51,147	78	-	51,225
Non-current accruals and deferred income	11	3,230	-	3,241	11	2,245	-	2,256
Other non-current liabilities	32,392	71,950	-	104,342	19,594	65,025	-	84,619
Borrowings from group companies and associates	-	36,418	(18,575)	17,843	-	75,177	(38,342)	36,835
	229,248	235,251	(18,575)	445,924	364,234	308,352	(38,342)	634,244
CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	63,300	-	-	63,300	-	-	-	-
Bank borrowings	8,685	27,091	-	35,776	6,208	29,406	-	35,614
Other financial liabilities	11,355	661	-	12,016	9,985	381	-	10,366
Derivative financial instruments	358	-	-	358	6,980	2,612	-	9,592
Current borrowings from related parties	12	749	(398)	363	3	1,258	-	1,261
Trade and other payables	218,524	156,627	(29,209)	345,942	207,453	70,399	(17,483)	260,369
Income tax payable	13	-	-	13	22	56	-	78
Other taxes payable	5,928	2,856	-	8,784	6,001	9,577	-	15,578
Other current liabilities	1,930	4,962	-	6,892	223	1,305	-	1,528
Current provisions	39,767	3,033	-	42,800	16,105	2,717	-	18,822
	349,872	195,979	(29,607)	516,244	252,980	117,711	(17,483)	353,208
TOTAL EQUITY AND LIABILITIES	1,298,894	660,164	(178,752)	1,780,306	1,156,240	644,628	(187,898)	1,612,970

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR 2022 AND 2021

Thousands of euros	2022				2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	712,875	294,308	(3,809)	1,003,374	667,611	154,884	(2,820)	819,675
Gains/(losses) on hedging transactions	(20,343)	-	-	(20,343)	(88,166)	-	-	(88,166)
Changes in inventories of finished goods and work in progress	3,567	-	-	3,567	9,048	-	-	9,048
Self-constructed assets	5,859	98	-	5,957	4,085	619	-	4,704
Other operating income	13,201	2,009	(1,211)	13,999	5,563	17,447	(1,444)	21,566
Grants taken to profit and loss	7,574	2,197	-	9,771	5,138	1,229	-	6,367
Gain on the sale of subsidiaries	-	-	-	-	-	-	-	-
Operating income subtotal	722,733	298,612	(5,020)	1,016,325	603,279	174,179	(4,264)	773,194
Cost of goods sold	(311,319)	(92,745)	3,808	(400,256)	(295,249)	(73,472)	2,820	(365,901)
Employee benefits expense	(75,388)	(17,803)	-	(93,191)	(70,585)	(13,586)	-	(84,171)
Depreciation and amortisation charges	(52,071)	(40,221)	922	(91,370)	(47,832)	(36,738)	2,673	(81,897)
Depletion of forest reserve	(6,960)	(30)	-	(6,990)	(11,430)	(130)	-	(11,560)
Impairment of and gains/(losses) on disposal of fixed assets	184,503	(41,335)	728	143,896	(192,441)	(1,058)	-	(193,499)
Impairment of financial assets	191	(8)	-	183	(78)	(257)	-	(335)
Other operating expenses	(213,366)	(78,208)	1,211	(290,363)	(144,090)	(69,071)	1,444	(211,717)
Operating expenses subtotal	(474,410)	(270,350)	6,669	(738,091)	(761,705)	(194,312)	6,937	(949,080)
OPERATING PROFIT/(LOSS)	248,323	28,262	1,649	278,234	(158,426)	(20,133)	2,673	(175,886)
Finance income								
From equity instruments:								
Third parties	-	-	-	-	40	-	-	40
From marketable securities & other financial instruments:								
Related parties	1,022	-	(1,022)	-	1,246	-	(1,246)	-
Third parties	896	192	-	1,088	4,835	1,758	-	6,593
Finance costs								
Borrowings from related parties	-	(2,031)	1,022	(1,009)	-	(2,507)	1,246	(1,261)
Third-party borrowings	(11,823)	(14,512)	-	(26,335)	(15,678)	(11,165)	-	(26,843)
Change in fair value of financial instruments	-	301	-	301	-	1,158	-	1,158
Exchange differences	1,360	(45)	-	1,315	3,697	(30)	-	3,667
Impairment of and gains/(losses) on disposal of financial instruments	-	-	-	-	-	-	-	-
NET FINANCE INCOME/(COST)	(8,545)	(16,095)	-	(24,640)	(5,860)	(10,786)	-	(16,646)
Share of profit/(loss) of entities accounted for using the equity method	(5)	-	-	(5)	(7)	-	-	(7)
PROFIT/(LOSS) BEFORE TAX	239,773	12,167	1,649	253,589	(164,293)	(30,919)	2,673	(192,539)
Income tax	3,723	(8,243)	(143)	(4,663)	(19,094)	6,341	3,333	(9,420)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	243,496	3,924	1,506	248,926	(183,387)	(24,578)	6,006	(201,959)
Profit/(loss) for the the year from continuing operations attributable to non-controlling interests	-	618	(2,324)	(1,706)	-	(968)	12,518	11,550
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	243,496	4,542	(818)	247,220	(183,387)	(25,546)	18,524	(190,409)

(*) 100% from continuing operations

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2022 Financial Report
Ence Energía y Celulosa, S.A. and subsidiaries

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR 2022 AND 2021

Thousands of euros	2022				2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	239,773	12,167	1,649	253,589	(164,293)	(30,919)	2,673	(192,539)
Adjustment for:								
Depreciation and amortisation	59,031	40,251	(922)	98,360	59,262	36,868	(2,673)	93,457
Changes in provisions and other deferred expense (net)	23,449	2,100	-	25,549	(494)	2,064	-	1,570
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	(184,502)	41,225	(727)	(144,004)	192,441	1,058	-	193,499
Adjustments for tariff shortfall/surplus (electricity market)	14,504	10,446	-	24,950	24,140	64,978	-	89,118
Finance income and costs (net)	8,594	16,049	-	24,643	7,244	10,757	-	18,001
Grants taken to profit and loss	(527)	(141)	-	(668)	(615)	(283)	-	(898)
	(79,451)	109,930	(1,649)	28,830	281,978	115,442	(2,673)	394,747
Changes in working capital:								
Inventories	(24,283)	(10,291)	-	(34,574)	(11,497)	(2,025)	-	(13,522)
Trade and other receivables	8,182	617	11,731	20,530	(43,121)	(6,286)	-	(49,407)
Financial and other current assets	2,357	(20)	-	2,337	2,377	-	-	2,377
Trade payables, other payables and other liabilities	10,716	80,276	(11,731)	79,261	29,259	(2,261)	-	26,998
	(3,028)	70,582	-	67,554	(22,982)	(10,572)	-	(33,554)
Other cash flows from operating activities:								
Interest paid, net (including right-of-use assets)	(6,276)	(17,018)	-	(23,294)	(6,920)	(12,281)	-	(19,201)
Dividends received	-	-	-	-	40	-	-	40
Income tax paid	(13,934)	(8,640)	-	(22,574)	(1,281)	(6,878)	-	(8,159)
Long-term remuneration and other plans	(426)	-	-	(426)	-	(41)	-	(41)
	(20,636)	(25,658)	-	(46,294)	(8,161)	(19,200)	-	(27,361)
Net cash flows from operating activities	136,658	167,021	-	303,679	86,542	54,751	-	141,293
INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment and biological assets	(41,696)	(10,113)	-	(51,809)	(49,908)	(18,367)	-	(68,275)
Intangible assets	(2,758)	(300)	-	(3,058)	(2,553)	(156)	-	(2,709)
Financial assets	180	-	-	180	(330)	2	-	(328)
	(44,274)	(10,413)	-	(54,687)	(52,791)	(18,521)	-	(71,312)
Proceeds from disposals:								
Group companies and associates	400	-	-	400	-	-	-	-
Property, plant and equipment	3	-	-	3	409	-	-	409
Financial assets	-	380	-	380	13,260	5,549	(13,260)	5,549
	403	380	-	783	13,669	5,549	(13,260)	5,958
Net cash flows used in investing activities	(43,871)	(10,033)	-	(53,904)	(39,122)	(12,972)	(13,260)	(65,354)
FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Transactions with non-controlling interests	-	-	-	-	(242)	-	-	(242)
Buyback of own equity instruments	(47,629)	-	-	(47,629)	(54,926)	-	-	(54,926)
Disposal of own equity instruments	47,761	-	-	47,761	52,989	-	-	52,989
	132	-	-	132	(2,179)	-	-	(2,179)
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	19,378	(38,370)	-	(18,992)	-	-	-	-
Proceeds from issuance of bonds, net of arrangement fees	(65,280)	(13,999)	-	(79,279)	(25,749)	-	-	(25,749)
Increase/(decrease) in bank borrowings, net of issuance costs	(9,962)	(29,400)	-	(39,362)	(138,643)	(27,248)	-	(165,891)
Increase/(decrease) in other borrowings	(8,062)	-	-	(8,062)	(6,517)	-	-	(6,517)
Payments for right-of-use assets	(4,722)	(1,169)	-	(5,891)	(4,145)	(969)	-	(5,114)
Grants received, net	2,196	-	-	2,196	220	-	-	220
	(66,452)	(82,938)	-	(149,390)	(174,834)	(28,217)	-	(203,051)
Dividends and payments on other equity instruments								
Dividends from related parties	(66,587)	-	-	(66,587)	-	(13,260)	13,260	-
Dividends paid to non-controlling interests	-	(981)	-	(981)	-	(13,365)	-	(13,365)
	(66,587)	(981)	-	(67,568)	-	(26,625)	13,260	(13,365)
Net cash flows used in financing activities	(132,907)	(83,919)	-	(216,826)	(177,013)	(54,842)	13,260	(218,595)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(40,120)	73,069	-	32,949	(129,593)	(13,063)	-	(142,656)
Cash and cash equivalents - opening balance	318,496	61,468	-	379,964	448,089	74,531	-	522,620
Cash and cash equivalents - closing balance	278,376	134,537	-	412,913	318,496	61,468	-	379,964

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

European Climate Law

Regulation (EU) 2021/1119 was adopted by the European Union on 30 June 2021, establishing the framework for achieving climate neutrality in the EU by 2050. That Directive, also known as the European Climate Law, sets the target of reducing GHG emissions by 55% in 2030 vs. 1990.

The Climate Law stipulates that in 2024 the European Commission will set a climate target for 2040 and an indicative greenhouse gas budget for 2030-2050 that is consistent with limiting global warming to 1.5 °C.

Delivering the European Green Deal - Legislative package

On 14 July 2021 and 15 December 2021, the European Commission published two legislative packages constituting its legislative proposes for achieving the 55% reduction in GHG emissions in 2030 vs. 1990 contemplated in the European Climate Law. The proposals, which focus on the following issues, will be legislated over the next two years:

- A comprehensive set of changes to the EU's existing emissions trading system (EU ETS) rules to deliver a reduction in emissions in the sectors concerned (maritime and road transport and buildings) of 61% by 2030 compared with 2005.
- A carbon border adjustment mechanism to build carbon prices into imports.
- Specific national targets and rules for reducing emissions in agriculture, transport and buildings by 40% vs. 2005.
- Increasing renewable energy sources in the overall energy mix to 40% by 2030.
- Increasing the target for energy efficiency to 36% for final, and 39% for primary energy consumption.
- Decarbonisation of the stock of buildings in 2050 (2030 for new builds); ban on financial incentives for the installation of fossil fuel boilers as of 2027.
- Energy taxes consistent with the polluter pays principle.
- Faster and more powerful roll-out of recharging stations for clean vehicles in cities, on main roads, at ports and at airports.
- Zero-emissions threshold for 100% of new cars and vans in 2035.
- Gradual decarbonisation of ships and aircraft.
- Hydrogen and decarbonised gas market Regulation and Directive:
 - Alignment of the retail gas market with the contents of the Clean Energy Package for electricity;

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

- To qualify as “low-carbon”, gases must deliver emissions savings of 70% vs. fossil natural gas;
- Facilitating access by renewable and low-carbon gases to natural gas infrastructure;
- New rules for the hydrogen market.
- Elimination of the methane emissions associated with the energy sector in the EU.
- With a view to attaining net zero emissions in 2050, support for the development and deployment of carbon removals and replacement of the fossil carbon that fuels industrial processes with carbon from biomass, waste streams and the atmosphere.

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 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 (NAV).

The idea underpinning the above metrics is to cover their costs by enough of a margin to enable eligible facilities to compete with the rest of the generation technologies in the market on an even footing, earning a reasonable return. The proxy for that targeted reasonable return (on a pre-tax basis) is the average yield on 10-year 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 asset value (NAV) initially allocated to each standard facility covered by the specific remuneration regime. Having defined the initial NAV 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 while 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 obliged 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 of the Group's 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 the Group: (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. That order increased the annual number of equivalent hours entitled to regulated remuneration for biomass facilities from 6,500 to 7,500.

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.

The new remuneration framework implemented is called the Renewable Energy Economic Regime (hereinafter, "REER"). It applies to the facilities whose primary source of energy is solar, wind, geothermal or hydrothermal power and certain hydroelectric and biomass generation plants (and those using alternative technologies or that involve storage systems).

Entitlement to economic rights under the REER is based on an auction mechanism and is conditional upon the facilities being the result of a new investment undertaken subsequent to the holding of the auction (existing facilities that are modified or extended can benefit from the REER in respect of the new investment, so long as the latter can be determined using measuring equipment). As a general rule, receipt of those rights is not compatible with the so-called specific remuneration regime or other aid awarded with the same purpose and for the same investment.

The auction mechanism for awarding the REER will be regulated by a Ministry of Green Transition and Demographic Challenges Order. That Order may specify the technology, terms and guarantees for participating in the auctions, the product to be auctioned and the parameters and other items needed to articulate and specify the renewable energy economic regime. Remuneration entitlements will be adjudicated by means of sealed-bid auction method underpinned by a pay-as-bid mechanism and the product to be auctioned will be installed capacity, electric power or a combination of both and the bid variable will consist of a price per unit of electric energy expressed in €/MWh.

Ministerial Order TED/1161/2020 was published in December 2020, regulating the first auction mechanism for awarding the REER 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, including the pulp business.

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 2021) 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 phasing out 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 consumer participation, investment in renewable energy, distributed generation, storage, alternative use of the electricity networks and the development of pumped storage hydropower. It consolidated 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) adopted urgent measures in the field of energy taxation and energy generation and suspended 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 and reduced the excise duty levied on electricity from 5.11% to 0.5% until 31 December 2021, establishing minimum rates of €0.5/MWh for industrial consumers and of €1/MWh for all other consumers. After several extensions, Royal Decree-Law 11/2022 extended the electricity excise duty cut to 0.5% until 31 December 2022.

Royal Decree 148/2021 enacts the methodology for assigning charges (premiums for renewables, historical tariff deficits and extra island system costs) among the various consumers in terms of capacity purchased (€/kW) and energy consumed (€/kWh). That piece of legislation complements the methodology for calculating transmission and distribution tools based on network remuneration each year, a duty vested in the CNMC, approved in January 2020. Both methodologies can be revisited every six years and transition periods of up to four years may be set in order to gradually apply the prices resulting from any new methodologies.

Royal Decree-Law 6/2022, of 29 March 2022, enacting urgent measures under the scope of a national plan addressing the economic and social consequences of the war in Ukraine (hereinafter, RDL 6/2022) included, among other things, measures for speeding up the execution of power generation facilities fuelled by renewable sources of energy; fiscal measures designed to mitigate the run-up in electricity prices, including the extension until 30 June 2022 of the suspension of the tax levied on the value of electricity output and of the reduced rates of VAT and duty levied on electricity; measures designed to alleviate the consequences for the manufacturing industry of the increase in natural gas prices, including a support mechanism for safeguarding the competitiveness of industrial firms that make intensive use of electricity; and the concession of an extraordinary loan to finance the loss of toll income and facilities for industrial firms that make intensive use of gas.

It stipulates that the cost of the so-called social voucher will be borne by electricity sector players that participate in the supply of electricity (i.e., its production, transmission, distribution and sale) and by direct market consumers. It introduces the requirement to reduce fuel cycle GHG emission intensities and introduces amendments to several sector-specific regulations.

Among the measures introduced by RDL 6/2022 with the greatest impact on ENCE it is worth highlighting the revision of the remuneration parameters established in Ministerial Order TED/171/2020, of 24 February 2020:

- The new calculations will rely on the assumptions and parameter values prevailing at the date of effectiveness of RDL 6/2022, with the exception of the estimate of revenue from the sale of energy during the remaining useful life valued at market prices, the remuneration parameters directly related with the latter and, for standard facilities whose operating costs depend essentially on the price of fuel, the price of that fuel and the price of GHG emission allowances.
- The pool price to be used to estimate future revenue was to be calculated as the arithmetic average of the quoted prices of annual futures contracts traded in the electricity futures market organised by OMIP between 1 June and 30 November of the previous year until the start of the stub period for which the pool price is being estimated.
- Estimation of the price of fossil fuels for each half of 2022 was to consider the six-monthly changes in the cost of the commodities and, as applicable, in the access tolls contemplated in Ministerial Order IET/1345/2015 (of 2 July 2015), which establishes the methodology for updating remuneration for the operation of facilities entitled to the specific remuneration regime.
- The 2020-2022 regulatory stub period has since been sub-divided into two: the 2020-2021 stub period and the 2022 stub period. Calculation of the adjustments for tariff shortfall/surplus (the Tariff Adjustment) for 2020 and 2021 will be based on annual average pool prices of €33.94/MWh and €111.90/MWh, respectively. Those average prices will be corrected by the so-called adjusting coefficients corresponding to each type of technology.

RDL 6/2022 mandates the publication of a ministerial order within less than two months from its publication to define the remuneration parameters for standard facilities, operating costs and operating income, among others, for the new 2022 stub period.

One of the measures contemplated in the proposed ministerial order with the biggest impact on ENCE was the establishment of a regulatory pool price for 2022 of €121.92/MWh, and of new applicable upper and lower band limits. The proposed order also introduces the adjusting coefficients applicable to each standard facility in 2022 and the new remuneration for investment values applicable this year.

Royal Decree-Law 10/2022 (of 13 May 2022) establishes a temporary production cost adjustment mechanism designed to reduce electricity prices in the wholesale market. To that end it establishes an adjustment to the cost of production of marginal fossil-fuel technologies which is determined as the difference between a benchmark gas price and the actual daily natural gas price in the spot market. The adjustment mechanism will remain in place for 12 months, and no later than 31 May 2023.

Specifically, the owners of the purchasing units may be exempt from having to pay the cost adjustment in respect of the portion of their energy that is covered by forward hedging instruments arranged prior to 26 April 2022. That exemption is applicable to ENCE's biomills in Navia and Pontevedra.

Another of the measures with a significant impact on ENCE's activities is the revision of sections 3 and 4 of article 22 of Royal Decree 413/2014 with the aim of stimulating exposure to co-generation and waste generation in the forward markets. The modification entails switching the benchmark from the annual average price in the day-ahead and intraday market for the purpose of determining the Tariff Adjustment to the weighted average value of a basket of prices that factors in annual day-ahead and intraday prices as well as annual, quarterly and monthly futures prices.

Royal Decree-Law 11/2022 (25 June 2022) adopted and extended certain measures in response to the economic and social consequences of the war in Ukraine in order to remedy situations of social and economic vulnerability and foster economic and social recovery in the Island of La Palma (hereinafter, "RDL 11/2022"). Among other measures, it introduced an electricity excise duty rate of 0.5% and temporarily suspended the tax levied on the value of electricity output, both until 31 December 2022, and modified the tax base for calculating the levy on the value of electricity output in respect of related-party transactions.

Ministerial Order TED/989/2022 (11 October 2022) introduces new standard facility for the purposes of the remuneration parameters introduced via Ministerial Order TED/171/2020 (24 February 2020) and the remuneration for operation values for the second six months of 2020 and first six months of 2021, applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

Ministerial Order TED/990/2022 (11 October 2022) establishes the remuneration parameters for the period elapsing between 1 October 2018 and 30 June 2019 as a result of additional provision eight of Royal Decree-Law 15/2018 (5 October 2018), which calls for a review of the remuneration for operation values corresponding to the first half of 2019.

Ministerial Order TED/995/2022 (14 October 2022) establishes the remuneration for operation values corresponding to the second six months of 2021, applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

Ministerial Order TED/1232/2022 (2 December 2022) updates the remuneration parameters for standard facilities applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, as itemised in Annex I of Ministerial Order TED/171/2020 and Annex I of Ministerial Order TED/989/2022, for the purpose of application in 2022, thereby enacting the provisions of article 5.1 of Royal Decree-Law 6/2022, in response to the economic and social fallout from the war in Ukraine. That piece of legislation upholds average annual pool prices of €33.94/MWh for 2020 and of €111.90/MWh for 2021, sets the regulatory pool price for 2022 at €121.92/MWh, determines the NAV and remuneration for investment for each standard facility for 2022 and sets the remuneration for operation amounts applicable for the first half of 2022.

Considering those regulatory pool prices, the remuneration for operation (Ro) applicable to all of the Group's facilities, except for the Cordoba 13-MW gas plant, will be zero in 2022. Their remuneration for investment (Ri) amounts will also decrease.

Ministerial Order TED/1295/2022 (22 December 2022) establishes the remuneration for operation values corresponding to the second six months of 2022 applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

Royal Decree-Law 20/2022 (27 December 2022) addressing the economic and social consequences of the war in Ukraine, extends the reduction in excise duty on electricity to 0.5% and the temporary suspension of the levy on the value of electricity output until 31 December 2023, among other measures.

The draft Ministerial Order updating the remuneration parameters applicable to certain electricity producing facilities for the regulatory stub period beginning on 1 January 2023 was published on 28 December 2022.

That draft updates the remuneration parameters for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025, revising the estimates for standard revenue from the sale of electricity in the market and the remuneration parameters directly related with the latter, and, for standard facilities whose operating costs depend essentially on the price of their fuel, revising the trend in the related fuel costs.

The estimated market prices (regulatory pool price) thereby set for 2023, 2024 and 2025 are €207.88/MWh, €129.66/MWh and €78.19/MWh. It also includes the adjusting coefficients applicable to the regulatory prices for 2020, 2021 and 2022. Considering those regulatory pool prices, the remuneration for operation (Ro) applicable to all of the Group's facilities, except for the Cordoba 13-MW gas plant, will be zero in 2022. Their remuneration for investment (Ri) amounts will also decrease.

The net impact of application of the latest regulations on the 2022 consolidated statement of profit or loss has been estimated as an increase of approximately €8 million, as the reduction in the remuneration for operation amounts applicable to our facilities to zero (estimated negative impact of €108 million) and other negative impacts is more than offset by a smaller negative Tariff Adjustment (estimated positive impact of €115 million).

The fact that the regulatory pool price for 2022 is higher than the standard costs of operating the Group's facilities means that the remuneration for operation parameter will be zero; that is also expected to be the

situation at all of the Group's generation plants in 2023 and 2024 except at the 13-MW Cordoba facility. Moreover, the surplus between the regulatory pool price and standard operating costs triggers a negative adjustment to their NAV and, by extension, to their remuneration for investment parameters over their remaining useful lives for regulatory purposes. Under prevailing accounting rules, and in contrast to the criteria applicable to the Tariff Adjustment, that adjustment does not trigger the recognition of a liability.

The table below sets out the remuneration applicable to the facilities managed by ENCE:

Facility	2022			2023		
	Ro (€/MWh)	Rinv (Miles €)	VNA (Miles €)	Ro (€/MWh)	Rinv (Miles €)	VNA (Miles €)
Renewable energy business:						
Huelva - 50 MW	-	10,440	101,971	-	3,208	74,787
Huelva - 41 MW	-	5,583	23,329	-	-	4,193
Mérida - 20 MW	-	4,744	48,994	-	1,997	37,906
Jaén - 16 MW	-	2,555	13,226	-	-	4,622
Ciudad Real - 16 MW	-	2,555	13,226	-	-	4,622
Córdoba - 14 MW - Biomasa	-	2,234	16,791	-	-	9,180
Córdoba - 13 MW - Gas	161	-	-	287	-	-
Puertollano biomasa- 50 MW	-	-	-	-	-	-
Huelva 46 MW	-	-	-	-	-	-
Pulp business:						
Navia - 37 MW	-	6,117	53,881	-	180	34,413
Navia - 40 MW	-	-	-	-	-	-
Pontevedra - 35 MW	-	1,261	10,359	-	-	5,649

(*) Ri and NAV for 2022 as per Ministerial Order TED/1232/2022 (2 December 2022). 2023 figures as per the draft Ministerial Order updating the remuneration parameters applicable to certain electricity producing facilities for the regulatory stub period beginning on 1 January 2023.

ENCE's facilities sell the energy they generate either under bilateral agreements or to the pool. In the case of pool sales, Magnon Green Energy, S.L. acts as the Group facilities' broker and representative.

ENCE Energía y Celulosa, S.A. and subsidiaries

2022 Consolidated Management Report

Contents

Contents	1
1. Introduction	2
2. Governance structure	3
3. Key risks and sources of uncertainty.....	4
APPENDIX I – FOURTH-QUARTER 2022 EARNINGS REPORT	14
APPENDIX II –NON-FINANCIAL STATEMENT.....	15
APPENDIX III – ANNUAL CORPORATE GOVERNANCE REPORT AND ANNUAL REPORT ON DIRECTOR REMUNERATION	16

ENCE Energía y Celulosa, S.A. and subsidiaries

2022 Consolidated 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 ENCE Group's 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 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 2022, 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 profit and 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 2022 provides detailed information about the Group's performance, the key 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 37 of the consolidated financial statements), own share transactions (note 22) and the average supplier payment term (note 27).

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 CEO of Magnon Green Energy, S.L., the Financial, Corporate Development & Forest Assets Officer, the Human Capital Officer, the Pulp Sales and Logistics Manager, the Financial Controller, the Sustainability Officer and the General Secretary. Those officers report directly to the CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

At the executive level, the Company is also assisted by a Compliance Committee, an Executive Sustainability Committee and an Operational Excellence Committee.

The Compliance Committee reports to the Audit Committee and is made up of the 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, the heads of the corporate Human Capital, Pulp, Finance, Corporate Development and Forest Assets departments and the CEO of Magnon Green Energy, S.L. 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 Chairman & CEO, who chairs it, the members of the Management Committee and the management teams at the pulp biomills. That committee meets weekly to monitor the pulp biomills' 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 Magnon Green Energy, S.L.

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

Magnon Green Energy, S.L. is governed by a board of directors to which the non-controlling shareholder appoints two members. Magnon Green 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. 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. It actively involves all of the areas of the organisation with specific responsibilities for each phase of the process.

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 then monitors developments with respect to the risks so identified. When updating the risk map, it can also determine certain risks to have dissipated or materialised. 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 Group'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 the 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 Group'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 Reporting
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 the Risk Management and Control Policy, the Group 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 mitigating 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 own employees and partners and workers that are not employees.
2. It similarly takes a zero-tolerance stance towards any situation in which the performance of any of activity could cause any damage whatsoever 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 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:

Target: Financial Discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to impose financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit. To mitigate this risk factor, first and foremost, ENCE goes to lengths to reduce its production costs. In addition, ENCE has a Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, if necessary and the prices are right, financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility, in the short and medium term.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is directly tied 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 perspectives, with the aim of arranging financial hedges to mitigate currency exposure if necessary.

At 31 December 2022, the Group had arranged a number of forward currency agreements to hedge approximately 10% of forecast pulp sales in 2023.

c) TRADE CREDIT RISK - PULP BUSINESS

In the pulp market it is possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

ENCE has a credit insurance policy, which has been renewed until 31 December 2024, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

To mitigate this risk, ENCE also has a Credit Committee which is tasked with continuously monitoring outstanding receivables balances and available insurance coverage.

d) LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and equity markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its 2019-2023 Business Plan.

This is one of the risk factors monitored most closely by the 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 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, there is 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 Group'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.

f) **REGULATORY DEVELOPMENTS IN THE ENERGY MARKET**

Changes to the regulations governing the production of energy that affect the remuneration assigned to the renewable energy plants operated by the Group, specifically the remuneration for investment and remuneration for operation parameters, could undermine future remuneration and thereby affect the Group's profitability.

ENCE strives to calibrate its output levels as necessary to achieve the initially-estimated returns despite possible changes in energy market regulations.

Target: 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, the Group 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.

Target: 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 2022, 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.

Target: 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 Group 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 raw materials such as timber and biomass, chemical products, fuel, gas, industrial supplies and spare parts, logistics and transport costs, strike action, economic fallout from sector and environmental regulations and technological developments on the part of competitors. 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 drafting of contingency plans, maintenance of minimum stock buffers, enhanced communication with transport providers and analysis of the current logistics model.

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 Group. 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.

Target: 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 2023 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.

Target: 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 to 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.

Target: 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 2022, the Group also continued to invest to make its facilities more environmentally-friendly.

Target: Business Continuity

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.

The risk of water restrictions in the vicinity of our operations materialised in 2022, significantly affecting the supply of water to our facilities and therefore eroding the Company's revenue.

To mitigate that risk, ENCE has set ambitious targets for reducing its water consumption which are reviewed monthly by the Management Committee and the Board of Directors. As a result, unit water consumption has decreased significantly in recent years. In addition, due to materialisation of that risk factor at the Pontevedra biomill in 2022, ENCE has embarked on a pioneering pilot test in Spain consisting of the installation of equipment that allows it to regenerate the water originating in the adjacent urban wastewater treatment facility for use in the pulp production process, so complementing its regular water supply. In parallel, ENCE has launched a project for the recovery and recirculation of process waters in order to reduce incoming water requirements.

Elsewhere, on 8 March 2023, the Group was notified of the rulings issued by Section Five of the Supreme Court's Chamber for Contentious Administrative Proceedings on 6 March 2023, upholding the 60-year extension of the concession over the land on which the Pontevedra biomill is located, i.e., until 2073, so that at the time of writing all of the risks to continuity of operations in Pontevedra reported on in the 2022 Management Report had fully dissipated. The Group continues to provide an account of those events in this report insofar as the latter relates to 2022, when the outcome of those proceedings was still not known. Since the Supreme Court is the highest court at all levels, its decisions are not subject to appeal. Without prejudice the foregoing, an appeal for writ of protection could be lodged with the Constitutional Court, which would only be upheld if the infringement in the process of any fundamental right of the parties is proven.

Target: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, inspired 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.

The key risks intrinsic to social matters and issues related to Magnon's own staff and the employees of the firms that collaborate with it at its production facilities include: potential harm to worker health; workplace accidents; the organisation of strike action; staff 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.

Target: 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 2022.

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 2022, 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.

Target: Tax Risk Control

The Audit Committee monitors the Group's tax-related risks with a view to assisting the Board with its task of determining its 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.

4. Events after the reporting date

No significant events have occurred between the reporting date and the date of authorising these consolidated financial statements for issue that have not been disclosed therein.

5. Corporate governance

Complete information about ENCE's corporate governance system is available on its website: www.ence.es.

6. Purchase and sale of own shares

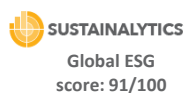
The disclosures regarding the acquisition and sale of own shares in 2022 are provided in note 22 to the accompanying consolidated financial statements for 2022.

APPENDIX I – FOURTH-QUARTER 2022 EARNINGS REPORT



Earnings Report 4Q22

28 February 2023



CONTENTS

1. EXECUTIVE SUMMARY	3
2. PULP BUSINESS	5
2.1. SUPREME COURT UPHOLDS THE VALIDITY OF THE EXTENSION OF THE PONTEVEDRA BIOMILL CONCESSION ..	5
2.2. PULP MARKET TRENDS	5
2.3. REVENUE FROM PULP SALES	6
2.4. PULP PRODUCTION AND CASH COST	7
2.5. OTHER INCOME	8
2.6. STATEMENT OF PROFIT OR LOSS.....	8
2.7. CASH FLOW ANALYSIS	9
2.8. CHANGE IN NET DEBT.....	11
3. RENEWABLE ENERGY BUSINESS	12
3.1. ELECTRICITY MARKET TRENDS.....	12
3.2. KEY CHANGES DERIVED FROM ROYAL DECREE-LAW 6/2022	13
3.3. REVENUE FROM ENERGY SALES	13
3.4. STATEMENT OF PROFIT OR LOSS.....	14
3.5. CASH FLOW ANALYSIS	14
3.6. CHANGE IN NET DEBT.....	16
4. CONSOLIDATED FINANCIAL STATEMENTS	17
4.1. SUMMARISED STATEMENT OF PROFIT OR LOSS.....	17
4.2. SUMMARISED STATEMENT OF FINANCIAL POSITION	17
4.3. STATEMENT OF CASH FLOWS	18
5. KEY DEVELOPMENTS.....	19
APPENDIX 1: MASTER SUSTAINABILITY PLAN	21
APPENDIX 2: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S POWER PLANTS	27
APPENDIX 3: SHARE PRICE PERFORMANCE	29
APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMS)	30

1. EXECUTIVE SUMMARY

Market figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
BHKP (USD/t) average price	1,380.0	1,140.0	21.1%	1,366.3	1.0%	1,285.0	1,010.6	27.2%
Average exchange rate (USD/€)	1.01	1.15	(11.8%)	1.01	(0.2%)	1.05	1.18	(11.2%)
BHKP (€/t) average price	1,364.6	994.2	37.3%	1,347.7	1.3%	1,225.4	855.4	43.3%
Average pool price (€/MWh)	113.2	210.9	(46.3%)	146.2	(22.6%)	167.6	111.4	50.4%
Source: Bloomberg & OMIE								
Operating Metrics	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp production (t)	178,891	250,005	(28.4%)	171,533	4.3%	816,311	1,008,692	(19.1%)
Navia pulp production	157,739	142,214	10.9%	149,757	5.3%	576,996	577,435	(0.1%)
Pontevedra pulp production	21,152	107,791	(80.4%)	21,776	(2.9%)	239,315	431,257	(44.5%)
Pulp sales (t)	150,345	239,061	(37.1%)	189,214	(20.5%)	826,617	996,058	(17.0%)
Average sales pulp price (€/t)	864.5	644.2	34.2%	832.6	3.8%	756.7	546.7	38.4%
Cash cost (€/t)	678.8	437.4	55.2%	568.4	19.4%	552.7	391.9	41.0%
Operating margin per ton (€/t)	185.7	206.8	(10.2%)	264.2	(29.7%)	204.0	154.8	31.8%
Renewable Energy sales volume (MWh)	291,599	427,957	(31.9%)	366,723	(20.5%)	1,481,446	1,430,199	3.6%
Average sales price (€/MWh)	165.0	63.7	158.8%	137.2	20.2%	170.7	81.3	110.0%
Remuneration for investment (€ m)	10.2	8.6	19.4%	10.2	(0.0%)	40.9	37.8	8.1%
P&L € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Revenue from Pulp business	159.1	195.8	(18.8%)	173.8	(8.4%)	712.9	667.6	6.8%
Revenue from Renewable Energy business	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%
Consolidation adjustments	(1.3)	(0.8)		(1.0)		(3.8)	(2.8)	
Total revenue	216.3	231.1	(6.4%)	233.4	(7.3%)	1,003.4	819.7	22.4%
Pulp business EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Renewable Energy business EBITDA	13.5	3.4	n.s.	17.7	(23.7%)	109.8	17.8	n.s.
EBITDA	40.1	21.0	90.5%	59.1	(32.2%)	247.6	106.8	131.7%
Depreciation, amortisation and forestry depletion	(26.7)	(21.2)	26.0%	(27.7)	(3.7%)	(98.4)	(93.5)	5.2%
Impairment of and gains/(losses) on fixed-asset disposal	182.9	(2.1)	n.s.	(1.7)	n.s.	143.9	(193.5)	n.s.
Other non-ordinary results of operations	(14.9)	(0.8)	n.s.	0.1	n.s.	(14.9)	4.2	n.s.
EBIT	181.3	(3.1)	n.s.	29.8	n.s.	278.2	(175.9)	n.s.
Net finance cost	(6.9)	(3.6)	92.6%	(5.6)	22.9%	(26.3)	(21.5)	22.1%
Other finance income/(cost) results	(2.1)	1.3	n.s.	1.4	n.s.	1.6	4.9	(66.8%)
Profit before tax	172.3	(5.4)	n.s.	25.6	n.s.	253.6	(192.5)	n.s.
Income tax	7.8	1.5	n.s.	(3.8)	n.s.	(4.7)	(9.4)	(50.5%)
Consolidated Net income	180.1	(3.9)	n.s.	21.9	n.s.	248.9	(202.0)	n.s.
Non-controlling interests	0.1	6.0	(98.2%)	0.4	(73.6%)	(1.7)	11.6	n.s.
Attributable Net Income	180.2	2.0	n.s.	22.3	n.s.	247.2	(190.4)	n.s.
Earnings per share (Basic EPS)	0.74	0.01	n.s.	0.09	n.s.	1.02	(0.78)	n.s.
Cash flow € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	40.1	21.0	90.5%	59.1	(32.2%)	247.6	106.8	131.7%
Change in working capital	5.0	12.6	(60.3%)	59.2	(91.5%)	67.6	(33.6)	n.s.
Maintenance capex	(4.7)	(4.4)	5.6%	(3.9)	19.9%	(19.6)	(15.1)	30.2%
Net interest Payment	(5.7)	(6.2)	(8.2%)	(4.5)	25.8%	(23.3)	(19.2)	21.4%
Income tax received/(paid)	(18.2)	(1.8)	n.s.	(0.0)	n.s.	(22.6)	(8.2)	176.7%
Normalised free cash flow	16.5	21.2	(22.4%)	109.9	(85.0%)	249.7	30.9	n.s.
Energy regulation adjustment (regulatory collar)	(8.4)	60.2	n.s.	6.9	n.s.	25.0	89.1	(72.0%)
Other cash adjustments	7.2	(2.7)	n.s.	4.4	66.1%	9.6	5.9	63.9%
Efficiency and expansion capex	(3.6)	(5.2)	(31.2%)	(3.1)	15.6%	(21.2)	(39.1)	(45.7%)
Sustainability capex and other	(7.7)	(1.8)	n.s.	(1.7)	n.s.	(14.1)	(16.9)	(16.7%)
Disposals	0.3	5.5	(94.6%)	0.1	196.0%	0.8	6.0	(86.9%)
Free cash flow	4.3	77.2	(94.4%)	116.4	(96.3%)	249.8	75.9	229.1%
Dividends from the parent	(21.9)	-	n.s.	(31.6)	-	(66.6)	-	n.s.
Net debt € m	Dec-22	Dec-21	Δ%					
Net financial debt Pulp business	(36.1)	(19.5)	84.8%					
Net financial debt Renewable Energy business	6.1	121.2	(95.0%)					
Net financial debt	(30.0)	101.7	n.s.					
ROCE LTM *	2022	2021	Δ%					
ROCE LTM *	13.5%	0.8%	n.s.					

* ROCE LTM = EBIT LTM / Average Equity + Net Debt(including leases). Adjusted for impairments and provisions related to the Pontevedra concession in 2021 and 2022

- ✓ On 7 February 2023, Spain's Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. The full contents of the court's rulings will be released in the coming days.
- ✓ Fourth-quarter net profit came to €180m, lifting 2022 profits to €247m, including the reversal of €169m of asset impairment charges and provisions recognised in 2021 in connection with the Pulp business in the wake of the National Appellate Court rulings.
- ✓ Free cash flow amounted to €250m in 2022, underpinned by higher pulp and energy prices, leaving the Group with a net cash position of €30m. The significant improvement in working capital during the year stemmed from payments outstanding to the electricity market regulator in the amount of €85m, which are due settlement in the first half of 2023.
- ✓ The Board has agreed to pay an extraordinary interim dividend from 2022 profits in the amount of €70m, equivalent to €0.29 per share (before withholding tax), to be paid on 16 March, on top of the €67m already paid out.
- ✓ After four months idle due to loss of flow from the Lérez River, the Pontevedra biomill recommenced activity in November, availing of the new solution developed by the Company for use during periods of drought, having also performed work to repair the water withdrawal infrastructure.
- ✓ The increase in pulp prices, coupled with favourable exchange rate trends, boosted profitability, mitigating the effect of the suspension of operations in Pontevedra and offsetting raw material cost inflation. As a result, EBITDA in the Pulp business amounted to €27m in 4Q22 and €138m in 2022.
- ✓ Elsewhere, the increase in average sales prices continued to lift EBITDA in the Renewable Energy business, specifically to €13m in 4Q22 and €110m in 2022, including the reversal of €33m of the regulatory collar provision.
- ✓ The Group's return on capital employed (ROCE) amounted to 33% in 2022, including the accounting impact of the Supreme Court rulings. Stripping out that impact, the Group's ROCE would have been 13% (14% in the Pulp business and 11% in the Renewable Energy business).
- ✓ The Group's financial strength, marked by a net cash position, gives it flexibility to take advantage of growth opportunities:
 - In the Pulp business, Ence continues to execute the "Navia Excellence" project to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes. That project entails investments of an estimated €105m between 2023 and 2025, with a projected ROCE of over 12%.
 - In addition, in 2022, Ence and the regional government of Galicia announced a new project in As Pontes, Coruña, which the Company is currently analysing, for the production of mixed bleached fibre from recovered paper and board and the virgin fibre made by Ence. Phase one of that project consists of a production line with annual capacity of 100,000 tonnes, which could be commissioned in 2026, entailing an initial estimated investment of €125m and a projected ROCE of over 12%.
 - In the Renewable Energy business, Ence is developing a pipeline of 140 MW of biomass facilities and 673 MW of photovoltaic facilities, while analysing a number of opportunities for the sale of industrial heat generated using biomass. In December 2021, Group subsidiary, Magnon Green Energy, agreed the sale of 373 MW of photovoltaic developments for up to €62m; those sales will materialise as the corresponding permits are obtained, between 2023 and 2024.
 - Lastly, in 2022, Ence created a new subsidiary to develop and operate plants to produce biomethane and fertiliser from organic waste. This is a new business line based on the circular bioeconomy principles that already underpin Ence's two core businesses, one with significant growth potential in Spain. That subsidiary already has a pipeline of nine projects under development in Spain with aggregate annual supply capacity of 560 GWh of biomethane. The hurdle ROCE in this new business is also over 12%.
- ✓ Ence remains the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 91/100 in 2022.

2. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in northeast Spain: a 685,000-tonne-capacity facility located on a site owned by the Company in the town of Navia, Asturias, and a 515,000-tonne-capacity complex located on a site held under concession in Pontevedra, Galicia. Both use eucalyptus timber procured mostly locally from sources that can certify sustainable forest management.

Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process, as well as the supply and sale of wood from the plantations managed sustainably by the Company.

2.1. Supreme Court ruling upholding the validity of the extension of the Pontevedra biomill concession to 2073

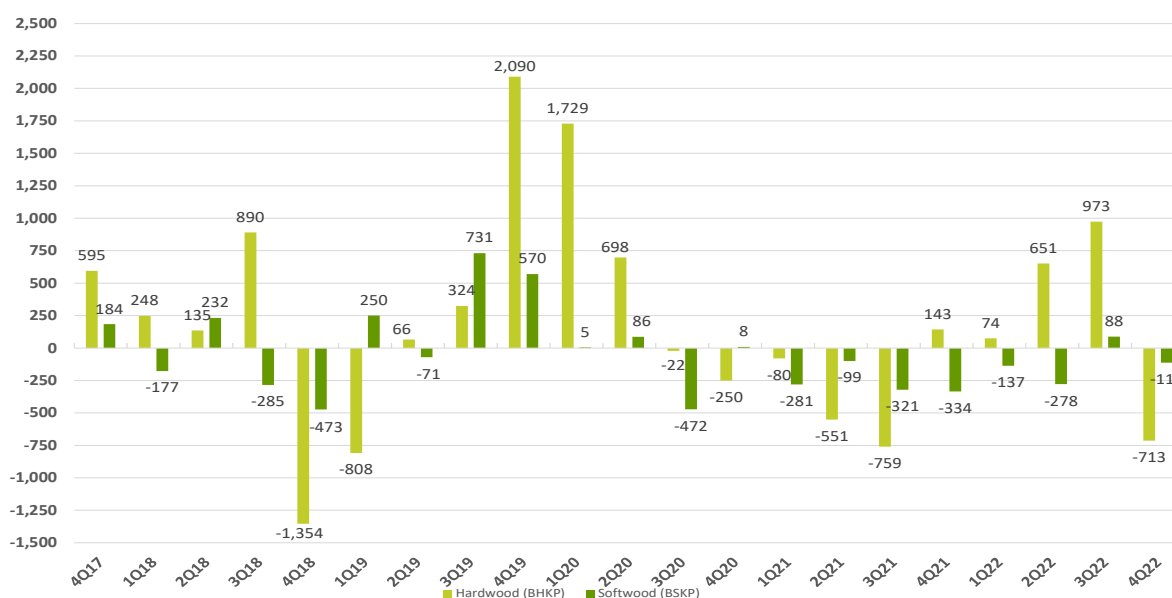
On 7 February 2023, the Supreme Court ruled in Ence's favour on the appeals presented by the Company and other entities against the National Appellate Court rulings of July 2021 annulling the Resolution issued by the Directorate General of Coastal and Marine Sustainability on 20 January 2016, extending Ence's concession at the Pontevedra biomill until 2073. The full contents of the court's rulings will be released in the coming days.

The reversal of the asset impairment charges and provisions recognised in the 2021 financial statements in the wake of those National Appellate Court rulings implied a gain of €169m in 2022.

2.2. Pulp market trends

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material that is a good substitute for less environmentally-friendly materials such as plastics and synthetic fibres. These demand dynamics are very solid in the long term and contrast with the movements observed in inventories in the paper industry, especially in China, which affected demand for pulp between 2018 and 2021.

Year-on-year change in global demand for pulp, last five years (tonnes, 000)



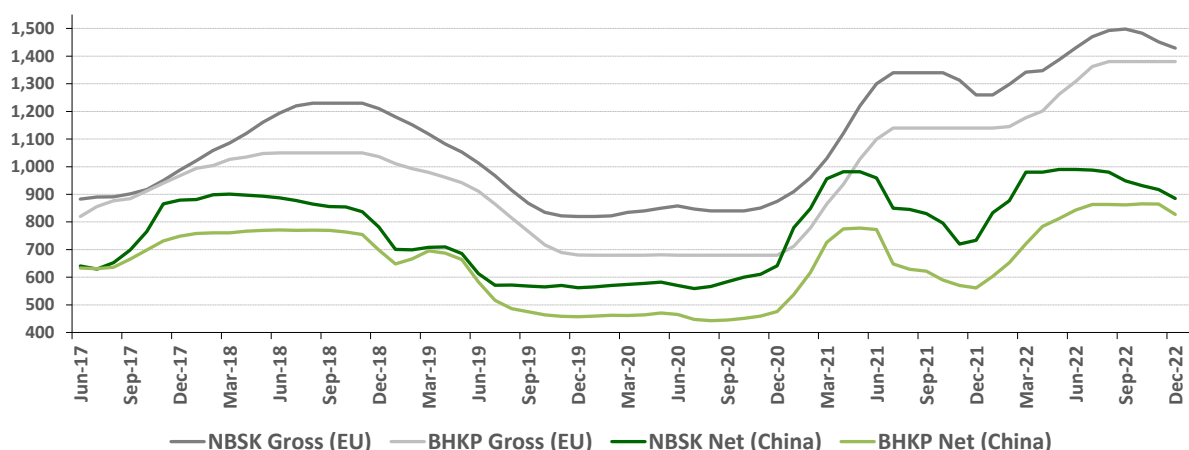
Source: PPPC-G100

Demand for pulp increased by 1.3% year-on-year in 2022 (the equivalent of 0.9 million tonnes), with all markets sustaining growth except for China, where demand contracted by 1.9% year-on-year (-0.4 million tonnes), affected by COVID-related restrictions. In Europe, demand for pulp increased by 0.8% (0.2 million tonnes), compared to growth of 0.3% in North America, with demand in the rest of the world 7% (1.1 million tonnes) higher.

In parallel, pulp supply was curtailed, above all by the interruption of wood exports from Russia to northern Europe and delays in commissioning new capacity.

The growth in demand, coupled with supply-side friction and widespread increases in production costs, drove hardwood pulp (BHKP) prices higher, to \$1,380 per tonne (gross) in Europe as of the year-end, and \$830 (net) in China.

Net pulp prices in China and gross prices in Europe during the last five years (US\$)



Source: FOEX

2.3. Revenue from pulp sales

Pulp sales volumes declined by 37.1% year-on-year in 4Q22 to 150,345 tonnes, with 2022 volumes down 17% from 2021 at 826,617 tonnes, mainly as a result of the temporary suspension of operations in Pontevedra in the second half of the year, due to the reduced flow from the river that supplies that biomill.

Average sales prices improved by 38.4% year-on-year in 4Q22, to a net €864.5 per tonne, and by 38.4% year-on-year overall in 2022, to €756.7 per tonne, thanks to the increase in average benchmark prices in Europe and favourable euro-dollar exchange rate trends.

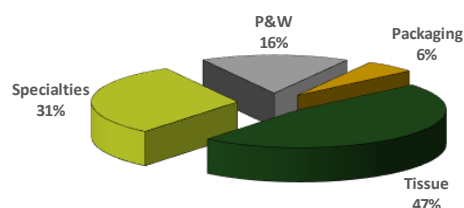
	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp sales (t)	150,345	239,061	(37.1%)	189,214	(20.5%)	826,617	996,058	(17.0%)
Average sales price (€/t)	864.5	644.2	34.2%	832.6	3.8%	756.7	546.7	38.4%
Pulp sales revenue (€ m)	130.0	154.0	(15.6%)	157.5	(17.5%)	625.5	544.6	14.9%

The combination of the two factors drove revenue from pulp sales to €130m in 4Q22, down 15.6% year-on-year, and to €625.5m in 2022, growth of 14.9% from 2021.

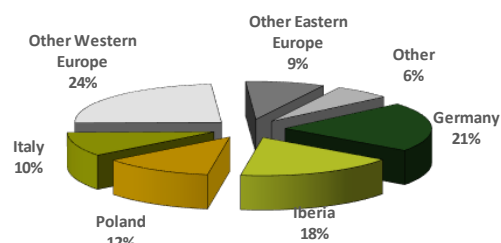
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 18% of 2022 sales, compared to 16% in 2021.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 47% of revenue from pulp sales in 2022, followed by the specialty paper segment, at 31%. The printing and writing paper segment accounted for 16% of sales and packaging, the remaining 6%.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



By geography, most of the pulp produced by Ence is sold in Europe, namely 94% of revenue from pulp sales in 2022. Germany and Iberia accounted for 21% and 18% of total revenue, respectively, followed by Poland (12%), and Italy (10%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 9%.

2.4. Pulp production and cash cost

Pulp production decreased by 28.4% year-on-year to 178,891 tonnes in 4Q22 and by 19.1% in all of 2022 to 816,311 tonnes, due to the above-mentioned temporary suspension of operations at the Pontevedra biomill during the second half.

Ence has developed an innovative solution for use during times of drought that enables it to regenerate its own wastewater, as well as the wastewater from the treatment facility adjacent to the Pontevedra biomill (in Placeres), in order to minimise water withdrawal from the river.

After four months of stoppage, the Pontevedra biomill was restarted in November, trialling that new solution, while work was carried out to repair the water withdrawal infrastructure. The biomill is expected to continue to operate combining this solution and minimising the water withdrawn from the river throughout the first half of 2023, in order to optimise the water recovery process.

	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Navia pulp production	157,739	142,214	10.9%	149,757	5.3%	576,996	577,435	(0.1%)
Pontevedra pulp production	21,152	107,791	(80.4%)	21,776	(2.9%)	239,315	431,257	(44.5%)
Pulp production (t)	178,891	250,005	(28.4%)	171,533	4.3%	816,311	1,008,692	(19.1%)

The Pontevedra and Navia biomills were stopped for annual maintenance work in January and February, respectively. Both stoppages took place in the month of March in 2021. In 2023, both biomills will be stopped for maintenance during the second quarter.

Figures in €/t	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Total cash cost	678.8	437.4	55.2%	568.4	19.4%	552.7	391.9	41.0%
Operating margin	185.7	206.8	(10.2%)	264.2	(29.7%)	204.0	154.8	31.8%

The 4Q22 cash cost increased by 55.2% year-on-year to €678.8/tonne, due mainly to the impact of the suspension of operations in Pontevedra and the costs associated with the new water recovery solution. Those factors, coupled with widespread raw material and transport cost inflation, implied a 41% increase in the average cash in 2022, to €552.7 tonne.

The temporary suspension of operations in Pontevedra, coupled with the costs associated with the new water recovery solution, impacted the 4Q22 and 2022 cash cost metrics by an estimated €89/tonne and €34/tonne, respectively. Stripping out that effect, the 4Q22 cash cost would have been €590/tonne and the 2022 figure, €519/tonne.

Nevertheless, the growth in pulp prices continued to lift unit operating margin in the Pulp business to €204/tonne in 2022, compared to €155/tonne in 2021 and an average of €149/tonne during the last five years (2017-2021).

2.5. Other income

Ence's pulp production operations are self-sufficient energy-wise. Ence uses the lignin and forest biomass derived from its manufacturing activities to generate renewable energy. 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 Navia biomill. Surplus energy production is sold to the grid.

Since 2022, Ence only sells surplus energy to the grid, whereas before it used to sell it all of its output. As a result, revenue from the sale of energy decreased by 42.2% year-on-year to €23m in 4Q22 and by 31.0% in 2022, to €73.6m.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Revenues from energy sales linked to pulp (€ m)	23.0	39.8	(42.2%)	14.8	55.8%	73.6	106.7	(31.0%)
Forestry and other revenue (€ m)	6.1	2.0	203.7%	1.5	n.s.	13.8	16.3	(15.6%)
Other income	29.1	41.8	(30.4%)	16.2	79.4%	87.4	123.0	(29.0%)

In addition to the sale of pulp and energy, the Pulp business encompasses other activities, notable among which the sale of wood sourced from proprietary eucalyptus plantations located in southern Spain.

Higher internal consumption of wood shaped a 15.6% reduction in revenue from the sale of wood to third parties to €13.8m in 2022. Internal consumption dipped in the last quarter, however, due to the suspension of operations in Pontevedra, driving an increase in revenue from third-party wood sales to €6.1m that quarter.

2.6. Statement of profit or loss

On 7 February 2023, the Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. The reversal of the asset impairment charges and provisions recognised in the 2021 financial statements in the wake of the original National Appellate Court rulings implied the recognition of a gain of €168.9m in 4Q22. As a result, net profit amounted to €243.5m in 2022.

EBITDA in the Pulp business amounted to €26.5m in the fourth quarter and €137.7m in 2022, up 50.8% and 54.7% year-on-year, respectively. EBITDA was boosted by the increase in pulp prices and favourable exchange rate trends, which mitigated the effect of the temporary suspension of operations in Pontevedra and raw material cost inflation. In 2021, EBITDA was affected by the pulp price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €21.8m and €53.2m in 4Q21 and 2021, respectively.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp sales revenue	130.0	154.0	(15.6%)	157.5	(17.5%)	625.5	544.6	14.9%
Other income	29.1	41.8	(30.4%)	16.2	79.4%	87.4	123.0	(29.0%)
Total net revenue	159.1	195.8	(18.8%)	173.8	(8.4%)	712.9	667.6	6.8%
EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Depreciation and amortisation	(20.5)	(9.9)	106.8%	(11.1)	85.0%	(52.1)	(47.8)	8.9%
Depletion of forestry reserves	(1.8)	(2.9)	(37.6%)	(1.2)	52.2%	(7.0)	(11.4)	(39.1%)
Impairment of and gains/(losses) on fixed-asset disp.	187.2	(1.4)	n.s.	(1.7)	n.s.	184.5	(192.4)	n.s.
Other non-recurring gains/(losses)	(14.9)	(0.8)	n.s.	0.1	n.s.	(14.9)	4.2	n.s.
EBIT	176.5	2.5	n.s.	27.5	n.s.	248.3	(158.4)	n.s.
<i>EBIT margin</i>	<i>111%</i>	<i>1%</i>	<i>109.7 p.p.</i>	<i>16%</i>	<i>95.1 p.p.</i>	<i>35%</i>	<i>-24%</i>	<i>58.6 p.p.</i>
Net finance cost	(3.5)	(0.7)	n.s.	(1.9)	86.6%	(9.9)	(9.6)	3.2%
Other financial results	(2.1)	1.1	n.s.	1.5	n.s.	1.4	3.7	(63.7%)
Profit before tax	170.9	2.9	n.s.	27.1	n.s.	239.8	(164.3)	n.s.
Income tax	8.6	(0.5)	n.s.	(3.5)	n.s.	3.7	(19.1)	n.s.
Net Income	179.5	2.5	n.s.	23.6	n.s.	243.5	(183.4)	n.s.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied cash outflows of €3.8m in 4Q22 and €20.3m in 2022, compared to an outflow of €2.6m in 4Q21 and an inflow of €0.4m in 2021. For 2023, Ence has arranged hedges over a notional amount of \$71m with a weighted average ceiling of \$/€1.11 and a weighted average floor of \$/€1.06.

FX Hedges	1Q23	2Q23	3Q23	4Q23
Nominal hedged (USD Mn)	25.0	15.0	15.0	16.0
Average cap (USD / EUR)	1.14	1.12	1.08	1.08
Average floor (USD / EUR)	1.11	1.03	1.00	1.05

Elsewhere, the regulatory collar accounting treatment implied the recognition of non-cash revenue from energy sales of €3.6m in 4Q22 and a provision of €14.5m, likewise non-cash, in 2022.

Below the EBITDA line, depreciation and amortisation charges increased to €20.5m in 4Q22 and to €52.1m in 2022, as the Group recommenced depreciation of the Pontevedra biomill in 2022.

“Impairment and gains/(losses) on the disposal of fixed assets”, in the amount of €187.2m in 4Q22 and of €184.5m in 2022, reflects the reversal of impairment charges and provisions recognised in 2021.

Other non-recurring items - a net charge of €14.9m - includes a €21m provision recognised to cover commitments under the Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts.

Net finance cost amounted to €3.5m in 4Q22 and €9.9m in 2022 as a result of including the finance charge associated with the lease over the Pontevedra biomill. Other finance income/(cost) presents the effect of movements in exchange rates on working capital during the period: a net loss of €2.1m in 4Q22 and a net gain of €1.4m in 2022.

Lastly, the Group recognised tax income of €8.6m in 4Q22 and of €3.7m in 2022 due to the tax effects of the above-mentioned reversals.

In all, the Pulp business reported a net profit of €179.5m in 4Q22 and of €243.5m in 2022, including the reversal of the asset impairment charges and provisions recognised in 2021 in the wake of the National Appellate Court rulings.

2.7. Cash flow analysis

Net cash from operating activities amounted to €17.7m in 4Q22 and €136.7m in 2022, up from €86.5m in 2021, driven by EBITDA growth.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Energy regulation adjustment (regulatory collar)	(3.6)	13.3	n.s.	3.7	n.s.	14.5	24.1	(39.9%)
Other cash adjustments	6.0	0.1	n.s.	4.5	32.2%	7.7	4.5	68.5%
Change in working capital	1.7	7.9	(78.3%)	26.5	(93.5%)	(3.0)	(23.0)	(86.8%)
Income tax received / (paid)	(12.0)	(1.3)	n.s.	-	n.s.	(13.9)	(1.3)	n.s.
Net interest received / (paid)	(0.8)	(0.9)	(2.9%)	(2.1)	(59.9%)	(6.3)	(6.9)	(9.2%)
Net cash flow from operating activities	17.7	36.8	(51.9%)	74.0	(76.1%)	136.7	86.5	57.9%

Movements in working capital implied a cash inflow of €1.7m in 4Q22 and a cash outflow of €3m in 2022. The reduction in trade receivables on the back of lower sales volumes and the increase in trade payables on account of amounts due to the electricity market regulator offset the increase in wood inventories. The balance payable to the regulator stood at €23m at year-end and is due settlement during the first half of 2023.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Inventories	(16.5)	(13.7)	20.1%	(16.4)	0.7%	(24.3)	(11.5)	111.2%
Trade and other receivables	14.5	(3.0)	n.s.	22.5	(35.5%)	8.2	(43.1)	n.s.
Financial and other current assets	1.2	0.9	26.3%	0.5	119.3%	2.4	2.4	(0.8%)
Trade and other payables	2.5	23.8	(89.5%)	19.8	(87.3%)	10.7	29.3	(63.4%)
Change in working capital	1.7	8.0	(78.7%)	26.5	(93.5%)	(3.0)	(23.0)	(86.8%)

At 31 December 2022, the Pulp business had drawn down €45.2m under its non-recourse receivable discounting facilities, down from €53.7m at year-end 2021.

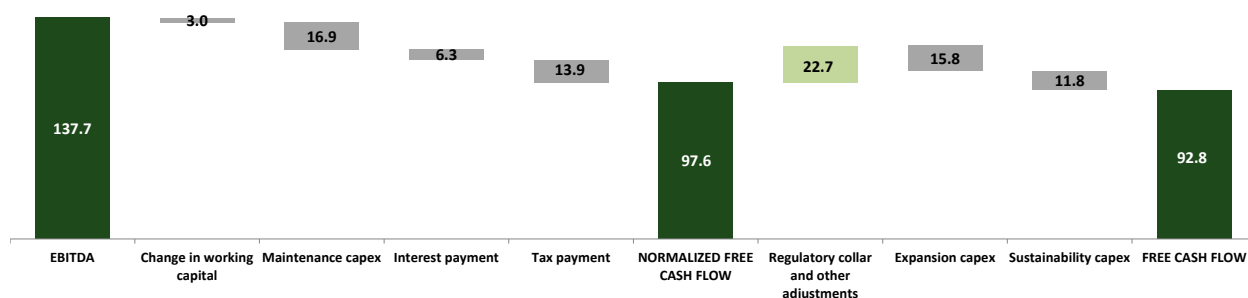
Ence has also arranged several reverse factoring facilities, which were drawn down by €76.5m at the December close, compared to €79.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue financial expenses.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Maintenance capex	(3.6)	(3.9)	(7.2%)	(3.4)	6.8%	(16.9)	(11.7)	44.3%
Sustainability capex and other	(6.5)	(1.2)	n.s.	(1.2)	n.s.	(11.8)	(13.9)	(15.5%)
Efficiency and expansion capex	(1.9)	(1.9)	(0.2%)	(2.4)	(21.7%)	(15.8)	(26.8)	(41.1%)
Financial investments	0.2	(0.3)	n.s.	(0.0)	n.s.	0.2	(0.3)	n.s.
Investments	(11.8)	(7.3)	60.6%	(7.0)	66.9%	(44.3)	(52.8)	(16.1%)
Disposals	0.3	13.3	(97.7%)	0.1	196.0%	0.4	13.7	(97.1%)
Net cash flow used in investing activities	(11.5)	5.9	n.s.	(6.9)	65.0%	(43.9)	(39.1)	12.1%

Maintenance capex decreased to €3.6m in 4Q22 and €16.9m in 2022, while sustainability capex increased to €6.5m in 4Q22 and €11.8m in 2022. The sustainability investments were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term. In 4Q22, those investment also included €3.9m related with the new water recovery system for use during periods of drought.

Investments in efficiency and growth amounted to €1.9m in 4Q22 and €15.8m in 2022. Those investments are mainly related to the final payments for the capacity added in 2019 and the purchase of new equipment to increase wood-cutting capacity in Galicia.

As a result, normalised free cash flow in the Pulp business amounted to €97.6m in 2022, while free cash flow net of the adjustment for the regulatory collar and efficiency, growth and sustainability capex came in at €92.8m.



2.8. Change in net debt

The Pulp business ended the year with net cash of €36.1m, compared to €19.5m at year-end 2021. That balance includes financial lease liabilities of €37.6m at year-end 2022, up from €16.4m at year-end 2021, due to the addition of a €16.9m liability related with the Pontevedra biomill leases.

In 2022, the business paid out €66.6m in dividends and collected €19.5m following partial repayment of the intra-group loan to the Renewable Energy business.

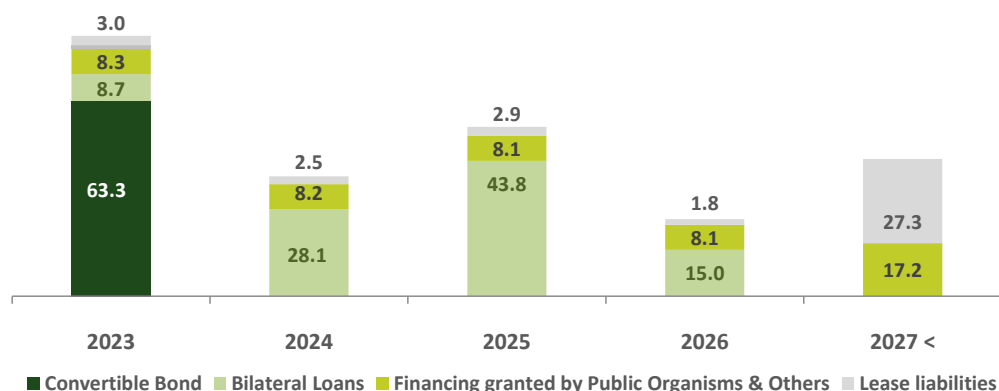
Figures in € m	Dec-22	Dec-21	Δ%
Non-current financial debt	128.6	276.5	(53.5%)
Current financial debt	80.3	12.6	n.s.
Gross financial debt	208.9	289.1	(27.7%)
Non-current lease contracts	34.6	12.8	169.6%
Current lease contracts	3.0	3.6	(16.6%)
Financial liabilities related to lease contracts	37.6	16.4	128.7%
Cash and cash equivalents	278.4	318.5	(12.6%)
Short-term financial investments	4.2	6.6	(35.7%)
Net financial debt Pulp business	(36.1)	(19.5)	84.8%

Due to the cyclical nature of the Pulp business, it is financed with covenant-free debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €282.6m. That balance includes payments outstanding to the electricity market regulator in the amount of €23m, which are due settlement in the first half of 2023.

In 2022, Ence prepaid €10m of bilateral loans, reduced its use of its receivable discounting lines by €8.5m and repurchased €65.4m of the convertible bonds due March 2023. By year-end, the Group had bought back a total of €96.7m of those convertible bonds (60% of the total issued).

The gross debt of €208.9m at year-end corresponds mainly to the €63.3m of convertible bonds (adjusted for the value of the equity component), the outstanding balance of €95.6m on bilateral loans and a series of loans totalling €50m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Finance lease liabilities stood at €37.6m at the close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants that have no relation to the pulp production process and is carried on through its 51% ownership interest in **Magnon Green Energy** ("Magnon"), along with other emerging businesses such as industrial heating and biomethane.

Magnon currently has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

In addition, Magnon has a pipeline of 813 MW of biomass and photovoltaic developments:

- In biomass, Magnon has three developments in the pipeline with combined capacity of 140 MW with which it is entitled to participate in the capacity tenders scheduled between now and 2030. Of the total, 90 MW already has the corresponding environmental permits and those for the remaining 50 MW are expected to be obtained in 2023.
- The photovoltaic pipeline amounts to 673 MW. In December 2021, Magnon agreed the sale of 373 MW of those developments for up to €62m; those sales will materialise as the corresponding permits are obtained, between 2023 and 2024. The remaining 300 MW of photovoltaic projects are at an early stage of development.

Finally, Ence is analyzing various opportunities for the sale of industrial heating with biomass and in 2022 it launched a new subsidiary, Ence Biogas, for the development and operation of biomethane and fertilizer production plants from organic waste. This subsidiary already has a portfolio of 9 projects under development in Spain with a combined capacity to supply 560 GWh of biomethane per year.

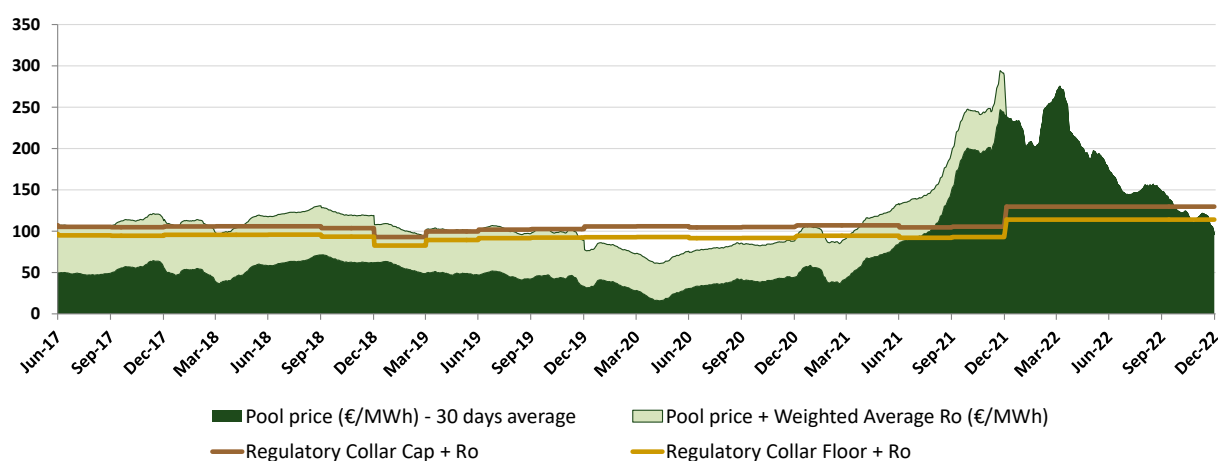
3.1. Electricity market trends

Average pool prices declined by 46.3% year-on-year to €113.2/MWh in 4Q22. In 2022 as a whole, the pool price averaged €167.6/MWh, up 50.4% from 2021.

Market figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Average pool price (€/MWh)	113.2	210.9	(46.3%)	146.2	(22.6%)	167.6	111.4	50.4%

Source: OMIE

Pool price, average Ro and regulatory collar, last 5 years (€/MWh)



The price per MWh that Ence recognises in its financial statements is determined by the pool price, within the ceiling and floor set by the regulator (regulatory collar), plus the supplementary remuneration for operations (Ro) earned by each plant. The plants that do not avail of or have depleted their remuneration for investment are not subject to the regulatory collar ceiling.

The remuneration for investment (Ri) for the universe of power plants comprising Ence's Renewable Energy business was set at 7.4% for 2020-2031 by Spanish Royal Decree-Law 17/2019. That remuneration implied €40.9m of revenue in 2022.

The plants' remuneration parameters are outlined in greater detail in Appendix 2.

3.2. Key changes derived from Royal Decree-Law 6/2022

Spanish Royal Decree-Law 6/2022 (of 29 March 2022) included measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power plants regulated in Royal Decree 413/2014, enacted in response to the context of high electricity prices, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

Those measures consisted primarily of bringing forward to 2022 the adjustment for the deviation between actual electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022.

The regulatory price applicable in 2022, factoring in that legislation, is €122/MWh, compared to the initially estimated €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation parameter does not apply.

The Group's annual results reflect all those measures as from 1 January.

3.3. Revenue from energy sales

Energy sales volumes amounted to 291,599 MWh in 4Q22, down 31.9% year-on-year, as a result of reduced availability of olive pomace, due to the impact of higher gas prices at the CHP facilities where it is produced. In 2022 as a whole, the lower availability of olive pomace was offset by an easier comp, in light of the incident at the 50-MW plant in Huelva in 2021, so that energy sales volumes increased by 3.6% compared to 2021, to 1,481,446 MWh.

Operating figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Huelva 41 MW - Biomass	-	54,537	(100.0%)	39,160	(100.0%)	136,110	193,237	(29.6%)
Jaén 16 MW - Biomass	14,369	25,113	(42.8%)	19,103	(24.8%)	80,925	92,029	(12.1%)
Ciudad Real 16 MW - Biomass	3,047	26,319	(88.4%)	18,772	(83.8%)	70,542	101,645	(30.6%)
Córdoba 27 MW - Biomass	35,871	39,572	(9.4%)	24,359	47.3%	145,793	183,470	(20.5%)
Huelva 50 MW - Biomass	76,673	86,540	(11.4%)	91,026	(15.8%)	351,553	125,876	179.3%
Mérida 20 MW - Biomass	31,650	38,967	(18.8%)	36,597	(13.5%)	140,066	151,945	(7.8%)
Huelva 46 MW - Biomass	69,588	80,902	(14.0%)	67,315	3.4%	279,484	293,118	(4.7%)
Ciudad Real 50 MW - Biomass	60,402	76,006	(20.5%)	70,392	(14.2%)	276,973	288,878	(4.1%)
Energy sales (MWh)	291,599	427,957	(31.9%)	366,723	(20.5%)	1,481,446	1,430,199	3.6%
Average sales price - Pool + Collar + Ro (€/MWh)	165.0	63.7	158.8%	137.2	20.2%	170.7	81.3	110.0%
Remuneration for investment (€/m)	10.2	8.6	19.4%	10.2	(0.0%)	40.9	37.8	8.1%
Revenue (€ m)	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%

Note: The numbers shown in green include the impact of the annual maintenance stoppage

Elsewhere, the sale price averaged €165/MWh in 4Q22 and €170.7/MWh in 2022, boosted by higher pool prices at the plants that are not subject to the regulatory collar ceiling, coupled by the contribution made by electricity system back-up services. Moreover, in 2021, the average sales price was adversely affected by the electricity price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €33.6m and €53.3m in 4Q21 and 2021, respectively, and were accounted for as a reduction in the average sales price.

As a result, revenue from energy sales, factoring in remuneration for investment, increased by 62.1% year-on-year to €58.5m in 4Q22 and by 90% to €294.3m in 2022.

3.4. Statement of profit or loss

The increase in average sales prices continued to lift EBITDA in the Renewable Energy business, specifically to €13.5m in 4Q22 and €109.8m in 2022, including reversal of €33.1m of the regulatory collar provision.

In 2022, the Group assessed the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount (Huelva-41 MW, Jaen 16-MW, Ciudad Real 16-MW and Cordoba 14-MW) as a result of having recovered most of their regulatory value via pool prices in 2022. As a result, the Group recognised impairment charges of €38.3m against the plants' carrying amounts, which were mostly offset by the mentioned reversal of the regulatory collar provision, none of which had any impact on cash flow generation during the period.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Total revenue	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%
EBITDA	13.5	3.4	n.s.	17.7	(23.7%)	109.8	17.8	n.s.
Depreciation and amortisation	(4.7)	(9.0)	(47.3%)	(15.5)	(69.6%)	(40.3)	(36.9)	9.2%
Impairment of and gains/(losses) on fixed-asset disposals	(4.3)	(0.7)	n.s.	-	n.s.	(41.3)	(1.1)	n.s.
EBIT	4.5	(6.3)	n.s.	2.2	101.2%	28.3	(20.1)	n.s.
Net finance cost	(3.4)	(3.1)	11.3%	(3.8)	(9.1%)	(16.3)	(11.9)	37.2%
Other finance income/(cost)	(0.0)	0.4	n.s.	(0.0)	(33.3%)	0.3	1.1	(77.3%)
Profit before tax	1.0	(8.9)	n.s.	(1.5)	n.s.	12.2	(30.9)	n.s.
Income tax	(0.7)	2.0	n.s.	(0.2)	n.s.	(8.2)	6.3	n.s.
Net Income	0.3	(7.0)	n.s.	(1.7)	n.s.	3.9	(24.6)	n.s.
Non-controlling interests	0.5	(0.2)	n.s.	(0.9)		0.6	(1.0)	n.s.
Attributable Net Income	0.8	(7.2)	n.s.	(2.6)	n.s.	4.5	(25.5)	n.s.

The reduction in depreciation and amortisation charges in 4Q22 reflected the reclassification of €4.1m as an impairment loss. In 2022, depreciation and amortisation charges increased by 9.2% to €40.3m, after the Group realigned certain plants' estimated useful lives to reflect pool prices in 2022 and the outlook for electricity prices going forward.

The year-on-year increase in net finance costs, to €3.4m in 4Q22 and to €16.3m in 2022, mainly reflects the unwind of the regulatory collar provision, with no impact on cash flow.

Income tax expense of €0.7m in 4Q22 and €8.2m in 2022 includes the tax effect of the above-mentioned impairment losses.

As a result, the net profit attributable to the Renewable Energy business amounted to €0.8m in 4Q22 and €4.5m in 2022, compared to net losses of €7.2m and €25.5m in 4Q21 and 2021, respectively.

3.5. Cash flow analysis

Net cash flows from operating activities amounted to €2.1m in 4Q22, compared to €46.5m in 4Q21, due to adjustments for the regulatory collar accounting treatment in both periods. In 2022, operating cash flow increased to €167m, from €54.7m in 2021, driven by EBITDA growth and a significant reduction in working capital, shaped by the payments outstanding to the market regulator.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	13.5	3.4	<i>n.s.</i>	17.7	<i>(23.7%)</i>	109.8	17.8	<i>n.s.</i>
Energy regulation adjustment (regulatory collar)	(4.8)	46.9	<i>n.s.</i>	3.1	<i>n.s.</i>	10.4	65.0	<i>(83.9%)</i>
Other cash adjustments	1.0	(2.6)	<i>n.s.</i>	0.3	<i>n.s.</i>	1.8	1.7	<i>5.5%</i>
Change in working capital	3.3	4.6	<i>(29.4%)</i>	32.7	<i>(89.9%)</i>	70.6	(10.6)	<i>n.s.</i>
Income tax received / (paid)	(6.2)	(0.5)	<i>n.s.</i>	-	<i>n.s.</i>	(8.6)	(6.9)	<i>25.6%</i>
Net interest received / (paid)	(4.8)	(5.3)	<i>(9.0%)</i>	(2.4)	<i>100.6%</i>	(17.0)	(12.3)	<i>38.6%</i>
Net cash flow from operating activities	2.1	46.5	<i>(95.6%)</i>	51.4	<i>(96.0%)</i>	167.0	54.7	<i>205.1%</i>

The difference between actual and regulated electricity prices (the regulatory collar), which does not impact the statement of profit or loss but does affect the statement of cash flows, had a negative impact of €4.8m in 4Q22 and a positive impact of €10.4m in 2022, compared inflows of €46.9m and €65m in 4Q21 and 2021, respectively.

Movements in working capital implied a cash inflow of €3.3m in 4Q22 and of €70.6m in 2022. The improvement in working capital reflects a payment outstanding to the electricity market regulator in the amount of €62.4m, which is due settlement in the first half of 2023.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Inventories	(8.9)	4.6	<i>n.s.</i>	(0.2)	<i>n.s.</i>	(10.3)	(2.0)	<i>n.s.</i>
Trade and other receivables	(5.4)	(12.2)	<i>(55.6%)</i>	(4.2)	<i>28.8%</i>	0.6	(6.3)	<i>n.s.</i>
Current financial and other assets	2.0	0.1	<i>n.s.</i>	(2.0)	<i>n.s.</i>	(0.0)	-	<i>n.s.</i>
Trade and other payables	15.6	12.0	<i>30.3%</i>	39.1	<i>(60.1%)</i>	80.3	(2.3)	<i>n.s.</i>
Change in working capital	3.3	4.5	<i>(27.8%)</i>	32.7	<i>(89.9%)</i>	70.6	(10.6)	<i>n.s.</i>

The Renewable Energy business decreased its use of receivable discounting lines by €13.3m so that at year-end the balance drawn stood at zero.

Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €23m at the December close, compared to €18.1m at year-end 2021. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do accrue interest.

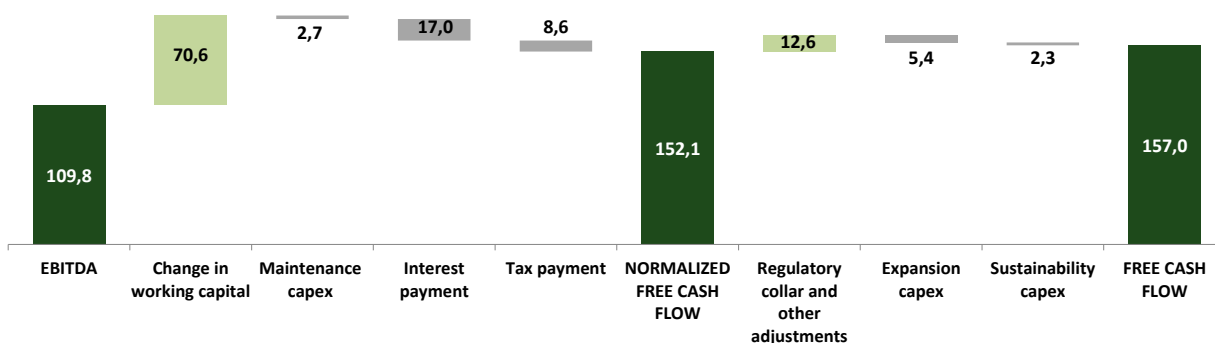
Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Maintenance capex	(1.1)	(0.5)	<i>96.7%</i>	(0.5)	<i>104.3%</i>	(2.7)	(3.3)	<i>(19.3%)</i>
Sustainability capex and other	(1.2)	(0.6)	<i>109.4%</i>	(0.4)	<i>185.6%</i>	(2.3)	(2.9)	<i>(22.1%)</i>
Efficiency and expansion capex	(1.7)	(3.3)	<i>(48.9%)</i>	(0.7)	<i>146.6%</i>	(5.4)	(12.3)	<i>(55.6%)</i>
Financial investments	-	0.1	<i>(100.0%)</i>	-	<i>n.s.</i>	-	0.0	<i>(100.0%)</i>
Investments	(4.0)	(4.3)	<i>(8.6%)</i>	(1.6)	<i>143.1%</i>	(10.4)	(18.5)	<i>(43.8%)</i>
Disposals	-	5.5	<i>(100.0%)</i>	-	<i>n.s.</i>	0.4	5.5	<i>(93.2%)</i>
Net cash flow from investing activities	(4.0)	1.2	<i>n.s.</i>	(1.6)	<i>143.1%</i>	(10.0)	(13.0)	<i>(22.6%)</i>

Maintenance capex increased to €1.1m in 4Q22 and €2.7m in 2022, while sustainability capex increased to €1.2m in 4Q22 and €2.3m in 2022.

Lastly, investments in efficiency and growth declined to €1.7m in 4Q22 and €5.4m in 2022 and mainly related to small investments designed to render the various plants more efficient, as well as other projects under development.

Proceeds from disposals included the collection of €0.4m related with progress on the permitting of the photovoltaic projects under development. The €5.5m of proceeds recognised in 2021 stemmed from an upfront payment collected in connection with the sale of 373 MW of photovoltaic developments.

As a result, normalised free cash flow in the Renewable Energy business amounted to €152.1m in 2022, while free cash flow, after the regulatory collar and efficiency, growth and sustainability capex, came in at €157m.



The €70.6m improvement in working capital in 2022 includes a €62.4m payment due to the electricity market regulator, which will be paid during the first half of 2023.

3.6. Change in net debt

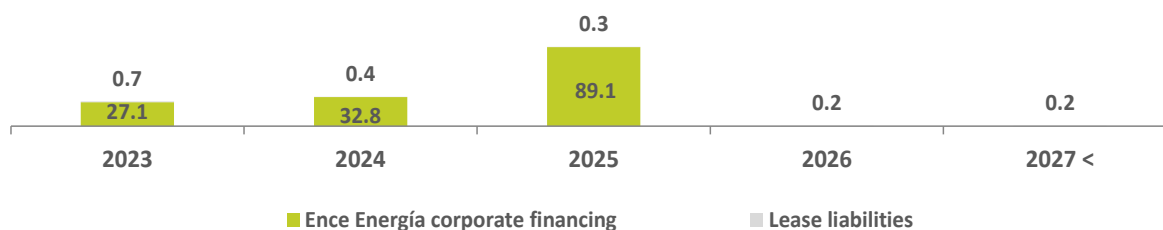
Net debt in the Renewable Energy business decreased by €115.1m from year-end 2021 to €6.1m.

In 2022, this business prepaid €38.5m of its borrowings from group companies and associates.

Figures in € m	Dec-22	Dec-21	Δ%
Non-current financial debt	121.9	162.2	(24.8%)
Current financial debt	27.1	29.4	(7.9%)
Gross financial debt	149.0	191.6	(22.2%)
Non-current lease contracts	1.0	0.7	38.9%
Current lease contracts	0.7	0.4	73.5%
Financial liabilities related to lease contracts	1.7	1.1	50.6%
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	134.5	61.5	118.9%
Net financial debt Renewable Energy business	6.1	121.2	(95.0%)

Gross debt, due by 2025, stood at €149m at the December close, while lease liabilities amounted to €1.7m. The Renewable Energy business had €144.5m of cash at year-end 2022.

Energy debt maturity profile (€Mn)



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Summarised statement of profit or loss

Figures in € m	2022				2021			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	712.9	294.3	(3.8)	1,003.4	667.6	154.9	(2.8)	819.7
Other income	20.5	4.3	(1.2)	23.6	14.8	19.3	(1.4)	32.6
Foreign exchange hedging operations results	(20.3)	-	-	(20.3)	(88.2)	-	-	(88.2)
Cost of sales and change in inventories of finished produ	(307.8)	(92.7)	3.8	(396.7)	(286.2)	(73.5)	2.8	(356.9)
Personnel expenses	(75.4)	(17.8)	-	(93.2)	(70.6)	(13.6)	-	(84.2)
Other operating expenses	(192.2)	(78.2)	1.2	(269.2)	(148.4)	(69.3)	1.4	(216.3)
EBITDA	137.7	109.8	-	247.6	89.0	17.8	-	106.8
Depreciation and amortisation	(52.1)	(40.2)	0.9	(91.4)	(47.8)	(36.7)	2.7	(81.9)
Depletion of forestry reserves	(7.0)	(0.0)	-	(7.0)	(11.4)	(0.1)	-	(11.6)
Impairment of and gains/(losses) on fixed-asset disposal	184.5	(41.3)	0.7	143.9	(192.4)	(1.1)	-	(193.5)
Other non-ordinary operating gains/(losses)	(14.9)	-	-	(14.9)	4.2	-	-	4.2
EBIT	248.3	28.3	1.6	278.2	(158.4)	(20.1)	2.7	(175.9)
Net finance cost	(9.9)	(16.3)	-	(26.3)	(9.6)	(11.9)	-	(21.5)
Other finance income/(costs)	1.4	0.3	-	1.6	3.7	1.1	-	4.9
Profit before tax	239.8	12.2	1.6	253.6	(164.3)	(30.9)	2.7	(192.5)
Income tax	3.7	(8.2)	-	(4.7)	(19.1)	6.3	3.3	(9.4)
Net Income	243.5	3.9	1.5	248.9	(183.4)	(24.6)	6.0	(202.0)
Non-controlling interests	-	0.6	(2.3)	(1.7)	-	(1.0)	12.5	11.6
Attributable Net Income	243.5	4.5	(0.8)	247.2	(183.4)	(25.5)	18.5	(190.4)
Earnings per Share (EPS)	1.00	0.02	(0.0)	1.02	(0.75)	(0.11)	0.08	(0.78)

4.2. Summarised statement of financial position

Figures in € m	Dec - 22				Dec - 21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.6	35.0	(12.7)	37.9	13.2	38.1	(13.3)	37.9
Property, plant and equipment	603.4	389.0	(8.5)	983.9	436.9	456.3	(9.6)	883.6
Biological assets	60.4	0.2	-	60.5	59.6	0.1	(0.0)	59.7
Non-current investments in Group companies	112.6	0.0	(112.5)	0.0	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	18.6	-	(18.6)	-	38.3	-	(38.3)	-
Non-current financial assets	20.8	5.4	-	26.1	14.6	1.9	0.0	16.5
Deferred tax assets	30.5	19.4	3.2	53.1	20.1	22.1	3.3	45.6
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
Total non-current assets	861.8	459.0	(149.1)	1,171.6	695.2	528.5	(170.4)	1,053.3
Inventories	80.5	21.9	-	102.3	53.6	12.1	-	65.7
Trade and other accounts receivable	59.4	40.5	(29.2)	70.6	70.2	42.2	(17.5)	94.9
Income tax	6.8	1.3	-	8.0	1.5	0.3	0.0	1.8
Other current assets	7.5	0.4	-	7.9	10.7	(0.0)	0.0	10.7
Hedging derivatives	0.0	2.6	-	2.6	0.0	-	-	-
Current financial investments in Group companies	0.4	0.0	(0.4)	0.0	-	0.0	-	0.0
Current financial investments	4.2	0.0	-	4.3	6.6	0.0	-	6.6
Cash and cash equivalents	278.4	134.5	-	412.9	318.5	61.5	(0.0)	380.0
Total current assets	437.1	201.2	(29.6)	608.7	461.1	116.1	(17.5)	559.7
TOTAL ASSETS	1,298.9	660.2	(178.8)	1,780.3	1,156.2	644.6	(187.9)	1,613.0
Equity	719.8	228.9	(130.6)	818.2	539.0	218.6	(132.1)	625.5
Non-current borrowings	163.2	122.9	-	286.1	289.4	162.9	(0.0)	452.3
Non-current loans with Group companies and associates	-	36.4	(18.6)	17.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	-	-	2.2	-	2.2
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	27.9	0.1	-	28.0	51.1	0.1	0.0	51.2
Other non-current liabilities	38.2	75.8	-	114.0	23.7	68.0	-	91.8
Total non-current liabilities	229.2	235.3	(18.6)	445.9	364.2	308.4	(38.3)	634.2
Current borrowings	83.3	27.8	-	111.1	16.2	29.8	-	46.0
Current derivatives	0.4	-	-	0.4	7.0	2.6	-	9.6
Trade and other account payable	226.4	164.4	(29.2)	361.6	213.7	81.3	(17.5)	277.5
Short-term debts with group companies	0.0	0.7	(0.4)	0.4	0.0	1.3	(0.0)	1.3
Income tax	0.0	-	-	0.0	0.0	0.1	-	0.1
Current provisions	39.8	3.0	-	42.8	16.1	2.7	-	18.8
Total current liabilities	349.9	196.0	(29.6)	516.2	253.0	117.7	(17.5)	353.2
TOTAL EQUITY AND LIABILITIES	1,298.9	660.2	(178.8)	1,780.3	1,156.2	644.6	(187.9)	1,613.0

4.3. Statement of cash flows

Figures in € m	2022				2021			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	239.8	12.2	1.6	253.6	(164.3)	(30.9)	2.7	(192.5)
Depreciation and amortisation	59.0	40.3	(0.9)	98.4	59.3	36.9	(2.7)	93.5
Changes in provisions and other deferred expense	23.4	2.1	-	25.5	(0.5)	2.1	-	1.6
Impairment of gains/(losses) on disposals intangible asset	(184.5)	41.2	(0.7)	(144.0)	192.4	1.1	-	193.5
Net finance result	8.6	16.0	-	24.6	7.2	10.8	-	18.0
Energy regulation adjustment (regulatory collar)	14.5	10.4	-	25.0	24.1	65.0	-	89.1
Government grants taken to income	(0.5)	(0.1)	-	(0.7)	(0.6)	(0.3)	-	(0.9)
Adjustments to profit	(79.5)	109.9	(1.6)	28.8	282.0	115.4	(2.7)	394.7
Inventories	(24.3)	(10.3)	-	(34.6)	(11.5)	(2.0)	-	(13.5)
Trade and other receivables	8.2	0.6	11.7	20.5	(43.1)	(6.3)	-	(49.4)
Current financial and other assets	2.4	(0.0)	-	2.3	2.4	0.0	-	2.4
Trade and other payables	10.7	80.3	(11.7)	79.3	29.3	(2.3)	-	27.0
Changes in working capital	(3.0)	70.6	-	67.6	(23.0)	(10.6)	-	(33.6)
Interest paid	(6.3)	(17.0)	-	(23.3)	(6.9)	(12.3)	-	(19.2)
Dividends received	-	-	-	-	0.0	-	-	0.0
Income tax received/(paid)	(13.9)	(8.6)	-	(22.6)	(1.3)	(6.9)	-	(8.2)
Other collections/(payments)	(0.4)	-	-	(0.4)	-	(0.0)	-	(0.0)
Other cash flows from operating activities	(20.6)	(25.7)	-	(46.3)	(8.2)	(19.2)	-	(27.4)
Net cash flow from operating activities	136.7	167.0	-	303.7	86.5	54.8	-	141.3
Property, plant and equipment	(41.7)	(10.1)	-	(51.8)	(49.9)	(18.4)	-	(68.3)
Intangible assets	(2.8)	(0.3)	-	(3.1)	(2.6)	(0.2)	-	(2.7)
Other financial assets	0.2	-	-	0.2	(0.3)	0.0	-	(0.3)
Disposals	0.4	0.4	-	0.8	13.7	5.5	(13.3)	6.0
Net cash flow used in investing activities	(43.9)	(10.0)	-	(53.9)	(39.1)	(13.0)	(13.3)	(65.4)
Free cash flow	92.8	157.0	-	249.8	47.4	41.8	(13.3)	75.9
Buyback/(disposal) of own equity instruments	0.1	-	-	0.1	(2.2)	-	-	(2.2)
Proceeds from and repayments of financial liabilities	(66.5)	(82.9)	-	(149.4)	(174.8)	(28.2)	-	(203.1)
Dividends payments	(66.6)	(1.0)	-	(67.6)	-	(26.6)	13.3	(13.4)
Net cash flow from/ (used in) financing activities	(132.9)	(83.9)	-	(216.8)	(177.0)	(54.8)	13.3	(218.6)
Net increase/(decrease) in cash and cash equivalents	(40.1)	73.1	-	32.9	(129.6)	(13.1)	-	(142.7)

5. KEY DEVELOPMENTS

Spain's Supreme Court upholds the validity of the extension of the Pontevedra biomill's concession to 2073

On 7 February 2023, the Supreme Court announced a favourable ruling on the appeals presented by Ence and other entities against the National Appellate Court rulings of July 2021 annulling the Resolution issued by the Directorate General of Coastal and Marine Sustainability on 20 January 2016, extending Ence's concession at the Pontevedra biomill until 2073.

The Supreme Court has concluded that concessions awarded prior to the 1988 Coastal Act can be extended so long as they are accompanied by favourable environmental reports, as is the case in this instance.

The full contents of the court's rulings will be released in the coming days.

Any future modification of the Spain's coastal regulation would not apply to the Pontevedra concession extension.

The reversal of the asset impairment charges and provisions recognised in the 2021 financial statements in the wake of those Appellate Court rulings implied a gain of €169m in 2022.

Extraordinary interim dividend of €0.29 share, payable on 16 March

On 28 February 2022, the Board agreed to pay an extraordinary interim dividend from 2022 profits in the amount of €70.4m, equivalent to €0.29 per share (before withholding tax), to be paid on 16 March.

That dividend is additional to the €67m paid out during the year, equivalent to €0.27 per share (before withholding tax).

The Pontevedra biomill restarted in November

Ence has developed an innovative solution for use during times of drought that enables it to regenerate its own wastewater, as well as the wastewater from the treatment facility adjacent to the Pontevedra biomill (in Placeres), in order to minimise water withdrawal from the river in the course of pulp production when its flow drops, as happened last summer.

After four months of stoppage due to the flow problems affecting the Lérez River, the Pontevedra biomill was restarted in November, trialling the new solution, while work was carried out to repair the water withdrawal infrastructure.

The biomill is expected to continue to operate combining that solution and minimising the water withdrawn from the river throughout the first half of 2023, in order to optimise the water recovery process.

Launch of a new project for the production of mixed fibre in As Pontes

At the end of June, Ence announced it was analysing a new project in the town of As Pontes, Coruña, for the production of mixed bleached fibre made from a combination of recovered paper and board and the virgin fibre produced by Ence.

An option to purchase the site where the project is to be located was signed in January 2023. The project embodies the fair transition and circular bioeconomy thrusts by transforming land that is part of a fossil fuel power plant into an innovative facility that will recover and reuse natural resources, without increasing wood consumption.

Phase one of the project consists of building a line for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence, with annual production capacity of 100,000 tonnes. The investment required is initially estimated at €125m and the project is expected to yield a return (ROCE) of over 12%.

Subsequent phases contemplate the installation of a certified biomass co-generation facility that would cover the factory's heat and electricity requirements and a line for the manufacture of 30,000 tonnes of paper products.

Ence biogas

In 2022, Ence created a new subsidiary to develop and operate plants to produce biomethane and fertiliser from organic waste.

This is a new business line based on the circular bioeconomy principles that already underpin Ence's two core businesses, one with significant growth potential in Spain.

That subsidiary already has a pipeline of nine projects under development in Spain with aggregate annual supply capacity of 560 GWh of biomethane. The medium-term goal is to operate 20 plants with annual capacity of over 1 TWh of biomethane.

Navia Excellence

In March 2022, Ence unveiled its "Navia Excellence" plan to the market, a project conceived of to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.

That project will entail an estimated €105m of investments between 2023 and 2025, with a projected ROCE of over 12%.

2022 Annual General Meeting

Ence held its Annual General Meeting on 31 March 2022. It was attended - in-person and remotely - by shareholders representing 57% of its share capital, who ratified all of the agenda items. The motions were carried with over 89% of votes in favour on average. The items ratified included:

- ✓ Approval of the 2021 financial statements, management report and sustainability report and of the motion for the appropriation of profit for 2021
- ✓ Approval of the Board of Directors' performance and the Director Remuneration Policy for 2022, 2023 and 2024
- ✓ Re-election of Irene Hernández Álvarez as independent director
- ✓ Re-election of Fernando Abril-Martorell as external director
- ✓ Re-election of José Guillermo Zubía Guinea as external director
- ✓ Appointment of Ángel Agudo Valenciano as proprietary director, in representation of Asua Inversiones S.L.
- ✓ Appointment of Carmen Aquerrete Ferraz as independent director
- ✓ Appointment of Rosalía Gil- Albarellos Marcos as independent director
- ✓ Amendment of the Bylaws and General Meeting Regulations
- ✓ Authorisation of the Board of Directors to buy back own shares and debt instruments

APPENDIX 1: MASTER SUSTAINABILITY PLAN

Sustainability is intrinsic to Ence's business activities as a leading player in the sustainable use of natural resources for the production of differentiated pulp and renewable energy. It is fully embedded within the Company's purpose and constitutes a strategic priority, as is evident in Ence's 2019-2023 Business Plan.

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2022, Sustainalytics reiterated Ence's overall ESG score of 91 points out of 100, which ranks it as a global leader in the pulp and paper sector for the second year running. Lastly, the Company joined the prestigious FTSE4Good Index Series in 2021.

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Business Plan. The Plan constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. That Master Plan is articulated around seven priority lines of initiative:

1. People and values

The Company's human capital management priorities are focused on the provision of quality work; improvement of the workplace climate; stimulation, management and development of talent; promotion of training and learning; fostering of diversity; and creation of a sustainability culture within the organisation, among others.

In terms of the generation of **quality work**, note that as of year-end 2022, 93.4% of Ence employees had permanent employment contracts and 98.1% were working full time.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, in 2022 the Company secured Great Place to Work certification for the third year in a row.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. In 2022, it promoted 73 professionals, 20 of whom are women.

As for **training and development**, the overriding goal of Ence's professional training strategy is to encourage personal and professional development at all levels with a view to improving employees' sense of belonging and commitment to the organisation's strategic goals. The aim is to give employees the skills they need to do their jobs, while fostering a culture of development, value creation and continuous improvement and preparing them to assume new responsibilities in the future.

Training is an important aspect of the Strategic Human Resources Plan, which contemplates the following corporate training initiatives in addition to each Operations Centre's specific training plans:

- ✓ Environmental Awareness
- ✓ Regulatory Compliance
- ✓ Leadership Skills
- ✓ Health and Safety
- ✓ Sustainability
- ✓ Operations and Maintenance Services
- ✓ Digital Transformation

In 2022, the Company imparted 21,960 hours of training, adapting the formats to make them compatible with remote working arrangements. It is currently focusing strategically on training in the areas of compliance, leadership development with a focus on empowerment and autonomy, health and safety and digital transformation.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by over 6.8% so far in 2022 to account for 26% of the workforce at year-end. Moreover, in 2022, 51% of new positions were covered by women.

Framed by its Equality Plan, Ence offers measures that go beyond its obligations under prevailing labour legislation. In line with those commitments, its remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively. Remuneration is articulated around market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. Last year, it negotiated and executed the new collective bargaining agreement for its office workers in Navia, Pontevedra and Madrid and the new collective bargaining agreement at the Navia biomill. It is also in the course of negotiating an Equality Plan.

2. Climate action

On the climate action front, Ence is working on two lines of initiative: (i) **climate change mitigation**, by adapting its productive processes to minimise its carbon footprint; and (ii) **climate change adaptation**, by taking action to make the Company more resilient.

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills. In 2021, the Company implemented the measures established in those plans, beginning with the replacement of fossil fuel (coke) with biomass at the Pontevedra biomill and consolidation of operation of the photovoltaic facilities put in place to enable self-generation at the Merida and Huelva plants. As a result, the Group managed to lower its scope 1 GHG emissions by 9% year-on-year in 2021. However, in 2022, that positive trend was truncated by the exceptional circumstances shaping the energy market as a result of the war in Ukraine. Specifically, the surge in natural gas prices and the potential risk of supply disruption prompted Ence to decide in December 2021 to switch the fuel used to feed the lime kilns at the Navia biomill from natural gas to fuel-oil. That decision ensured the economic viability of the plant's operations but the replacement of gas with fuel-oil has led to an increase in GHG emissions, which increased by approximately 25% in 2022 by comparison with the 2021 readings. The increase is circumstantial and exceptional and the plant will revisit its standard emission levels once the energy markets return to normal. In parallel, Ence has continued to work in 2022 on the roadmap devised for decarbonising the biomill, making progress on the engineering details for the projects for replacing fossil fuels with renewable sources.

Ence updates its inventory of greenhouse gas emissions annually, most recently including, for the first time, an analysis of the net carbon balance of the forests owned by the Company. That analysis, performed in keeping with the IPCC guidelines, showed that in 2022 the forests managed by Ence sequestered around 90,000 tonnes of carbon, net of that withdrawn in the form of wood and biomass.

In the adaptation area, Ence is following the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD) around the governance and management of climate-related risks and opportunities. More specifically, Ence is focusing its efforts on the development of *ad-hoc* climate models which provide a tool for analysing the potential impacts of climate change on the Company's facilities and wood and biomass supply areas. To develop those models, Ence is using two IPCC climate scenarios: a more pessimistic scenario (RCP 8.5) and a scenario more closely aligned with current emissions (RCP 4.5). It is analysing the changes in the climate over three time horizons: the near future (until 2040), medium term (until 2070) and a more distant future (2100). For Ence, the impact of the physical risks derived from climate change is more relevant than the impact of the regulatory risks, to which end it has selected scenarios in which the physical impacts are more pronounced, rather than a scenario that contemplates global warming of less than 1.5°C, for its analysis.

3. Safe and eco-friendly operations

Ence is working to achieve zero workplace accidents. In parallel, it is striving to run exemplary business operations in environmental terms by upholding the most ambitious benchmark international standards to ensure it earns the social licence to operate in its business communities.

In the industrial businesses, the fourth quarter was strong on the **health and safety** front, with neither the Magnon plants nor the pulp biomills recording any lost-time injuries. As a result, the Pulp business ended the year with its best metrics in history (reducing its injury frequency rate by 47% and its severity rate by 70% by comparison with the 2021 readings) to levels that are 14 times lower than the benchmark values for the sector in Spain (ASPAPL)

Magnon ended the year with worse injury rates than in 2021, but did not record a single lost-time injury in the last fourth months of the year.

The Forestry Purchases and Forest Assets units also posted better safety metrics than in 2021, which were likewise well below the benchmarks for the primary sector in Spain (48% below in the case of Forestry Purchases and 68% better in the case of Forest Assets).

Overall, in 2022, the lost-time injury frequency rate deteriorated slightly year-on-year, but the severity rate was 23% better than last year. What that means is that the number of accidents involving lost time increased a little but those accidents were less serious, implying a lower number of lost working days.

All of Ence's business units continue to rank well below the key benchmark accident metrics in Spain (general industry and the pulp and paper and wood industries). Nevertheless, the Company plans to continue to work to further improve its safety performance, which is a top priority for Ence.

As for Ence's **environmental performance**, the Pulp biomills made remarkable progress in 2022, cutting odour emissions in Navia by 65% and in Pontevedra by 25% compared to 2021. In fact, the annual reading of 61 minutes recorded by the Navia biomill marks its best ever performance. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 13% in Navia and 2% in Pontevedra.

In the Renewable Energy business, in 2022, the Group continued to execute and monitor its plans for delivering the unit water consumption targets across its plants.

As for its **circular economy** transition, Ence continues to present high waste recovery and recycling readings - above 90% of all waste -, enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). By year-end, all of the Group's facilities boasted that certification. Also within the circular economy thrust, Magnon has set up a specific waste recovery unit focused on recovering flying ash and the ash that settles at the bottom of the furnace to make fertilisers and repair degraded soil.

As for the effort to implement environmental management systems across the Renewable Energy business, the external audit recently concluded favourably so that by year-end, all Magnon facilities had their systems externally certified.

4. Rural and forest development

Ence works to ensure the **sustainability and traceability of the raw materials** it sources (wood and biomass) and **create value for land owners, suppliers and other stakeholders** in the agricultural and forestry sectors, generating positive knock-on effects based on sustainable business models.

Indeed, Ence has cemented itself as a benchmark in **sustainable forest management** in Spain, applying internationally-recognised criteria and standards of excellence, such as the FSC® (Forest Stewardship Council®, with license numbers FSC®-C099970 and FSC®-C081854) and PEFC® (Program for the Endorsement of Forest Certification, with licence numbers PEFC/14-22-00010 and PEFC/14-33-00001) schemes, to the forest assets it manages and encouraging their adoption by its supply chain. In 2022, over 83% of its forest assets were certified under one or other of those standards and around 73% of the wood that entered its biomills during the year from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted studies to analyse biodiversity encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. In 2022, it monitored 45 owned forest tracts and further progress is planned for 2023 in the form of new fauna and flora biodiversity studies.

As for the **generation of value for forest owners and suppliers**, Ence goes to lengths to support smaller-sized firms: in 2022, 94% of wood suppliers and 74% of forest owners were small players. The Company purchased nearly €44.5 million worth of wood from over 1,700 forest owners in 2022. In its energy plants, Ence purchased over 1,664,000 tonnes of biomass in 2022, generating over €83m of value for its biomass supply chain in rural areas.

Ence also strives to **contribute to development** in the areas in which it operates. To that end, it encourages the purchase of local raw materials; in 2022, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, the Basque region, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass 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 addition to generating value for its biomass suppliers, Ence is working to drive the **sustainability of the biomass** used in its plants to generate energy, framed by two major projects: the voluntary 10-Point Declaration on the Sustainability of Biomass and plant certification under the SUSTainable RESources Verification Scheme (SURE) to comply with the European Renewable Energy Directive (RED II).

Over 87% of the agricultural biomass used in 2022 was compliant with the 10-Point Plan criteria, ahead of the target of 80%. In industrial biomass, compliance stands at 91%, which is likewise ahead of target.

As for implementation of the SURE certification scheme in order to comply with its requirements under Directive (EU) 2018/2001 (RED II), having renewed certification at the energy plants and biomills in early 2022, work has begun on certification of the Group's suppliers: 103 suppliers are already SURE-certified for the purposes of the energy plants and 28 are certified for the biomills. By the last week of the year, 92.7% of the biomass used at the energy plants was certified, to put the figure for the year at 86.7% (measured as the incoming volume weighed in at the plants, in tonnes); at the biomills, 83% of biomass was certified last year (at the biomills this calculation considers biomass received from third parties and the biomass generated internally).

Elsewhere, Ence continued to apply its supply chain supervision procedures, an effort that extends to the **certification** of wood and agricultural biomass producers, with certification levels of over 98% by year-end.

5. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019, the result of years of R&D and industrial and product development work. Under the umbrella of that platform, Ence is working to develop **products with a lower carbon footprint** as alternatives to hardwood pulp (which has a larger wood consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging apt for substituting materials such as plastic.

Within that effort, it is worth flagging the Company's unbleached pulp, Naturcell, which is not only more environmentally-friendly to make, the GHG emissions derived from its life cycle are offset with credits purchased on the voluntary market, such that all sales of Naturcell made in Pontevedra last year comprised the zero carbon product, Naturcell Zero, so topping the related sustainability target set by the Company for 2022.

In order to transparently evidence its products' sustainability attributes, Ence has worked together with Environdec to draft the Product Category Rule (PCR) needed to complete the standardised life cycle assessment (LVA) and Environmental Product Declaration (EPD) for pulp, so that the results are comparable with those of similar products. The EDPs for the pulp made in Pontevedra, ENCELL, TCF and Naturcell, were published on Environdec's website in 2021, making them **the first pulp products in the market to obtain an Environmental Product Declaration**. This year the new PCR⁽¹⁾ and the revised and updated EDPs⁽²⁾ have been available for consultation since March and August, respectively.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set sales targets for Naturcell, Powercell and Naturcell Zero for 2022. Sales of those products accounted for 17% of total pulp sales in 2022.

In addition to the above projects, in 2022 Ence continued to work on the pre-assessment required to obtain biodegradability certification for its pulp in order to shine the spotlight on this sustainability attribute of our products.

Another sustainability target for 2022 - the study analysing the viability of blending recycled pulp and Naturcell - was the embryo for a project presented to the regional government of Galicia and other vested parties in June. That project consists of a bioplant for the production of recycled fibre and biomaterials with which Ence aspires to enter the paper recovery segment, framed by its strategic commitment to the circular bioeconomy.

- (1) <https://www.environdec.com/product-category-rules-pcr/get-involved-in-pcr-development#recentlypublishedpcrs>.
- (2) <https://www.environdec.com/library/epd6638> y <https://www.environdec.com/library/epd6639>

6. Community commitment

As part of its community engagement effort, Ence has continued to invest in its business communities, framed by the agreements in place with local councils in the towns where it has its main facilities. Ence supports projects of a social, environmental and sporting nature, including work to prevent social exclusion, and fosters entrepreneurship. In early 2022 it signed a new agreement with the town council of Puertollano, adding to the agreements already in place with the local authorities in Navia and San Juan del Puerto.

In addition to the above community investments, in 2022 Ence continued to roll out specific relations plans for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted more than 1,000 visits to the facilities in Navia, Pontevedra and Huelva last year. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects and met with representatives of its various stakeholders in order to foster open communication with all of them.

In addition to the activities designed to improve community relations, it is worth highlighting the knock-on effects and impact on socioeconomic development Ence's activities have in Asturias, Galicia, Andalusia and its other business communities. The Group's activities generate an estimated 19,000 jobs between direct, indirect and induced jobs. Ence's positive impact is particularly important in the agricultural (owners, harvesting firms and carriers) and forestry sectors (forest owners, forest service providers, wood harvesting firms and carriers, etc.), both of which with deep roots in the rural economy. As a result, Ence not only generates wealth for those stakeholders but also constitutes an important economic engine in those regions, contributing to the effort to stem depopulation and deindustrialisation in rural Spain.

7. Corporate governance

On the corporate governance front, Ence boasts a comprehensive and effective system which incorporates prevailing regulatory requirements and recommendations with respect to best practices in the field. Ence continuously assesses its stakeholders' legitimate expectations, engaging openly with shareholders, investors and proxy advisors and responding transparently to requests for information from research analysts, rating agencies and ESG consultants.

In sum, the objectives being pursued on the corporate governance front are aimed at upholding the interests of its shareholders and other stakeholders in the long term.

Below is a snapshot of the sustainability milestones attained in 2022:

Production cost reduction



Safe & efficient operations

Protecting Health and Safety

- ✓ **-23% Ence's global Severity Index** (2022 vs. 2021)

Water footprint reduction

- ✓ **Water use reduction in both biofactories** (-11% in Navia vs. 2021 and -2% in Pontevedra vs. 2021)

Advancing towards a circular economy

- ✓ **>98% of waste recovered** (2022)
- ✓ **100% plants ZERO WASTE certified**

Odour reduction (vs 2021)

- ✓ **-65% odour time** (minutes) in Navia in 2022 vs 2021 (best historical performance) and **-25%** in Pontevedra

Leadership and differentiation



Climate action

Committed to mitigate climate change

- ✓ Ongoing climate risk analysis following **TCFD Recommendations**



Sustainable products

Differentiated products with higher added value

- ✓ **18%** (vs 16% in 2021) **of total sales.** Products with higher and growing margins
- ✓ **1st Pulp EPD*** published: Encell TCF and Naturcell
- ✓ **1st Carbon neutral product** (Naturcell Zero)
- ✓ Feasibility study for **Recycled Pulp** project

License to operate



People & Values

Talent as a competitive advantage

- ✓ **Great Place to Work** certification for the third year in a row
- ✓ Quality jobs: **93,4% permanent contracts**
- ✓ **+6,8% female employees** vs 2021
- ✓ **51% of new hires** in 2022 were women



Commitment to communities

Adding value to society:

- ✓ **More than 1000 visits** from our local stakeholders to our facilities in 2022

Risk minimisation



Sustainable agroforestry

Certified supply chain

- ✓ **>83%** of managed land certified
- ✓ **73%** of supplied wood certified
- ✓ **>98%** wood & biomass suppliers homologated
- ✓ **100% plants SURE System certified** (Sustainable biomass)



Corporate governance

Transparent management

- ✓ Virtual AGM with 100% of resolutions approved
- ✓ **38,5%** female directors
- ✓ **60% independent female directors** on our Committees (Audit, Nomination and Remuneration and Sustainability)

APPENDIX 2: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S POWER PLANTS

Facility	Type of facility	MW	2022 Remuneration for investment in P&L (Ri; €/MW) *	2022 Remuneration for investment in FCF (Ri; €/MW) *	Type of fuel	Remuneration for operation 2022 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	-	Lignin	-	6,500	2032
	Biomass generation		55,308	36,445	Agroforestry biomass	-	7,500	
Navia	Biomass co-generation	40.3	-	-	Lignin	-	6,500	2034
	Biomass generation	36.2	230,965	168,978	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	246,267	136,337	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,008	159,687	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,008	159,687	Olive Pulp	-	7,500	2027
	Biomass generation	14.3	229,582	156,224	Olive Pulp	-	7,500	2031
Cordoba 27MW	Gas co-generation	12.8	-	-	Natural Gas	117.7	6,537	2030
Huelva 50MW	Biomass generation	50.0	266,452	208,800	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,579	237,200	Agroforestry biomass	-	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	-	Agroforestry biomass	-	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	-	Agroforestry biomass	-	7,500	2044

Power plants fuelled by renewable sources of energy, combined heat and power (CHP) systems or waste are regulated by Spanish Royal Decree 413/2014. These plants are remunerated via two concepts, one fixed and the other variable, in order to ensure a reasonable return:

1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a minimum return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for 2020–2031 via Royal Decree-Law 17/2019 (22 November 2019).
2. The **regulated sales price (€/MWh)** enables plant owners to cover all the estimated costs of operating a 'standard' plant, including fuel costs. It is made up of the electricity market (pool) price, within the ceiling and floor set by the regulator (regulatory collar), plus the supplementary remuneration for operation (Ro) earned by each plant.

The regulator determines the supplementary remuneration for operation of each plant (Ro) as a function of the estimated cost of operating a 'standard' plant, which are updated every six months and the electricity prices estimated at the start of a three-year regulatory sub period (regulatory price). At the end of that period, any deviations between the actual market price (pool) and the price estimated by the regulator at the start of the period (regulatory price) are compensated, as a function of certain annual upper and lower limits (the regulator collar), by adjusting the remuneration for investment to be collected during the plants' remaining regulatory useful lives.

The difference between the remuneration for investment accrued and the amount collected each year corresponds to the accumulated effect of the adjustments made for those deviations between actual pool prices and the upper and lower annual limits set by the regulator (the regulatory collar).

Further, if the price estimated by the regulator for a given year is higher than the estimated cost of operating a 'standard' plant, that difference also triggers an adjustment to the remuneration for investment due to the plants over their remaining useful lives.

The plants that do not avail of or have depleted their remuneration for investment are not subject to the regulatory collar ceiling and are not affected by any potential excess between the price estimated by the regulator and the cost of operating a standard plant.

The annual sales volume entitled to the regulated price (€/MWh) may not exceed the product of a facility's gross installed capacity (MW) and the cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 6,500 hours in the case of CHP generation.

3. Both the remuneration for investment and the regulated sale price are subject to a **levy on the value of electric energy produced of 7%**. That tax has been suspended temporarily since July 2021 and the regulator has accordingly reduced the Company's plants' remuneration for operation.

Spanish Royal Decree-Law 6/2022 (of 29 March 2022) included measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power plants regulated in Royal Decree 413/2014, enacted in response to the context of high electricity prices, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

Those measures consisted primarily of bringing forward to 2022 the adjustment for the deviation between actual electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022.

The regulatory price applicable in 2022, factoring in that legislation, is €122/MWh, compared to the initially estimated €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation parameter does not apply.

Below are the pool prices estimated by the regulator for 2020-2022, along with the corresponding annual ceilings and floors and the expected update for 2022 in the wake of Royal Decree-Law 6/2022 and the draft ministerial order:

Eur / MWh	2020	2021	2022 initial	Act. 2022 est.
LS2	63.1	60.5	56.6	129.7
LS1	58.8	56.3	52.7	125.8
Estimated price pool	54.4	52.1	48.8	121.9
LI1	50.1	48.0	44.9	118.0
LI2	45.7	43.8	41.0	114.1

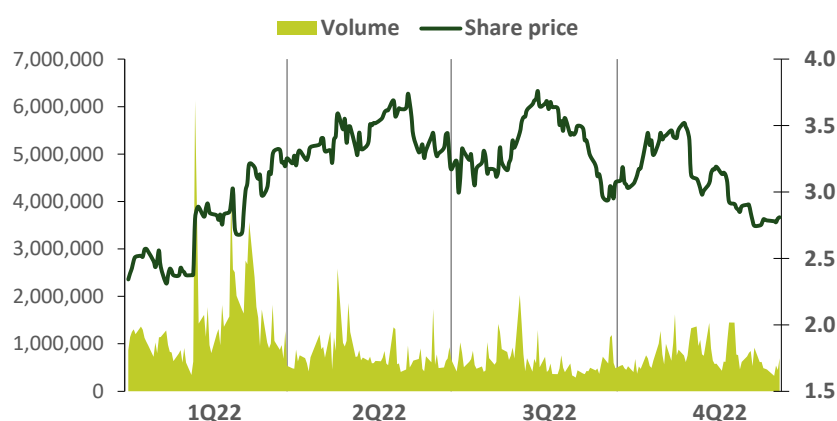
On 28 December 2022, the regulator published its draft Ministerial Order updating the remuneration parameters applicable for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025. **Below are the pool prices estimated by the regulator for 2023-2025**, along with the corresponding annual ceilings and floors:

Eur / MWh	2023	2024	2025
LS2	215.7	137.5	78.2
LS1	211.8	133.6	86.0
Estimated price pool	207.9	129.7	78.2
LI1	204.0	125.8	74.3
LI2	200.0	121.9	70.4

APPENDIX 3: SHARE PRICE PERFORMANCE

Ence's share capital consists of 246,272,500 shares with a unit par value of €0.90. The shares are represented by book entries and all carry identical voting and dividend rights. The Company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex Medium Cap index.

Ence's share price ended the year at €2.81, a gain of 24.1% from year-end 2021. Over the same timeframe, the Company's peers' share prices corrected by 10.2% on average.



SHARES	1Q22	2Q22	3Q22	4Q22
Share price at the end of the period	3.19	3.26	3.07	2.81
Market capitalization at the end of the period	786.6	803.3	756.1	692.0
Ence quarterly evolution	41.1%	2.1%	(5.9%)	(8.5%)
Daily average volume (shares)	1,457,945	793,780	657,916	745,786
Peers quarterly evolution *	3.3%	(1.0%)	(8.6%)	(4.0%)

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp – prices in euros

Source: Bloomberg

On 5 March 2018, ENCE issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €8.5636 per share (adjusted on 1 July 2022). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	1Q22	2Q22	3Q22	4Q22
Bond price at the end of the period (ask)	100.28	100.20	100.03	100.39
Yield to worst at the end of the period*	0.945%	0.947%	1.179%	-1.038%

*Yield to maturity

Source: Bloomberg

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

Ence presents its results in accordance with generally accepted accounting principles, specifically IFRS. In addition, this report provides certain other complementary metrics that are not defined or specified in IFRS and are used by management to track the Company's performance. The alternative performance measures (APMs) used in this report are defined, reconciled and explained below:

EBITDA

EBITDA is a metric used in the statements of profit or loss presented in this report, in sections 1, 2.6, 2.7, 3.4 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and other non-operating items that undermine the comparability of the numbers.

EBITDA is an indicator used by management to track the Group's recurring profitability over time. This metric provides an initial approximation of the cash generated by the Company's ordinary operating activities, before interest and tax payments, and is a measure that is widely used in the capital markets to compare the earnings performances of different companies.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	248.3	28.3	1.6	278.2	(158.4)	(20.1)	2.7	(175.9)
Depreciation and amortisation charges	€ m	P&L	52.1	40.2	(0.9)	91.4	47.8	36.7	(2.7)	81.9
Depletion of forest reserve	€ m	P&L	7.0	0.0	-	7.0	11.4	0.1	-	11.6
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	(184.5)	41.3	(0.7)	(143.9)	192.4	1.1	-	193.5
Other non-recurring items	€ m	APM	14.9	-	-	14.9	(4.2)	-	-	(4.2)
EBITDA	€ m		137.7	109.8	-	247.6	89.0	17.8	-	106.8

Other non-recurring items, presented in sections 1, 2.6 and 4.1 of this report, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable.

In 2021 and 2022, this heading reflects the movements in the provisions derived from the Appellate Court rulings annulling the concession in Pontevedra in July 2022 and the subsequent Supreme Court rulings of February 2023 upholding the validity of the concession in Pontevedra until 2073. In 2022, it includes a €21m provision recognised to cover commitments under Ence's Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts. In 2021, it included the reversal of the provision accumulated to cover commitments under the Environmental Pact in the amount of €14m, coupled with recognition of a €6.1m provision to cover the termination of contracts in effect and of €3.7m to cover the potential impairment of biomill spare parts and other contingencies.

HEDGE SETTLEMENT

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a loss of €20.3m in 2022, compared to a gain of €0.4m in 2021.

Elsewhere, in 2020, Ence took the exceptional decision of locking in a price of \$773/tonne for the sale of 247,200 tonnes of pulp in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. In 2021, settlement of those hedges implied a loss of €53.2m. Spurred on by that same uncertainty, Ence decided to lock in an average price of €44.5/MWh for the sale of 732,063 MWh in 2021 by arranging financial hedges and fixed-price agreements. In 2021, settlement of those hedges implied a loss of €53.3m.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2021 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022			2021		
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy
Gains/(losses) on foreign currency hedges	€ m		(20.3)	-	-	(20.3)	0.4	-
Gains/(losses) on pulp and energy price hedges	€ m		-	-	-	-	(53.2)	(53.3)
HEDGE SETTLEMENT	€ m		(20.3)	-	-	(20.3)	(52.8)	(53.3)
								(106.1)

CASH COST

The cost per tonne of pulp, or cash cost, is the key measure used by management to measure and benchmark its efficiency as a pulp maker. Cash costs are analysed in section 2.4 of this report.

The cash cost includes all of the costs directly related with the production and sale of pulp that impact cash flows. Therefore, it does not include asset depreciation and amortisation charges, impairment losses on non-current assets or gains or losses on their disposal, other non-operating items, finance income or costs or income tax.

The cash cost can be measured as the difference between revenue from the sale of pulp and EBITDA in the Pulp business, adjusted for the settlement of hedges, the effect of adjustments for tariff shortfall/surplus (the regulatory collar) on energy sales, forest depletion charges and the change in inventories. To calculate the cash cost, the related production costs are divided by the volume of tonnes produced, while overhead and sales and logistics costs are divided by the volume of tonnes sold.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022	2021
			Pulp	Pulp
Revenue from pulp sales	€ m	P&L	625.5	544.6
EBITDA	€ m	APM	(137.7)	(89.0)
Total costs (Revenue - EBITDA)	€ m		487.7	455.5
Gains/(losses) on hedging transactions	€ m	APM	(20.3)	(52.8)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		(14.5)	(24.1)
Depletion of forest reserve	€ m	P&L	7.0	11.4
Change in inventories	€ m	P&L	3.6	9.0
Other income and expenses	€ m		(11.3)	(4.5)
ADJUSTED CASH COST	€ m		452.2	394.5
Pulp production costs	€ m		373.8	330.5
No. of tonnes produced	Unit		816,311	1,008,692
PRODUCTION-RELATED COSTS PER TONNE	€/tonne		457.9	327.6
Overhead, sales and logistics costs	€ m		78.4	64.1
No. of tonnes sold	Unit		826,617	996,058
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE	€/tonne		94.8	64.3
CASH COST	€/tonne		552.7	391.9

“Other income and expenses” includes expenses incurred to implement a new solution for the recovery of wastewater totalling €5.4m in 2022, losses on the sale of wood to third parties (-€0.8m in 2022 and -€1.4m in 2021), provisions for the impairment of receivables (-€1.3m in 2022 and +€0.9m in 2021), charges for banking services (-€1.1m in 2022 and -€1.3m in 2021), long-term remuneration and termination benefits (-€1.2m in 2022 and -€0.5m in 2021) and nursery costs (-€1.1m in 2022 and -€0.7m in 2021). The remaining items implied costs of €0.4m in 2022 and of €1.5m in 2021.

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.4 of this report is a yardstick for the operating profit generated by the Pulp business without taking into account asset depreciation and amortisation charges, impairment losses on non-current assets or gains or losses on their disposal or other non-operating items, adjusted for the settlement of hedges, the effect of the regulatory collar on energy sales and forest depletion charges.

It provides a comparable measure of the business's profitability and is measured as the difference between the average sales price per tonne, calculated by dividing revenue from the sale of pulp by the number of tonnes sold, and the cash cost.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

			2022	2021
	Unit	Source Financial Statement	Pulp	Pulp
Revenue from pulp sales	€ m	P&L	625.5	544.6
No. of tonnes sold	Unit		826,617	996,058
Average sales price per tonne (Revenue / # tonnes)	€/tonne		756.7	546.7
Cash cost (€)	€/tonne	APM	552.7	391.9
TOTAL OPERATING PROFIT PER TONNE OF PULP	€/tonne		204.0	154.8

NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.6, 3.4 and 4.1. They aggregate statement of profit or loss headings in order to facilitate their comparison.

Net finance cost encompasses the various items of finance income and finance costs, while other financial items encompasses exchange differences, the change in the fair value of financial instruments and impairment losses on financial instruments and gains or losses on their disposal.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

			2022				2021			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	1.9	0.2	(1.0)	1.1	6.1	1.8	(1.2)	6.6
Finance costs	€ m	P&L	(11.8)	(16.5)	1.0	(27.3)	(15.7)	(13.7)	1.2	(28.1)
NET FINANCE COST	€ m		(9.9)	(16.3)	-	(26.3)	(9.6)	(11.9)	-	(21.5)
Change in fair value of financial instruments	€ m	P&L	-	0.3	-	0.3	-	1.2	-	1.2
Exchange differences	€ m	P&L	1.4	(0.0)	-	1.3	3.7	(0.0)	-	3.7
OTHER FINANCIAL ITEMS	€ m		1.4	0.3	-	1.6	3.7	1.1	-	4.8
NET FINANCE INCOME/(COST)	€ m	P&L	(8.5)	(16.1)	-	(24.6)	(5.9)	(10.8)	-	(16.7)

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of the capital expenditure included in its statement of cash flows for each of its business units in sections 1, 2.7 and 3.5, classifying its investments into the following categories: maintenance capex, efficiency and growth capex, sustainability capex and financial investments.

Ence's technical experts classify its capital expenditure using the following criteria: Maintenance capex are recurring investments designed to maintain the capacity and productivity of the Company's assets. Efficiency and growth capex, meanwhile, are investments designed to increase those assets' capacity and productivity. Lastly, sustainability capex covers investments made to enhance quality standards and raise occupational health and safety and environmental performance. Financial investments correspond to payments for investments in financial assets.

Ence's 2019-2023 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency, growth and sustainability in order to attain the strategic targets set. Capex-related cash flows are broken down by area of investment to make it easier to track execution of the published Business Plan.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(16.9)	(2.7)	-	(19.6)	(11.7)	(3.3)	-	(15.1)
Efficiency and growth capex	€ m		(11.8)	(2.3)	-	(14.1)	(13.9)	(2.9)	-	(16.9)
Sustainability capex	€ m		(15.8)	(5.4)	-	(21.2)	(26.8)	(12.3)	-	(39.1)
Financial investments	€ m		0.2	-	-	0.2	(0.3)	0.0	-	(0.3)
TOTAL CAPITAL EXPENDITURE	€ m		(44.3)	(10.4)	-	(54.7)	(52.8)	(18.5)	-	(71.3)

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.7 and 3.5 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.3. However, operating cash flow is arrived at by starting from EBITDA, whereas net cash from operating activities is arrived at by starting from profit before tax. As a result, the adjustments to profit do not coincide in the two calculations. This APM is provided to reconcile EBITDA and operating cash flow.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022			2021		
			Pulp	Renewable Energy	CONSOLIDATED TOTAL	Pulp	Renewable Energy	CONSOLIDATED TOTAL
EBITDA	€ m	APM	137.7	109.8	247.6	89.0	17.8	106.8
Other non-recurring items	€ m	APM	(14.9)	-	(14.9)	4.2	-	4.2
Adjustments to reconcile profit before tax to net cash flows:								
Changes in provisions and other deferred expense (net)	€ m	CF	23.4	2.1	25.5	(0.5)	2.1	1.6
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	14.5	10.4	25.0	24.1	65.0	89.1
Grants taken to profit and loss	€ m	CF	(0.5)	(0.1)	(0.7)	(0.6)	(0.3)	(0.9)
Exchange differences with an impact on cash	€ m		0.0	(0.2)	(0.1)	1.4	(0.0)	1.3
Change in working capital	€ m		(3.0)	70.6	67.6	(23.0)	(10.6)	(33.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(6.3)	(17.0)	(23.3)	(6.9)	(12.3)	(19.2)
Dividends received	€ m	CF	-	-	-	0.0	-	0.0
Income tax paid	€ m	CF	(13.9)	(8.6)	(22.6)	(1.3)	(6.9)	(8.2)
Other collections/(payments)	€ m	CF	(0.4)	-	(0.4)	-	(0.0)	(0.0)
OPERATING CASH FLOW			136.7	167.0	303.7	86.5	54.8	141.3

FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 1, 2.7, 3.5 and 4.3 of this report.

Free cash flow provides information about the cash generated by the Group's operating activities that is left over after its investing activities for the remuneration of shareholders and repayment of debt.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	136.7	167.0	-	303.7	86.5	54.8	(0.0)	141.3
Net cash flows from/(used in) investing activities	€ m	CF	(43.9)	(10.0)	-	(53.9)	(39.1)	(13.0)	(13.3)	(65.4)
FREE CASH FLOW	€ m		92.8	157.0	-	249.8	47.4	41.8	(13.3)	75.9

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.5 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capex, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Company's operating activities before collection of proceeds from asset sales, the adjustments related with electricity sector regulations and other

adjustments to profit. It represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	137.7	109.8	-	247.6	89.0	17.8	-	106.8
Changes in working capital:										
Inventories	€ m	CF	(24.3)	(10.3)	-	(34.6)	(11.5)	(2.0)	-	(13.5)
Trade and other receivables	€ m	CF	8.2	0.6	11.7	20.5	(43.1)	(6.3)	-	(49.4)
Short-term investments	€ m	CF	2.4	(0.0)	-	2.3	2.4	0.0	-	2.4
Trade payables, other payables and other liabilities	€ m		10.7	80.3	(11.7)	79.3	29.3	(2.3)	-	27.0
Maintenance capex	€ m	APM	(16.9)	(2.7)	-	(19.6)	(11.7)	(3.3)	-	(15.1)
Interest paid, net (including right-of-use assets)	€ m	CF	(6.3)	(17.0)	-	(23.3)	(6.9)	(12.3)	-	(19.2)
Income tax paid	€ m	CF	(13.9)	(8.6)	-	(22.6)	(1.3)	(6.9)	-	(8.2)
NORMALISED FREE CASH FLOW	€ m		97.6	152.1	-	249.7	46.2	(15.3)	-	30.9

NET DEBT/(CASH)

The borrowings recognised on the statement of financial position, as detailed in section 4.2 of this report, include bonds and other marketable securities, bank borrowings and other financial liabilities. They do not include, however, the measurement of derivatives or borrowings from Group companies and associates.

Net debt/(cash) is calculated as the difference between current and non-current borrowings on the liability side of the statement of financial position and unrestricted cash on the asset side, which includes cash and cash equivalents, the debt service cash reserve (included with non-current financial assets) and other financial investments (within current assets), as outlined in sections 2.8 and 3.6 of this report.

Net debt/(cash) provides a proxy for the Group's net indebtedness or liquidity and is a metric that is widely used in the capital markets to compare the financial position of different companies.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Non-current borrowings:										
Bonds and other marketable securities	€ m	BS	-	78.4	-	78.4	125.6	92.1	-	217.7
Bank borrowings	€ m	BS	87.0	43.5	-	130.4	99.3	70.0	-	169.4
Other financial liabilities	€ m	BS	76.2	1.0	-	77.3	64.5	0.7	-	65.2
Current borrowings:										
Bonds and other marketable securities	€ m	BS	64.1	0.0	-	64.1	0.8	-	-	0.8
Bank borrowings	€ m	BS	7.9	27.1	-	35.0	5.4	29.4	-	34.8
Other financial liabilities	€ m	BS	11.4	0.7	-	12.0	10.0	0.4	-	10.4
Cash and cash equivalents	€ m	BS	278.4	134.5	-	412.9	318.5	61.5	-	380.0
Current financial assets - Other financial investments	€ m		4.2	0.0	-	4.3	6.6	0.0	-	6.6
Cash reserve for debt service	€ m		-	10.0	-	10.0	-	10.0	-	10.0
NET DEBT/(CASH)	€ m		(36.1)	6.1	-	(30.0)	(19.5)	121.2	-	101.7

ROCE

ROCE stands for the return on capital employed and is used by management as a key profitability performance indicator. It is provided in section 1 of this report.

It is calculated by dividing EBIT for the last 12 months by average capital employed during the period, capital employed being the sum of equity and net debt. For the Pulp business, equity is calculated as the difference between consolidated equity and the equity recognised by the Renewable Energy business.

ROCE is widely used in the capital markets to measure and compare the earnings performance of different companies.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBIT, last 12 months	€ m	P&L	84,3	28,3	1,6	114,2	25,7	(20,1)	2,7	8,2
Average capital employed, last 12 months					-					
Average equity	€ m	BS	615,5	224,8	-	840,3	567,4	253,1	-	820,5
Average net debt	€ m	BS	(33,4)	40,6	-	7,2	30,1	137,0	-	167,2
ROCE	%		14,5%	10,6%	n.s.	13,5%	4,3%	(5,2%)	n.s.	0,8%

For ROCE calculation purposes, adjustments have been made for the impairment losses and provisions recognised in 2021 in the wake of the National Appellate Court sentences which annulled the extension of the Pontevedra biomill concession and their subsequent reversal following the Supreme Court ruling upholding the validity of the original extension to 2073.

In 2021, adjustments were made for impairment losses and provisions with a net effect on EBIT of €184m and on equity of €200m. In 2022, adjustments were made for the reversal of impairment losses and provisions with a net effect on EBIT of €164m and on equity of €169m.

DISCLAIMER

The information contained in this report was prepared by Ence and includes forward-looking statements.

Any statements made in this report other than those based on historical information, including, merely for illustrative purposes, those referring to Ence's financial situation, business strategy, planned capital expenditure, management plans and objectives related to future operations, as well as statements including words such as "anticipate", "believe", "estimate", "consider", "expect" and other similar expressions, constitute forward-looking statements that reflect the current outlook of Ence or its management team with respect to future events and involve known and unknown risks and uncertainties. As a result, the actual situation and results of Ence and its sector could differ substantially from those depicted expressly or implicitly in these forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding Ence's current and future business strategy and the environment it expects to encounter in the future. A series of material factors could cause Ence's situation and results to differ materially from those reflected in these forward-looking statements, including fluctuations in pulp and/or wood prices, business seasonality, exchange rate fluctuations, financial risks, strikes or other action taken by Ence's employees, the competitive landscape, environmental risks and any of the other factors detailed in this document. The forward-looking statements are made only as of the date of this presentation. Ence disclaims any obligation or undertaking to update or revise these statements, whether as a result of any change in Ence's expectations or the conditions or circumstances underlying these statements, or any other information or data contained in this presentation.

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Earnings Report 4Q22



APPENDIX II –NON-FINANCIAL STATEMENT

The non-financial statement forms part of the 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).

