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 2023)

(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 2023, 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 2023 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.

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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.

Recoverable amount of intangible assets and property, plant and equipment See notes 3.2, 3.3, 3.5, 4,15, 16 and 19 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The Group has intangible assets and property, plant and equipment corresponding to the energy business with a carrying amount of Euros 1.028 million at 31 December 2023, allocated to the corresponding cash-generating units (CGUs). 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 2023, the Company calculated the recoverable amount of assets for which indications of impairment have been identified through using the value in use method and as a result has reversed impairment losses recognised in prior years on property, plant and equipment for a net amount of Euros 10.7 million. Value in use was calculated by applying valuation techniques which require the exercising of judgement by the Directors and the use of estimates. 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.	Our audit procedures included the following: - 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. - Comparison of cash flow forecasts estimated in previous years with actual cash flows obtained. - 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, 3.5, 4 and 18 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2023, the Group has recognised biological assets of Euros 67 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. As mentioned in note 3.4 to the notes to the accompanying consolidated annual accounts, the Group measures its biological assets at purchase price or cost of production, less depletion of forest areas and impairment losses. The Group has developed a 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. Due to the high degree of judgement associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: - We have assessed the design and implementation of key controls related to the process of estimating the value of biological assets. - In connection with the 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.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2023 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

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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 2023, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

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

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

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

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

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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.

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.

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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 2023 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 2023 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 29 February 2024.

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*)

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

This report corresponds to stamp number 01/24/00386 issued by the Spanish Institute of Registered Auditors (ICJCE)

ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated annual financial statements
and management report for 2023, along with
the independent auditor's report

Consolidated financial statements for 2023

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2023

€ 000	Note	31 Dec. 2023	31 Dec. 2022 (*)
NON-CURRENT ASSETS:			
Intangible assets	15	39,266	37,906
Property, plant and equipment	16	988,999	983,876
Biological assets	18	67,111	60,531
Investments accounted for using the equity method	24	34	40
Non-current financial assets			
Hedging derivatives	24 & 30	1,310	3,331
Other financial assets	24 & 27.2	61,274	32,816
Deferred tax assets	32	67,998	52,989
		1,225,992	**1,171,489**
CURRENT ASSETS:			
Inventories	20	72,102	102,346
Trade and other receivables	24 & 25	36,742	49,623
Other taxes receivable	32	8,313	21,010
Income tax receivable	32	14,993	8,028
Current financial assets			
Loans to group companies and related parties	24 & 34	12	36
Hedging derivatives	24 & 30	2,775	2,579
Other financial assets	24 & 27.2	5,163	9,898
Cash and cash equivalents	24 & 27.1	333,032	412,913
Other current assets	29	1,350	2,282
		474,482	**608,715**
TOTAL ASSETS		**1,700,474**	**1,780,204**
EQUITY:			
Share capital	21.1	221,645	221,645
Share premium	21.2	170,776	170,776
Reserves	21.3	137,249	93,918
Interim dividend	22.2	-	(66,553)
Exchange differences		13	1
Own shares - parent company shares	21.5	(12,980)	(12,958)
Valuation adjustments	21.6	40,751	42,998
Other equity instruments	21.7	1,328	3,753
Profit/(loss) for the year attributable to owners of the parent		(24,720)	247,220
Equity attributable to equity holders of the parent		**534,062**	**700,800**
Non-controlling interests	21.8	**115,527**	**117,236**
TOTAL EQUITY		**649,589**	**818,036**
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	24 & 28	78,697	78,436
Bank borrowings	24 & 28	287,658	130,414
Other financial liabilities	24 & 28	73,876	77,257
Derivative financial instruments	24 & 30	3,441	-
Grants	23	6,018	6,408
Non-current provisions	31	28,288	27,983
Non-current accruals and deferred income		2,713	3,241
Other non-current liabilities	24 & 29	96,727	104,342
Non-current borrowings from group companies and related parties	24 & 34	4,868	17,843
		582,286	**445,924**
CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	24 & 28	53,047	63,300
Bank borrowings	24 & 28	118,063	35,776
Other financial liabilities	24 & 28	13,844	12,016
Derivative financial instruments	24 & 30	593	358
Current borrowings from group companies and related parties	24 & 34	244	363
Trade and other payables	24 & 26	224,014	345,942
Income tax payable	32	44	13
Other taxes payable	32	9,165	8,784
Other current liabilities	24 & 29	7,402	6,892
Current provisions	31	42,183	42,800
		468,599	**516,244**
TOTAL EQUITY AND LIABILITIES		**1,700,474**	**1,780,204**

The accompanying notes 1 to 36 and Appendices are an integral part of the consolidated statement of financial position at 31 December 2023.

(*) The consolidated statement of financial position at 31 December 2022 is presented exclusively for comparative purposes. The 2022 balances have been restated for application of IAS 12 (note 2.6).

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2023

€ 000	Note	2023	2022 (*)
Continuing operations:			
Revenue	9	829,603	1,003,374
Gains/(losses) on hedging transactions	30	(378)	(20,343)
Changes in inventories of finished goods and work in progress	20	(20,656)	3,567
Self-constructed assets	16 & 18	11,753	5,957
Other operating income	9.1	14,670	13,999
Grants taken to profit and loss	23	9,378	9,771
Operating income		844,370	1,016,325
Cost of goods sold	10	(416,888)	(400,256)
Employee benefits expense	11	(103,972)	(93,191)
Depreciation and amortisation charges	15 & 16	(93,088)	(91,370)
Depletion of forest reserve	18	(8,797)	(6,990)
Impairment of and gains/(losses) on disposal of fixed assets	16 & 19	7,823	143,896
Impairment of financial assets	25	(1,177)	183
Other operating expenses	12	(230,251)	(290,363)
Operating expenses		(846,350)	(738,091)
OPERATING PROFIT/(LOSS)		**(1,980)**	**278,234**
Finance income			
From marketable securities and other financial instruments			
Group companies and associates	13	29	-
Third parties	13	6,533	1,088
Other finance income	13	29	-
Finance costs			
Group companies and associates	13	(538)	(1,009)
Third-party borrowings	13	(36,246)	(26,335)
Change in fair value of financial instruments	30	-	301
Exchange differences		(932)	1,315
Impairment of and gains/(losses) on disposal of financial instruments		(51)	-
NET FINANCE COST		**(31,176)**	**(24,640)**
Share of profit/(loss) of entities accounted for using the equity method		(13)	(5)
PROFIT/(LOSS) BEFORE TAX		**(33,169)**	**253,589**
Income tax	32	12,099	(4,663)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(21,070)**	**248,926**
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**(21,070)**	**248,926**
Profit/(loss) for the year from continuing operations attributable to non-controlling int	21.8	(3,650)	(1,706)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (**)		**(24,720)**	**247,220**
Profit/(loss) per share attributable to equity holders of the parent		**€/share**	
Basic	14	**(0.10)**	**1.02**
Diluted	14	**(0.10)**	**0.95**

The accompanying notes 1 to 36 and Appendices are an integral part of the 2023 consolidated statement of profit or loss.

(*) The consolidated statement of profit or loss for the year ended 31 December 2022 is presented exclusively for comparative purposes. The 2022 balances have been restated for application of IAS 12 (note 2.6).

(**) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

€ 000	Note	2023	2022 (*)
GROUP PROFIT/(LOSS) FOR THE YEAR (***)		**(21,070)**	**248,926**
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (**)		(1,651)	(4,996)
- Translation differences (**)		12	(8)
- Tax effect		412	1,249
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	21	**(1,227)**	**(3,755)**
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (**)		(2,867)	21,812
- Tax effect		717	(5,453)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	21	**(2,150)**	**16,359**
TOTAL COMPREHENSIVE INCOME		**(24,447)**	**261,530**
Attributable to:			
Owners of the parent		**(28,097)**	**259,824**
Non-controlling interests		**3,650**	**1,706**

The accompanying notes 1 to 36 and Appendices are an integral part of the 2023 consolidated statement of comprehensive income.

(*) The consolidated statement of comprehensive income for the year ended 31 December 2022 is presented exclusively for comparative purposes. The 2022 balances have been restated for application of IAS 12 (note 2.6).

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

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

€ 000	Issued capital	Own shares	Share premium	Reserves (**)	Interim dividend	Profit/(loss) for the year	Exchange differences	Valuation adjustments	Other equity instruments	**Total equity attributable to equity holders of the parent**	Non-controlling interests	**Total equity**
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, transfers and other movemer	-	-	-	4,131	-	-	-	(3,489)	(6,144)	**(5,502)**	3,653	**(1,849)**
Balance at 31 December 2022 (*)	**221,645**	**(12,958)**	**170,776**	**93,918**	**(66,553)**	**247,220**	**1**	**42,998**	**3,753**	**700,800**	**117,236**	**818,036**
Total recognised income/(expense)	-	-	-	-	-	(24,720)	12	(3,389)	-	**(28,097)**	3,650	**(24,447)**
Appropriation of prior-year profit/(loss)	-	-	-	40,058	136,857	(176,915)	-	-	-	**-**	-	**-**
Dividends distributed	-	-	-	-	(70,304)	(70,305)	-	-	-	**(140,609)**	(4,054)	**(144,663)**
Trading in own shares	-	(22)	-	220	-	-	-	-	-	**198**	-	**198**
Redemption of convertible bonds	-	-	-	3,147	-	-	-	-	(3,147)	**-**	-	**-**
Non-controlling interests, transfers and other movemer	-	-	-	(94)	-	-	-	1,142	722	**1,770**	(1,305)	**465**
Balance at 31 December 2023	**221,645**	**(12,980)**	**170,776**	**137,249**	**-**	**(24,720)**	**13**	**40,751**	**1,328**	**534,062**	**115,527**	**649,589**

The accompanying notes 1 to 36 and Appendices are an integral part of the 2023 consolidated statement of changes in equity.

(*) The consolidated statement of changes in equity for the year ended 31 December 2022 is presented exclusively for comparative purposes. The 2022 balances have been restated for application of IAS 12 (note 2.6).
(**) Includes: the legal reserve; cancelled capital reserve; capitalisation reserve; voluntary reserves; retained earnings (prior-period losses); and reserves in consolidated companies

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

€ 000	Note	2023	2022 (*)
OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		(33,169)	253,589
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	15 & 16	93,088	91,370
Depletion of forest reserve	18	8,797	6,990
Changes in provisions and other deferred expense (net)		8,216	25,549
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	19	(7,618)	(144,004)
Adjustments for tariff shortfall/surplus and sector regulations	9	(33,962)	24,950
Finance income and costs (net)	13	30,483	24,643
Grants taken to profit and loss	23	(1,025)	(668)
		97,979	**28,830**
Change in working capital			
Inventories	20	25,339	(34,574)
Trade and other receivables	25	20,412	20,530
Financial and other current assets	27	1,762	2,337
Trade payables, other payables and other liabilities	26	(125,618)	79,261
		(78,105)	**67,554**
Other cash flows used in operating activities			
Interest paid (net)		(26,190)	(23,294)
Income tax received/(paid)	32	(6,641)	(22,574)
Long-term remuneration and other plans		-	(426)
		(32,831)	**(46,294)**
Net cash flows (used in)/from operating activities		**(46,126)**	**303,679**
INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	16 & 18	(89,802)	(51,809)
Intangible assets	15	(5,934)	(3,058)
Financial assets		(291)	-
		(96,027)	**(54,867)**
Proceeds from disposals:			
Group companies and associates	6 & 21.9	-	400
Property, plant and equipment	16	-	3
Financial assets		-	560
		-	**963**
Net cash flows used in investing activities		**(96,027)**	**(53,904)**
FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests		5,630	-
Buyback of own equity instruments	21.5	(50,571)	(47,629)
Disposal of own equity instruments	21.5	50,769	47,761
		5,828	**132**
Proceeds from/(repayments of) financial liabilities:			
Borrowings from related parties	34.2	(12,975)	(18,992)
Notes (net of arrangement fees)	28	(9,900)	(79,279)
Increase/(decrease) in bank borrowings, net of issuance costs	28	237,771	(39,362)
Increase/(decrease) in other borrowings	28	(7,047)	(8,062)
Payments for right-of-use assets	23	(7,381)	(5,891)
Grants received, net		636	2,196
		201,104	**(149,390)**
Dividend payments			
Dividends paid to ENCE shareholders	22	(140,609)	(66,587)
Dividends paid to non-controlling interests	21.8	(4,051)	(981)
		(144,660)	**(67,568)**
Net cash flows from/(used in) financing activities		**62,272**	**(216,826)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(79,881)**	**32,949**
Cash and cash equivalents - opening balance	27.1	412,913	379,964
Cash and cash equivalents - closing balance	27.1	333,032	412,913

The accompanying notes 1 to 36 and Appendices are an integral part of the 2023 consolidated statement of cash flows.

(*) The consolidated statement of cash flows for the year ended 31 December 2022 is presented exclusively for comparative purposes. The 2022 balances have been restated for application of IAS 12 (note 2.6).

Notes to the 2023 consolidated financial statements

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

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2023 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 64,135 hectares of productive forest in Spain, 43,309 hectares of which it owns.

The Renewables business

Encompasses the businesses held and carried on under Ence Renovables, S.L., comprising the following activities:

Biomass

ENCE Renewables, through the subgroup whose parent is Magnon Green Energy, S.L. (MAGNON), has developed and acquired several renewable 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	2025
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 two biomass power generation developments with aggregate capacity of 100 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 one is expected to finalise in 2024.

Photovoltaic solar power

MAGNON is developing a portfolio of five photovoltaic power facilities with aggregate capacity of 373 MW located in Jaen, Huelva (two), Seville and Granada for sale to third parties once construction work begins.

In December 2021, Magnon Green Energy, S.L. agreed to sell all five developments to a third party once all the required permits have been obtained and construction has begun. That agreement was revised in 2023, reducing the scope to three developments with aggregate capacity of 273 MW. In 2023, the Group completed the sale of two of them, with combined capacity of 140 MW, for €38.1 million, generating a gain of €26.7 million. That gain has been recognised within "Revenue" on the accompanying consolidated statement of profit or loss. The sale of the remaining photovoltaic developments is expected to close in 2024, generating estimated income of €22-26 million.

ENCE is also developing new photovoltaic power generation assets for which it has secured sites and is in the process of obtained grid connection, all with the aim of continuing to diversify its range of renewable technologies.

Biogas

In 2022, ENCE Renewables began to develop the business of producing renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network, by arranging permits for a range of projects. In March 2023, Ence Biogás, S.L., an ENCE Group subsidiary, awarded the mandate for the conceptual engineering work for six biomethane plants in Spain, which are expected to be commissioned between the end of 2025 and 2026.

Ence Biogas is planning to develop 20 biomethane plants in the next five years with the capacity to supply over 1 TWh of biomethane a year, and already has a portfolio of 15 under development in Spain, including the six mentioned above.

Energy services

In 2023, ENCE began to hold and operate biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities, to allow them to generate heat from renewable sources.

ENCE CO2

ENCE's forestry assets, in addition to producing timber for pulp, also capture 600,000 tonnes of CO_2 annually. Some of these forestry assets produce carbon credits that can be sold in the voluntary carbon markets to help other companies offset their carbon footprints.

Moreover, agricultural and forestry biomass is the only source of biogenic CO_2, a raw material needed to produce green fuels. ENCE produces close to 6 million tonnes of biogenic CO_2 annually and it is studying the viability of using it to produce green fuels in the future.

Other:

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 2023 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 2023 and its financial performance and cash flows for the year then ended.

The Group's consolidated financial statements for 2023, 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 2022 were approved at the Annual General Meeting held by the Parent on 05 May 2023.

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 Basis 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.

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.

Joint operations

When the Group shares management of a joint arrangement with third parties and it is determined that as joint operator it has rights to the assets, and obligations for the liabilities, relating to the arrangement, it accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation in its consolidated financial statements. The investees consolidated using this method are itemised in Appendix I.

Investments consolidated using the equity method

The Group's investments in associates and joint ventures (joint arrangements that give the Group rights to the net assets of the arrangement) 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 accounted for 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.

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

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 2023 and 2022. 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 2022 is presented for comparison purposes only.

When comparing the two years, the reader should 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 2023 or 2022, 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 2022, 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 2023:

Standard	Contents
New standards – *Applicable from 1 January 2023:*	
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.
Amendments and/or interpretations: ***Applicable from 1 January 2023:***	
Amendments to IAS 1 *Disclosure of accounting policies*	Amendments designed to provide guidance on the application of materiality judgements to accounting policy disclosures.
Amendments to IAS 8 *Definition of an accounting estimate.*	Modification and clarifications as to what constitutes a change in accounting estimate.
Amendments to IAS 12 *Deferred tax related to assets and liabilities arising from a single transaction*	Clarification as to when entities should recognise the deferred tax related to assets and liabilities on transactions such as leases and decommissioning obligations.
Amendments to IFRS 17 *Insurance contracts* - Initial application of IFRS 17 and IFRS 9. Comparative information	Changes to the transition requirements under IFRS 17 for insurers applying IFRS 17 and IFRS 9 for the first time at the same time.
Amendments to IAS 12 *Income tax* - International Tax Reform - Pillar Two Model Rules	These amendments introduce a mandatory temporary exception to the accounting for deferred taxes under IAS 12 arising from the jurisdictional implementation of the Pillar Two model rules. They also introduce additional disclosure requirements.

The amendments to IAS 12 regarding the recognition of deferred tax on assets and liabilities arising from a single transaction imply the recognition of the deferred tax asset and deferred tax liability associated with lease accounting under IFRS 16 at the commencement of the lease. Application of this amendment has implied the initial recognition, at the start of the earliest period presented, i.e., as at 1 January 2022, of a deferred tax asset of €7,693 thousand, a deferred tax liability of €7,795 thousand (note 32) and a charge against Reserves in fully- or proportionately-consolidated companies" of €102 thousand.

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
Amendments and/or interpretations applicable from 1 January 2024:	
Amendments to IAS 1 - Non-current liabilities with covenants	These amendments clarify aspects of how entities classify liabilities as current or non-current; in particular, how an entity makes that distinction when settlement is subject to compliance with covenants.
Amendments to IFRS 16 - Lease liability in a sale and leaseback	These amendments clarify the subsequent measurement of lease liabilities arising from sale and leaseback transactions.
Amendments to IAS 7 and IFRS 7 - Supplier finance agreements	These amendments introduce specific disclosure requirements for supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.
Amendments and/or interpretations applicable from 1 January 2025:	
Amendments to IAS 21 - Lack of exchangeability	These amendments specify how to assess whether a currency is exchangeable and how to determine a spot exchange rate if it is not.

Application of these amendments is not expected to have a significant impact on the Group as they will be applied prospectively, modify presentation or disclosure requirements only and/or address matters that are not applicable or not material to the Group's operations.

2.8 International armed conflicts

Both the armed conflict between Russia and Ukraine and the conflict unfolding in the Middle East are having significant effects on the global economy and financial markets.

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 shipping prices. It is also stepping up its internal defence measures and controls for the protection of its digital infrastructure. In normal operating conditions, ENCE Pulp is self-sufficient in terms of electricity as it generates more electric power in its biomills than it consumes. ENCE Renewables, 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. Elsewhere, ENCE only has residual operations in the Middle East, as it core market is Europe.

3. Summary of material accounting policies

The material 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.

In each transaction, the Group evaluates whether it has acquired a business or group of assets, analysing whether the group of assets acquired meets the definition of a 'business’ provided in IFRS 3.

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, which include the costs of developing new business projects, 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, 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 28).

- Own work performed by the Group on property, plant and equipment is recognised at cumulative cost, which is the sum of external costs plus internal costs, mainly labour costs, warehouse materials and other operating costs. In 2023, the Group capitalised €1,558 thousand of own work (2022: €250 thousand); that balance is recognised under "Self-constructed assets" 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 costs of this nature with respect to its biomill in Pontevedra, which is located on public domain land used under a government concession; according to the terms of that concession, the facilities built on that land will revert to the state or the latter will require their dismantling at the end of the concession term.

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

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets. 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 2023 and 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:

	2023	
	Depreciation rate	Estimated years of useful life
Buildings	2%-3%	33-50
Plant		
Biomass generation plants	4%	25
Other plant	5%-8.3%	12-20
Machinery & equipment	5%-12.5%	8-20
Tools and furniture	8.3%-12.5%	8-12
Computer equipment	20%	5
Vehicles	10%	10
Other items of PP&E	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.

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.

In ENCE Renewables, applicable regulations establish a regulatory life for the operating assets that varies depending on the technology used and currently stands at 25 years for biomass facilities. The regulatory life is the period for which the facility will be entitled to the remuneration regime provided for in applicable energy sector regulations and, therefore to earn the applicable financial returns (remuneration for investment or for operation via the minimum return mechanism provided for). As a result, the assets associated with these facilities are depreciated over their useful lives up to the limit implied by their regulatory lives, unless they are expected to generate positive economic flows beyond their regulatory lives.

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 28).

The time elapsing from when a eucalyptus grove is planted in the Iberian Peninsula until it is economically advisable to extract the stumps and subsequently replant varies by species. For the *Globulus* species, 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 2023 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 property, plant and equipment, right-of-use assets, goodwill and other intangible assets, biological assets and equity-accounted investments, to determine whether there are any indications of impairment, namely any indications that the amount recoverable through use has fallen below their carrying amount.

ENCE uses internal and external sources of information to tests its assets for impairment. The external sources used include declines in market value based on comparable transactions, the outlook for pulp and renewable energy prices, possible future adverse developments in the legal, economic or technology environments that could materialise in a decline in the realisable value of its assets, unexpected and persistent shortfalls in production and trends in macroeconomic variables such as inflation and interest rates. 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. As a general rule, each of the facilities where the Group carries out its activities is a CGU.

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

The projected cash flows are based on the projections prepared by the management of each CGU, which typically cover a 3-5 year period, except where specific business characteristics justify longer projection periods. The growth rates, sales price forecasts and direct costs modelled are based on binding contractual commitments, publicly available information, sector-specific forecasts and ENCE's experience. In addition, management performs sensitivity analyses, varying revenue growth inputs, margin assumptions and the discount rates in order to assess the impact of potential changes in these variables (note 19).

In the case of the energy generation plants associated with ENCE Renewables, 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.

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.

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. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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.

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 (assets with a value of less than €5,000) 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.

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.

In its statement of cash flows, the Group recognises payments of principal under lease agreements within "Net cash flows from financing activities", and the interest expense under those agreements under "Net cash flows from operating activities".

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 quality 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 2023 or 2022.

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. This approach factors in the type of customer, any credit insurance coverage in place and historical experience with credit risk in the last five years. The model considers that payment is past due when it is in arrears by more than 180 days. Those criteria are applied in the absence of other objective evidence of non-performance such as bankruptcy proceedings, etc. The Group did not recognise significant amounts of expected credit loss in its consolidated statement of profit or loss in either 2023 or 2022.

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 quality for derecognition, the new cash flows are discounted at their original effective interest rate and any difference with respect to the previous carrying amount is recognised in profit or loss. Finance costs and arrangement fees are recognised on an accrual basis in the consolidated statement of profit or loss using the effective interest rate method.

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

Trade and other payables

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

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

Equity instruments

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

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

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

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

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

3.8 Derivative financial instruments and hedging transactions

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 both the intrinsic value and the time value of the option contract as a hedging instrument.

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 on an ongoing basis. 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 in the case of options.
- 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, as they are based on quoted prices in active markets for a similar instrument (other than level 1), quoted prices for identical or similar instruments in markets that are not active and valuation techniques for which all the significant inputs are observable in the market or can be corroborated using market-observable data. That classification considered the fact that the credit risk adjustments use level 3 inputs, namely direct or comparable company credit ratings, to determine own credit risk and counterparty credit risk, which in turn determine the probability of default, concluding that the adjustments are not material with respect to the overall measurement. Contingent consideration arising from business combinations is measured using inputs classified as level 3 in puts (note 4).

3.9 Distinction between current and non-current

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

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 capitalised 1,415 thousand euros of own work within inventories in 2023.

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, at their acquisition cost, calculated at the lower of their weighted average cost and estimated realisation value.

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 the use of those allowances 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 Facilities assigned to third parties

The cash consideration received from third parties for assigning the right to use grid connection facilities are accounted for with a credit to “Non-current prepayments and accrued income” in the consolidated statement of financial position and reclassified to “Other operating income” in the consolidated statement of profit or loss on a straight-line basis over the term of the entitlement.

The Group recognised €2,713 thousand of accrued income in this connection at 31 December 2023 (year-end 2022: €3,241 thousand).

3.13 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 significant. 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.

3.14 Post-employment and other benefits

Most of the 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 around 5% 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 these employee commitments at each measurement date at the estimated value of the commitment at maturity and the period of time elapsed relative to the vesting period.

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

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

3.15 Revenue and expense recognition

Revenue represents the amounts received or receivable in exchange for the goods delivered and services rendered in the ordinary course of the Group’s activities, net of returns and discounts and amounts received but due to third parties, such as value added tax. Revenue is recognised when it can be measured reliably and it is probable that the economic benefits embodied by the transaction will flow to 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 the various mechanisms in place for adjusting that regulated remuneration (Tariff Adjustment) 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 - scantly material for ENCE - is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably.

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

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

Expenses are recognised in the consolidated statement of profit or loss as they accrue. 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, for every three-year regulatory stub period, of certain remuneration parameters, via ministerial orders (Appendix III – Energy sector regulatory framework).

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. When that happens, the Group considers that the amount allocable to the liability associated with the adjustments for deviations in pool prices is zero and therefore proceeds at that time to restate any cumulative negative differences through the same heading of the consolidated statement of profit or loss, in keeping with the treatment of a change in estimate prescribed in IAS 8.

In contrast, if, as a result of fluctuations in market prices in the future, those negative differences measured at zero in accordance with the accounting treatment outlined above regain value due to a shift in expectations regarding the net asset value of the associated standard facility or the expectation that remuneration for investment will be collected, that change would also be accounted for as a change of estimate as prescribed in IAS 8.

At 31 December 2023, considering the current situation in the energy market, the trend in short- and medium-term energy futures and prevailing regulations, the Group continues to recognise the liability derived from the cumulative negative differences as of the reporting date for all of the standard facilities it operates.

3.16 Income tax

The Group pays income tax through two tax consolidation groups under the regime provided for in Chapter VII of Title VI 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.

3.17 Non-current assets held for sale and discontinued operations

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

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

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

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

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

3.18 Earnings per share

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

Diluted EPS amounts are calculated by dividing "Profit/(loss) for the year attributable to owners of the parent" by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential shares are issued in the event of issuance during the year.

3.19 Related-party transactions

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

3.20 Foreign currency transactions and balances

The consolidated financial statements are presented in euros, which is the Parent's functional and presentation currency.

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date, until they are cancelled, as function of exchange rate trends. Non-monetary assets denominated in foreign currency, which are scantly material for ENCE, are translated using the exchange rate prevailing on the date on which the asset was recognised by the Group.

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

3.21 Segment information

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

3.22 Statement of cash flows

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

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

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group.

3.23 Activities with an environmental impact

Environmental activities are those undertaken by 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 MAGNON

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.

Through ENCE Renovables, S.L., 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 to not imply the loss of control are measured at fair value at all times.

The Group has estimated that fair value by modelling the cash flows contemplated in the various scenarios, which it weighted by 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%-12%; 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. Changes in those assumptions could have an impact on the amount of contingent consideration recognised in the financial statements. Specifically, if the Group did not achieve the minimum return anticipated in future auctions or was not adjudicated capacity, the recognised asset would not, for the most part, be recoverable. Changes in the assumptions used to determine the amount of consideration would be recognised as finance income or cost, as appropriate, in the consolidated statement of profit or loss (note 13).

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 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 19).

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 also estimates the net asset value and remuneration for investment receivable by each of the standard facilities operated by the Group when recalculating the parameters for the next regulatory stub period. It bases those estimates on the provisional settlement parameters already published and available sector information (note 9 and Appendix III).

Provisions for liabilities and charges

ENCE recognises provisions for present obligations arising from past events, mainly lawsuits and claims, as well as certain undertakings made that meet the definition of a liability. To do so it has to evaluate, using the best information available 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 3.13 and 31). 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 32).

ENCE only recognises deferred tax assets insofar as it is deemed probable that the entities (individually or on a consolidated basis) that have generated them will generate sufficient taxable profit in the future to enable their utilisation (notes 3.16 and 32).

Climate change

The Group's strategy factors in the targets agreed at the Paris Agreement in an attempt to keep global warming at under 1.5ºC 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 7)

5. Financial risk management

The varies activities carried out by ENCE expose it to certain financial risks: (i) market risk; (ii) credit risk; and (iii) liquidity risk. Section 3 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: (i) ensuring that the most important risks are correctly identified, assessed, managed and monitored; and (ii) 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.

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.

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, enhancing the quality of the products it sells and diversifying into differentiated and value-added products. 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 (-)/+
2023	5% increase	28,280	28,280
	5% decrease	(28,280)	(28,280)
2022	5% increase	31,274	31,274
	5% decrease	(31,274)	(31,274)

Renewable energy prices and regulations

As for price 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 that are entitled to remuneration for investment a minimum return of 7.398% over their regulatory useful lives, until 2031 (note 9 and Appendix III), thereby eliminating a lot of the uncertainty associated with the revision of the remaining remuneration parameters.

The Group monitors regulatory developments meticulously in order to duly reflect their impact in its financial statements and on its potential investments.

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.

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, including, 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 (-)/+
2023	5% increase	(12,280)	(12,280)
	5% decrease	12,280	12,280
2022	5% increase	(10,863)	(10,863)
	5% decrease	10,863	10,863

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 2023 and 2022:

€ 000	2023	2022
Cash	14,102	9,625
Accounts receivable	26,395	20,870
Accounts payable	(4,060)	(10,524)
	36,437	**19,971**

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 (-)/+
2023	5% appreciation	25,610	25,610
	5% depreciation	(25,415)	(25,415)
2022	5% appreciation	28,786	28,786
	5% depreciation	(29,187)	(29,187)

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 2023 and 2022, factoring in the hedges arranged, is as follows:

	Pulp		Renewables	
€ 000	**2023**	**2022**	**2023**	**2022**
Fixed-rate	234,500	100,300	111,371	134,038
Floating-rate	179,047	58,000	11,612	16,012
Fees and interest	1,401	647	(467)	(1,071)
Total borrowings (note 28)	**414,948**	**158,947**	**122,516**	**148,979**

The sensitivity of pre-tax operating profit and equity to a 50 basis point change in interest rates is shown below:

€ 000	Change in interest rates	Impact on profit before tax (-)/+	Impact on equity (-)/+
2023	50bp increase	(1,318)	767
	50bp decrease	1,318	(767)
2022	50bp increase	(178)	415
	50bp decrease	178	(415)

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 include the balances pending collection customer by customer, the availability of credit insurance cover, the age of the debt, the existence of bankruptcy proceedings and the conclusions drawn from customer solvency analyses.

Trade and other receivables

Trade receivables are presented on the consolidated statement of financial position net of impairment. Accumulated receivables impairment amounted to €4,050 thousand at year-end 2023 (year-end 2022: €4,302 thousand). The table below provides a breakdown of the age of ENCE's trade debt and the impairment provisions recognised (including expected credit losses):

	31/12/2023		31/12/2022	
€ 000	Receivable	Impairment	Receivable	Impairment
Not past due	21,974	-	40,105	-
Past due by 0 - 30 days	14,564	-	7,732	-
Past due by 30 - 180 days	325	121	1,813	27
Past due by > 180 days	3,929	3,929	4,275	4,275
	40,792	**4,050**	**53,925**	**4,302**

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.

ENCE Pulp

This business recognised €37,290 thousand under "Trade and other receivables" at 31 December 2023, and associated accumulated impairment allowances of €3,884 thousand.

Credit risk is spread across 200-300 customers and other counterparties. ENCE's biggest single customer accounted for 10% of pulp sales in 2023 and 2022.

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:

	2023	2022
Risk level:		
Low	58%	34%
Medium	25%	33%
Medium-high	15%	26%
High	2%	7%

ENCE Renewables

This business recognised €5,474 thousand under “Trade and other receivables” at 31 December 2023, and associated accumulated impairment allowances of €166 thousand.

Under the regulatory framework in effect, in 2023 and 2022, 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:

	2023	2022
Rating-		
A	50%	60%
BBB	42%	24%
BB	8%	16%

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.

This is one of the risks monitored most closely by ENCE. To that end it controls and monitors its financing needs by drawing up short-term liquidity forecasts and financial plans to accompany the annual budgets and business plan. ENCE uses a diversified and stable range of sources of financing, framed by a capital structure that is compatible with its current credit ratings.

The Group has an economic and budget control systems for each business, tailored for each, which provides it with the information need by its business managers to control the possible risks and take the most appropriate management decisions.

In keeping with this prudent financial policy, at year-end 2023, ENCE held sufficient cash and cash equivalents and undrawn credit lines to amply cover its short-term obligations (notes 27 and 28).

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 business is 4-5 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 2023 Management Report - Fourth-quarter 2023 earnings report, where a reconciliation with the financial statement amounts is also provided. The two businesses' net debt/EBITDA ratios at 31 December 2023 and 2022 are shown in the table below:

€ m	Pulp		Renewables	
	2023 (*)	2022	2023	2022
Net debt	186.1	(36.1)	93.5	6.1
EBITDA	46.2	137.7	43.1	109.8
Net debt/EBITDA	4.0	(0.3)	2.2	0.1

The contractual maturity analysis in respect of the financial liabilities referred to in IFRS 7 is provided in note 28.

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

2023

Changes in the scope of consolidation

In 2023 Ence Energía y Celulosa, S.A. incorporated a wholly-owned subsidiary called Ence Renovables, S.L.U., as the holding company for the Group's various renewable energy businesses. After its incorporation, the Group carried out an organisational structuring to bring all of the subsidiaries devoted to businesses related with the generation of renewable energy under Ence Renovables, S.L. To that end, the Parent sold Ence Renovables, S.L. its interests in Ence Biogás, S.L. and Ence CO2, S.L. for €3 thousand apiece and contributed its 51% shareholding in Magnon Green Energy, S.L. by purchasing all of the shares issued by Ence Renovables, S.L., which increased its capital by €113,960 thousand, the carrying amount of the assets and liabilities contributed to the consolidated Group under the General Accounting Plan as at the transaction date (the carrying amount of the contributed investment at Ence Energía y Celulosa, S.A. was €112,528 thousand). The difference between the two amounts, of €1,432 thousand, has been recognised in a reserve account. In addition, on 20 April 2023, Ence Renovables, S.L. acquired 50% of Ence Servicios Energéticos, S.L., a company that was dormant at the time, at the amount of its share capital.

Also in 2023, Ence Energía y Celulosa, S.A. incorporated several wholly-owned subsidiaries: Biofibras de Galicia, S.L.U., for the purpose of carrying out the production of cellulosic pulp from recovered board and paper, Ence Biomasa, S.L.U., Ence PV, S.L.U. and Ence Servicios Energéticos, S.L.U., all of which were dormant in 2023.

Other

Magnon Green Energy, S.L. sold 62.3% of Ancen Solar IV, S.L.U., a company that was dormant, to a third party at its carrying amount. This company is going to develop the facilities needed to connect the photovoltaic development located in Seville up to the electricity grid (note 1).

Also in 2023, Magnon Green Energy, S.L., together with third parties, set up an Economic Interest Grouping in order to obtain the connection rights at a substation to which the photovoltaic development located in Granada will be connected (note 1).

Sierras Calmas, S.A., the subsidiary located in Uruguay and dormant in recent years, was liquidated in 2023.

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.

7. Climate change and the Paris Agreement

Since the Group bases its business model on natural capital, it is keenly aware of its exposure to climate change risks. ENCE is also convinced that the decarbonisation challenge and transition to an economic model free from fossil fuels also brings opportunities and it is incorporating them into its growth strategy.

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 supervising the 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. Risk materiality is defined as a function of the estimated financial impact and mitigation measures defined by the Company for each risk, using an annual impact of around €10 million at the Group level as the threshold.

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 (for further information on the scenarios and time horizons modelled, refer to the section of the non-financial statement titled "Adapting for climate change". The relevant risks, assumptions and estimates used by the Group are outlined next:

ENCE has identified the following physical risks:

<u>Chronic physical risks</u>

The key risks identified in this category are: changes in precipitation patterns and temperatures that could lead to a decrease in the availability of timber and alter the productivity of forest plantations; the impact on ENCE's assets of reduced growth of the *E. Globulus* in southern Spain; the impact of climate change on the availability of biomass; and lower equipment performance on account of higher temperatures. These risks were studied in detail as part of the 2023 risk assessment and, considering the mitigation measures in place or planned, they were ruled out as potentially material risks.

Acute physical risks

This risks identified in this category were: poorer staff performance; damage to the biomills from flooding; a higher incidence of fires in ENCE's owned forests; and reduced water availability.

Following their analysis, the only risk considered potentially material was water availability. In 2022 the Pontevedra biomill was temporarily exposed to this risk due when the lack of rainfall, coupled with high summer temperatures, reduced the flow of water in the Lérez River which supplies the biomill. To ensure an environmentally-safe flow and prioritise the population's water supply, ENCE temporarily idled the biomill until water levels recovered. As this is a potentially material risk, the Company is prioritising the implementation of mitigation measures. In 2022 it conducted a pilot project to recirculate the wastewater from the biomill itself and regenerate wastewater from the nearby municipal treatment facility. That pilot test finalised in 2023 and progress was made on the engineering of the definitive industrial plans and on obtaining the required permits. The proposed solution involves subjecting the wastewater from the biomill and from the nearby municipal treatment facility to a reverse osmosis treatment to attain sufficient water quality to allow its use in the industrial process. The Group invested €15.5 million in this project in 2023. With this sector-pioneering solution, ENCE will reduce its dependence on water from the Lérez River during periods of drought or scarcity in which the river's flow is insufficient to supply the biomill. Also in 2023 the Group installed a new tertiary treatment plant within the biomill's wastewater treatment facility to improve the quality of the wastewater and prepare it for the osmosis process. Once the required permits have been obtained from the competent authority and these mitigation measures have been implemented, it is expected that the level of materiality of this risk will fall within the defined tolerance threshold. Including the mitigation measures, the residual risk is considered non-material.

The main transition risks identified by ENCE have been classified into three categories: current regulation risks, market risks and future regulation risks:

Current regulation risks

This category includes the risk of an increase in the price of emission allowances in the European emissions trading system (EU-ETS). Following the assessment, this risk was considered potentially material for the Group. Next is a description of the risk factor and the mitigation measures deployed by ENCE to reduce its potential materiality.

The increase in emission allowance prices in the EU-ETS could increase ENCE's costs directly by increasing the cost of allowance purchases. To assess this risk, the Group evaluated the facilities included in the trading system (Lucena, Navia and Pontevedra). The impact was calculated using estimates for the trend in prices and ENCE's own estimates for the emissions from each facility, factoring in the Group's decarbonisation plan. The mitigation strategy involves measures to abate emissions at these facilities, which, coupled with the current forecasts for the facilities' business volumes and useful lives, point to a non-material impact.

Indirectly, an increase in the cost of carbon allowances could increase demand for olive pomace from cement makers and other industries that need to reduce their emissions. An increase in demand could translate into an increase in olive pomace prices and reduced availability of this input for our energy plants.

The indirect impact was estimated based on internal analysis using olive pomace price estimates and the needs of the main plants that are dependent on this input. The analysis indicated that this risk is potentially material. Indeed it materialised in 2023 at the plants that are most dependent on this fuel source (Enemansa and La Loma). The analysis indicated that this risk is potentially material. Indeed it materialised in 2023 at the plants that are most dependent on this fuel source (Enemansa and La Loma). However, power generation using pomace is not very significant at the Group and the plants that use it have remaining regulatory lives until 2027 in two instances and 2031 in the third. Moreover, the combined value of the La Loma and Enemansa facilities is €2.2 million. Lastly, it is estimated that the planned mitigation measures (mainly focused on replacing olive pomace with other types of biomass for supply to the plants to the extent technically viable and possible recognition by the authorities of the increase in costs in its remuneration for operation amounts) will reduce this risk to within the defined materiality threshold.

Market risk

This category includes the risk of an increase in raw material costs (particularly at facilities that use electricity intensively and those included within the emissions trading system) and/or in borrowing costs. These risks were analysed and determined not to be material. The only risk within this category that, after analysis, was identified as potentially material is the risk of increased competition for biomass supplies. This risk is related with industry’s need to advance on the use of low-emissions technology, which could imply intensification of competition for biomass supplies with other players such as cement makers, biofuel producers, etc. The planned mitigation strategy is to increase biomass mobilisation capacity and define a diversification strategy to enable the use of different types of biomass for which the market is not as tight. This, coupled with potential recognition by the authorities of the increase in costs in the remuneration for operation amounts awarded, would reduce the level of materiality of this risk to within the established threshold.

New regulation risks

This category includes the risk of an increase in logistics costs as a result of inclusion of the shipping industry in the emissions trading system and of other potential regulatory changes (such as tighter sustainability criteria for biomass in the new renewable energies directive). Having analysed the potential impacts and the mitigation measures underway at ENCE, none of these risks was considered material.

Opportunities

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 include growth in renewable power generation in its growth strategy.
- Decarbonisation in sectors not conducive to electrification: the decarbonisation of activities or sectors that currently use fossil fuels such as natural gas and are not easy to electrify is an opportunity for ENCE, which it is seeking to tap by setting up a new subsidiary, Ence Biogas, to produce renewable gas to replace these fossil fuels. Ence Biogas plans to transform agricultural and breeding waste into renewable gas (biomethane) for injection into the grid to support decarbonisation in sectors not apt for electrification, including certain industrial activities, heavy transport and maritime transport.
- Demand for low-emissions industrial heat: again in the context of industrial sectors not suited to electrification, ENCE is also looking to produce clean industrial heat, as its experience managing biomass facilities puts it in a privileged position to become a benchmark player in this segment. Through Magnon

Energy Services, ENCE offers end-to-end industry decarbonisation solutions, developing biomass facilities to replace fossil fuel furnaces so that customers can reduce their emissions and the costs associated with emissions allowances.

- 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, 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. In 2023, ENCE had close to 50 registered carbon sinks.

- Biogenic CO_2: 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 CO_2 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- 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.

- Production of moulded pulp products: other areas of the pulp business have been identified as presenting opportunities for replacing plastic packaging materials. In 2023, ENCE started to research the production of moulded pulp products for the manufacture of containers and trays apt for replacing plastic products made using fossil fuels.

- 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 and cellulose microfibres, for example. Specifically, in 2023, 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.

- *E. Globulus* - better suited for the emerging climate conditions: the climate change models used by ENCE suggest that the changes anticipated in temperature patterns in northern Spain mean that areas where this species cannot currently be grown will become viable locations because temperatures will no longer be too low for their cultivation. This implies an opportunity for ENCE as it will increase the productivity of eucalyptus plantations in these areas and, therefore, increase the availability of timber from this species for its biomills.

- Sale of biomass: Through Ence Biomass, ENCE offers its customers biomass to cover growing demand for supplies for renewable heat, biofuel and other uses. Since ENCE is one of the largest agricultural and forestry biomass managers in Spain, its biomass procurement know-how and reach give it a competitive advantage when it comes to addressing this need.

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 (notes 2.3 and 3.3), investment commitments (notes 16 and 18), the assessment of potential dismantling costs (note 31) and its non-financial asset impairment tests (note 19) and the related sensitivity analyses.

8. 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:

ENCE Pulp:

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 integrated into the pulp production process, 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.

ENCE Renewables:

This business line encompasses the following reportable segments:

- Biomass: includes the plants that generate and sell electric power from renewable sources, specifically agricultural and forestry biomass; they are developed and operated independently. Operational renewable power-generating capacity currently stands at 266 MW.
- Biogas: the production of renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network.
- Energy Services: 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.
- ENCE CO2: Generation and sale of carbon credits.

The Biogas, Energy Services and ENCE CO2 businesses are currently under development and their metrics are scantly material as defined in IFRS 8, so that reported together with the Biomass segment for segment reporting purposes.

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 2023 and 2022 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 Renewables businesses.

8.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2023 and 2022, based on the management information reviewed regularly by senior management:

2023	€ 000 PULP business Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	Renewables	Adjustments & Eliminations	Total
Revenue:							
Third parties	618,972	1,489	-	620,461	209,142	-	829,603
Inter-segment revenue	2,044	16,503	(16,195)	2,352	-	(2,730)	(378)
Total revenue	**621,016**	**17,992**	**(16,195)**	**622,813**	**209,142**	**(2,730)**	**829,225**
Earnings:							
EBITDA (*)	**41,888**	**4,277**	**-**	**46,165**	**42,645**	**(2)**	**88,808**
Impairment and gains/(losses) on disposal of fixed assets	201	(1,108)	(60)	(967)	8,790	-	7,823
Operating profit/(loss)	**(14,136)**	**(1,377)**	**-**	**(15,513)**	**11,911**	**1,622**	**(1,980)**
Finance income	6,698	1,469	(1,753)	6,414	964	(787)	6,591
Finance costs	(25,215)	(319)	1,753	(23,781)	(13,790)	787	(36,784)
Hedging derivatives	-	-	-	-	-	-	-
Exchange gains/(losses)	(942)	(5)	-	(947)	15	-	(932)
Impairment of financial instruments	346	-	(397)	(51)	-	-	(51)
Share of profit/(loss) of investees accounting for using equity method	-	(13)	-	(13)	-	-	(13)
Income tax	6,527	55	-	6,582	5,661	(144)	12,099
Profit/(loss) for the period	**(26,722)**	**(190)**	**(397)**	**(27,309)**	**4,761**	**1,478**	**(21,070)**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	(3,650)	-	(3,650)
Profit/(loss) attributable to equity holders of the parent	**(26,722)**	**(190)**	**(397)**	**(27,309)**	**1,111**	**1,478**	**(24,720)**
Capital expenditure (**)	71,081	12,055	-	83,136	17,108	-	100,244
Accumulated depreciation and depletion of forest reserves (**)	(947,670)	(73,406)	-	(1,021,076)	(348,541)	(13,478)	(1,383,095)
Impairment (**)	(7,119)	(4,385)	-	(11,504)	(28,030)	(84)	(39,618)

(*) 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 2023 earnings report" appended to the Group's 2023 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 17) or "Goodwill" (note 15).

31 December 2023	€ 000 PULP business Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	RENEWABLES business	Adjustments & Eliminations	Total
Assets							
Non-current	796,878	181,531	(112,405)	866,004	447,826	(155,836)	1,157,994
Current	414,842	6,915	(3,734)	418,023	58,717	(2,258)	474,482
Total assets (a)	**1,211,720**	**188,446**	**(116,139)**	**1,284,027**	**506,543**	**(158,094)**	**1,632,476**
Liabilities							
Non-current	402,370	27,659	(12,987)	417,042	187,514	(22,270)	582,286
Current	344,161	11,465	(3,079)	352,547	118,301	(2,249)	468,599
Total liabilities (a)	**746,531**	**39,124**	**(16,066)**	**769,589**	**305,815**	**(24,519)**	**1,050,885**

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

2022	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	Renewables	Adjustments & Eliminations	Total
	€ 000						
	PULP business						
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**
Impairment and gains/(losses) on disposal of fixed assets	180,324	(1,658)	5,837	184,503	(41,335)	728	143,896
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 accounting for using equity method	-	(5)	-	(5)	-	-	(5)
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 equity holders 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 17) or "Goodwill" (note 15).

31 Dec. 2022	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	RENEWABLES business	Adjustments & Eliminations	Total
	€ 000						
	PULP business						
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.

The adjustments and eliminations between the various segments and businesses correspond to the elimination of inter-segment balances and transactions.

8.2 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 consolidated statement of profit or loss of ENCE Pulp (note 8.1 and Appendix II):

	€ 000				
2023	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Total PULP Business
Business metrics:					
Pulp output (ADt)	361,313	614,032	-	-	975,345
Pulp sales volume (ADt)	355,949	622,551	-	-	978,500
Energy sales volume (MWh)	6,315	259,140	-	-	265,455
Continuing operations:					
Revenue	231,435	402,222	-	(10,844)	622,813
Cost of sales and other costs	(138,854)	(241,986)	-	19,116	(361,724)
GROSS PROFIT	**92,581**	**160,236**	**-**	**8,272**	**261,089**
Employee benefits expense	(20,054)	(28,075)	(28,983)	(6,169)	(83,281)
Other operating expenses	(63,884)	(59,745)	(11,391)	(3,426)	(138,446)
Overhead passed on	(21,480)	(12,091)	40,374	-	6,803
EBITDA (*)	**(12,837)**	**60,325**	**-**	**(1,323)**	**46,165**
Asset depreciation/amortisation and impairment	(11,870)	(41,484)	-	(12,003)	(65,357)
Other non-recurring operating expenses	1,760	1,919	-	-	3,679
OPERATING PROFIT/(LOSS)	**(22,947)**	**20,760**	**-**	**(13,326)**	**(15,513)**
Net finance cost	(8,103)	(11,673)	-	1,411	(18,365)
Share of profit/(loss) of equity-accounted investees	-	-	-	(13)	(13)
PROFIT/(LOSS) BEFORE TAX	**(31,050)**	**9,087**	**-**	**(11,928)**	**(33,891)**
Income tax	2,133	2,057	-	2,392	6,582
PROFIT/(LOSS) FOR THE PERIOD	**(28,917)**	**11,144**	**-**	**(9,536)**	**(27,309)**
Profit/(loss) attributable to non-controlling interests	-	-	-		-
Profit/(loss) attributable to equity holders of the parent	**(28,917)**	**11,144**	**-**	**(9,536)**	**(27,309)**

(a) Includes the forestry activity and dormant 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 2023 earnings report" appended to the Group's 2023 Management Report.

2022	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Total PULP Business
	€ 000				
Business metrics:					
Pulp output (ADt)	239,315	576,996	-	-	816,311
Pulp sales volume (ADt)	244,818	581,799	-	-	826,617
Energy sales volume (MWh)	136,580	561,872	-	-	698,452
Continuing operations:					
Revenue	198,697	520,748	-	(26,912)	692,532
Cost of sales and other costs	(87,995)	(222,147)	-	2,390	(307,752)
GROSS PROFIT	**110,702**	**298,600**	**-**	**(24,522)**	**384,780**
Employee benefits expense	(18,644)	(28,357)	(36,030)	7,643	(75,388)
Other operating expenses	(71,012)	(118,234)	(14,200)	15,968	(187,477)
Overhead passed on	(14,944)	(19,470)	50,229	-	15,815
EBITDA (*)	**6,102**	**132,539**	**-**	**(911)**	**137,730**
Asset depreciation/amortisation and impairment	180,115	(36,614)	-	(18,029)	125,472
Other non-recurring operating expenses	(14,920)	-	-	41	(14,879)
OPERATING PROFIT/(LOSS)	**171,297**	**95,926**	**-**	**(18,900)**	**248,323**
Net finance cost	(2,506)	(4,737)	-	(1,302)	(8,545)
Share of profit/(loss) of equity-accounted investees	-	-	-	(5)	(5)
PROFIT/(LOSS) BEFORE TAX	**168,791**	**91,189**	**-**	**(20,207)**	**239,773**
Income tax	(42,090)	(21,917)	-	67,730	3,723
PROFIT/(LOSS) FOR THE PERIOD	**126,701**	**69,271**	**-**	**47,524**	**243,496**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-
Profit/(loss) attributable to equity holders of the parent	**126,701**	**69,271**	**-**	**47,524**	**243,496**

(a) Includes the forestry activity 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 2023 earnings report" appended to the Group's 2023 Management Report.

9. Revenue and other operating income

Revenue corresponds to revenue from contracts with customers. The breakdown of Group revenue by segment in 2023 and 2022 is as follows:

€ 000	2023			2022		
	Pulp	Renewables	Consol. Group	Pulp	Renewables	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	978,500	-	978,500	826,617	-	826,617
Energy sales volume (MWh)	265,455	947,253	1,212,708	698,452	1,481,446	2,179,898
Revenue						
Pulp	565,593	-	565,593	625,476	-	625,476
Electric energy	38,190	169,942	208,132	73,613	293,726	367,339
Timber and forestry services	16,678	1,144	17,822	10,088	471	10,559
Sale of PV developments (note 1)	-	38,056	38,056	-	-	-
Inter-segment sales	2,730	-	-	3,698	111	-
	623,191	**209,142**	**829,603**	**712,875**	**294,308**	**1,003,374**

(*) The difference between the figures presented under "Consolidated Group" for 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in 2023 and 2022 in the amounts of €2,730 thousand and €3,809 thousand, respectively.

Recognition of the Tariff Adjustment (notes 3.15 and 29 and Appendix III) for 2023 implied an increase in revenue from the sale of renewable energy of €27,129 thousand, with a balancing entry under "Non-current financial assets - Other financial assets" in the consolidated statement of financial position (2022: a decrease in revenue of €34,115 thousand, recognised with a credit to "Other non-current liabilities" in the statement of financial position.

The Group recognises liabilities in respect of the Tariff Adjustments up to the limit of each facility's net asset value. In the absence of that limit, the liability recognised at year-end 2022 would have been €33.1 million higher than that recognised.

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 at ENCE Pulp that are fuelled by black liquor and at ENCE Renewables, the 13-MW Cordoba energy plant, which is fuelled by gas, and the 50-MW Puertollano and 46-MW Huelva facilities.

In 2023, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €171 million (2022: €207 million).

9.1 Other operating income

This heading of the consolidated statement of profit or loss mainly includes income derived from grants related to income, lease income, the reversal of provisions for liabilities and charges (note 31) and claims settled by insurance companies.

9.2 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	2023	2022
Germany	21,3	21,0
Poland	15,0	12,1
Spain	13,2	16,5
Italy	6,1	10,2
Netherlands	5,7	2,4
Greece	5,7	4,9
UK	5,4	6,9
Turkey	5,0	3,5
Other	22,6	22,5
	100,0	**100,0**

(*) Breakdown considering place of delivery

10. Cost of sales

Cost of sales in 2023 and 2022 breaks down as follows:

	2023			2022		
€ 000	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
Purchases	292,620	50,875	342,926	292,645	75,541	365,909
Change in raw materials and other inventories	23,574	(1,180)	22,394	(13,213)	(8,217)	(21,430)
Other external expenses	35,301	18,428	51,568	31,888	25,421	55,777
	351,495	**68,123**	**416,888**	**311,320**	**92,745**	**400,256**

(*) The difference between the figures presented under "Consolidated Group" for 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in 2023 and 2022 in the amounts of €2,730 thousand and €3,809 thousand, respectively.

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

11. Employee benefits expense

The breakdown of employee benefits expense in 2023 and 2022 is provided below:

€ 000	2023			2022		
	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
Wages and salaries	61,839	15,477	77,316	56,741	13,342	70,083
Social security	16,351	4,019	20,370	14,051	3,265	17,316
Contributions to pension plans (note 3.14)	2,204	365	2,569	2,029	317	2,346
Other benefit expense	1,602	201	1,803	1,410	190	1,600
	81,996	20,062	102,058	74,231	17,114	91,345
Long-term remuneration plans (note 3.14)	1,086	37	1,123	57	31	88
Termination benefits	199	592	791	1,100	658	1,758
	83,281	**20,691**	**103,972**	**75,388**	**17,803**	**93,191**

11.1 Headcount

The average Group headcount by job category and gender in 2023 and 2022:

	Average headcount during the period					
	2023			2022		
Job category	Men	Women	Total	Men	Women	Total
KMP	57	17	74	51	14	65
Managers	68	27	95	60	23	83
Team leaders	68	5	73	68	5	73
Skilled professionals	216	147	363	195	122	317
Clerical staff	15	37	52	16	38	54
Operators	292	46	338	288	34	322
Support and upgrade staff	47	45	92	47	48	95
Maintenance staff	133	2	135	131	2	133
	896	**326**	**1.222**	**856**	**286**	**1.142**

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

	Year-end headcount					
	2023			2022		
Job category	Men	Women	Total	Men	Women	Total
KMP	57	19	76	54	15	69
Managers	69	31	100	63	24	87
Team leaders	69	5	74	69	5	74
Skilled professionals	226	160	386	201	134	335
Clerical staff	17	40	57	15	40	55
Operators	299	47	346	277	36	313
Support and upgrade staff	49	43	92	47	42	89
Maintenance staff	130	1	131	123	3	126
	916	**346**	**1.262**	**849**	**299**	**1.148**

At year-end 2023, 12 employees had a disability of a severity of 33% or higher (year-end 2022: 10).

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

11.2 Long-term remuneration plans

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.

2023-2027 long-term incentive plan | ENCE Pulp and Corporate

At the Annual General Meeting held on 5 May 2023, the Parent's directors approved the "2023-2027 long-term incentive plan" for executive, including the Company's Chairman & CEO, and other Group employees (the "LTIP"). The LTIP entitles its beneficiaries 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 LTIP Rules.

The LTIP's initial potential beneficiaries include the Company's top executives and other key management personnel who, either on account of their duties or background, have the ability to directly influence the outcome of the Group's business plans. The LTIP will run for five years, from 1 January 2023 to 31 December 2027 divided into three overlapping, independent three-year cycles to be settled within the 90 days following the last year of each cycle.

The amount of the incentive corresponding to each cycle depends on the degree of delivery of a series of financial, non-financial and shareholder value creation targets, which are approved by the Board of Directors on the basis of a proposal from its Appointments and Remuneration Committee.

For the bonuses to accrue, the minimum level of delivery must be met, measured using the criteria associated with the various targets, and for the beneficiaries to still be providing their services to ENCE on the corresponding vesting date, subject to the exceptions customary in incentive schemes such as these.

Cycle I of the LTIP represents 60% of the total incentive and cycles II and III each represent 20% of the total incentive.

The incentive contemplated in this LTIP consists of a percentage of average fixed remuneration during the period spanned by each cycle depending on the beneficiary's job category and will be settled 70% in shares and 30% in cash, other than the members of the Management Committee, who will receive all of their bonuses in shares. The Chairman and CEO and the rest of the members of the Management Committee have also agreed to certain lock-up periods for the shares received.

The number of shares to be delivered will be determined using a benchmark share price calculated as the average share price during the 20 days before and after 31 December in the first year of each cycle. The benchmark price for cycle I is €3.24 per share.

At 31 December 2023, the LTIP covered a total of 83 professionals from ENCE Pulp and the Corporate area and the maximum expected cost of Cycle I, assuming delivery levels of 100%, amounted to €11,033 thousand.

The expense / (income) accrued in this respect in 2023, itemised by counterbalancing entry, is shown in the table below:

€ 000	2023
Other equity instruments (note 20.7)	1,205
Current and non-current provisions (note 31)	230
	1,435

2019-2023 long-term incentive plan | ENCE Pulp and Corporate

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, in order 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 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.

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 and CEO and the rest of the members of the Management Committee have also agreed to certain lock-up periods for the shares received.

At 31 December this LTIP covered a total of 65 professionals from ENCE Pulp. Considering the degree of attainment of the targets contemplated in Cycle II of this remuneration plan, and assuming that all the beneficiaries remain in the Company's employment until the settlement date, Cycle II is expected to cost €0.8 million (with approximately 55% corresponding to senior management).

The expense / (income) accrued in this respect in 2023 and 2022, broken down by their counterbalancing entries, is shown in the table below:

€ 000	2023	2022
Other equity instruments (note 20.7)	(244)	38
Current and non-current provisions (note 31)	(105)	19
	(349)	**57**

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.

2021-2025 long-term incentive plan | Magnon Green Energy

At 31 December 2023, ENCE Renewables' LTIP covered a total of 26 professionals from that business, and the maximum expected cost, assuming delivery levels of 100%, amounted to €3,021 thousand.

The Group accrued €37 thousand of expense in respect of this plan in 2023 (2022: €31 thousand) and the liability accumulated as of the reporting date stood at €114 thousand and is recognised under "Non-current provisions" in the accompanying consolidated statement of financial position (note 31).

Extraordinary long-term incentive | Magnon Green Energy

On 24 March 2022, the Board of Directors of Magnon Green Energy, S.L. approved a long-term incentive for certain of its key employees. This incentive will entitle its beneficiaries to receive an extraordinary bonus payable in cash tied to the return obtained by this subsidiary's shareholders between 18 December 2020 and 18 December 2028. This bonus will be paid during the 90 days following the date on which the 2028 financial statements are authorised for issue.

To accrue this bonus, the shareholder must have accrued a minimum internal rate of return (IRR) of 10% and the beneficiaries must remain in the employment of or party to an equivalent arrangement with Magnon until the payment date, subject to the exceptions customary in incentive schemes such as these.

At 31 December 2023, this extraordinary bonus scheme covered a total of five professionals and the maximum expected cost, assuming delivery levels of 100%, amounted to €4,938 thousand.

The Group did not accrue any expense in respect of this scheme in 2023; nor had it recognised any accumulated liability at year-end.

12. Other operating expenses

The breakdown of this consolidated statement of profit or loss heading in 2023 and 2022 for the businesses carried on by ENCE was as follows:

	2023			2022		
€ 000	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
External services	147,288	66,894	212,962	182,593	72,466	253,848
Use of emission allowances	8,344	3,288	11,632	7,838	2,814	10,652
Taxes other than income tax	2,993	2,021	5,014	2,162	2,842	5,004
Change in trade and other provisions	(511)	126	(385)	(227)	86	(141)
Other non-recurring operating expenses (note 31)	619	409	1,028	21,000	-	21,000
	158,733	**72,738**	**230,251**	**213,366**	**78,208**	**290,363**

(*) The difference between the figures presented under "Consolidated Group" for 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in 2023 and 2022 in the amounts of €1,220 thousand and €1,211 thousand, respectively.

12.1 External services

The breakdown of "External services" in 2023 and 2022 is as follows:

€ 000	2023			2022		
	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
Transport, freight and business expenses	62,555	3,262	65,817	62,512	2,390	64,902
Utilities	12,177	5,147	17,134	56,390	6,822	62,970
Repairs and upkeep	16,926	22,225	39,151	16,224	24,914	41,138
Independent professional services	5,531	2,152	7,683	4,988	2,908	7,896
Insurance premiums	4,931	3,712	8,643	4,388	3,578	7,966
Banking and similar services	2,334	669	3,003	1,067	811	1,878
Rent and fees (note 17.3)	678	264	942	572	202	774
Advertising, publicity and public relations	3,812	158	3,970	1,029	119	1,148
Research and development costs	155	7	162	72	-	72
Other services	38,189	29,298	66,457	35,351	30,722	65,104
	147,288	**66,894**	**212,962**	**182,593**	**72,466**	**253,848**

(*) The difference between the figures presented under “Consolidated Group” for 2023 and 2022 and the addition of the figures corresponding to the “Pulp” and “Renewables” businesses corresponds to the elimination of transactions performed between these business segments in 2023 and 2022 in the amounts of €1,220 thousand and €1,211 thousand, respectively.

In 2023, ENCE Pulp’s biomills switched from an energy regime in which all of the energy they generated was sold and they purchased the energy they needed in the process to one in which they simply sell the surplus between what they generate and what they consume. That switch is largely responsible for the year-on-year reduction in costs shown under “Cost of sales”.

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 2023 and 2022.

12.2 Audit fees

The financial statements of the companies comprising the ENCE Group (Appendix I) were audited by KPMG Auditores, S.L. in 2023 and 2022.

The fees paid to the auditor and entities related to the latter for account auditing and other services in 2023 and 2022 are shown in the next table:

€ 000	2023	2022
Audit services	235	235
Services related with the audit	25	13
Other services	56	43

The audit-related services provided by the auditor in 2023 related to a review of financial ratios to comply with financial agreement covenants, assurance services related with the internal control over financial reporting system and the review of certain financial metrics to certify several facilities' status as intense users of electricity and their compliance with supplier payment terms. Other services in the tables above mainly includes non-financial information assurance services.

13. Finance income and costs

The breakdown of this heading in 2023 and 2022 was as follows:

	2023			2022		
€ 000	Pulp	Renewables	Total	Pulp	Renewables	Total
Finance costs:						
Convertible bonds	(193)	-	(193)	(2,285)	-	(2,285)
Notes	-	(5,460)	(5,460)	-	(3,091)	(3,091)
Loans, credit facilities & other	(16,882)	(3,520)	(20,402)	(3,453)	(2,256)	(5,709)
Unwind of discount - Tariff Adjustment - and other	(3,555)	(5,598)	(9,153)	(2,642)	(6,215)	(8,857)
Fees and other charges	(1,280)	(1,471)	(2,751)	(1,762)	(2,449)	(4,211)
Capitalised borrowing costs (note 18)	316	9	325	247	25	272
Inter-business finance income/costs	787	(787)	-	1,022	(1,022)	-
Right-of-use assets (note 17)	(2,274)	(90)	(2,364)	(1,927)	(51)	(1,978)
	(23,081)	(16,917)	(39,998)	(10,800)	(15,059)	(25,859)
Finance income:						
Contingent consideration (note 27)	869	156	1,025	861	144	1,005
Other finance income	4,759	776	5,535	34	33	67
	5,628	932	6,560	895	177	1,072
Hedging derivatives:						
Settlement of IR swap (note 30)	86	3,159	3,245	-	(1,469)	(1,469)
	86	3,159	3,245	-	(1,469)	(1,469)
	(17,367)	**(12,826)**	**(30,193)**	**(9,905)**	**(16,351)**	**(26,256)**

"Other finance income" mainly includes the remuneration earned on cash surpluses.

14. Earnings per share

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

Earnings/(loss) per share	Unit	2023	2022
Consolidated profit/(loss) for the period attributable to equity holders of the parent	€ 000	(24,720)	247,220
Weighted average ordinary shares outstanding (*)	Millions of shares	242.4	242.4
Weighted average diluted shares	Millions of shares	242.4	261.1
Basic earnings per share	**€**	**(0.10)**	**1.02**
Diluted earnings per share	**€**	**(0.10)**	**0.95**

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

In 2023 the diluted earnings per share figures do not include the potential ordinary shares depending on delivery of the targets set down in the Group's different remuneration plans - 4 million shares - as their inclusion has an anti-dilutive effect.

In 2022 the diluted earnings per share calculations considered: (i) the potential ordinary shares originating from the Group's convertible securities (18.7 million shares), subtracting the finance costs associated with those securities (€2,665 thousand) from the consolidated earnings figure; and (ii) the potential shares related with delivery of the 2019-2023 long-term bonus plan targets, estimated at 1,138 thousand shares at year-end 2022, assuming target delivery of 100%.

15. Goodwill and other intangible assets

The reconciliation of the carrying amounts of goodwill and the various components of intangible assets and amortisation and impairment in 2023 and 2022 is as follows:

	€ 000				
31 December 23	Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31 December 2023
Goodwill	2,737	-	-	-	2,737
Software	34,767	143	-	2,693	37,603
Development costs	18,452	-	-	-	18,452
Prepayments	1,758	5,787	-	(3,097)	4,448
Electric power generation rights	21,002	-	-	-	21,002
Watering rights	4,578	-	-	209	4,787
Other intangible assets	6,185	-	-	-	6,185
Total cost	**89,479**	**5,930**	**-**	**(195)**	**95,214**
Software	(26,986)	(2,670)	-	-	(29,656)
Development costs	(13,867)	(480)	-	-	(14,347)
Electric power generation rights	(2,327)	(843)	-	-	(3,170)
Watering rights	(246)	(229)	-	-	(475)
Other intangible assets	(1,809)	(141)	-	-	(1,950)
Total amortisation	**(45,235)**	**(4,363)**	**-**	**-**	**(49,598)**
Impairment (note 19)	**(6,337)**	**-**	**13**	**(25)**	**(6,349)**
Total	**37,906**				**39,266**

31 December 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
Watering rights	4,558	-	-	20	4,578
Other intangible assets	6,161	24	-	-	6,185
Total cost	**86,467**	**3,041**	**(29)**	**-**	**89,479**
Software	(24,746)	(2,194)	29	(75)	(26,986)
Development costs	(13,383)	(484)	-	-	(13,867)
Electric power generation rights	(1,484)	(843)	-	-	(2,327)
Watering rights	(18)	(228)	-	-	(246)
Other intangible assets	(1,584)	(216)	-	(9)	(1,809)
Total amortisation	**(41,215)**	**(3,965)**	**29**	**(84)**	**(45,235)**
Impairment (note 19)	**(7,314)**	**(1,493)**	**2,386**	**84**	**(6,337)**
Total	**37,938**				**37,906**

15.1 *Additions and other movements*

The Group made sizeable investments in digitalising and standardising its key business processes in both 2023 and 2022.

The Group did not capitalise any own work within intangible assets in 2023 or 2022.

At 31 December 2023 and 2022, 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 2023, there were fully-amortised intangible assets still in use with an original cost of €37,470 thousand (year-end 2022: €35,623 thousand).

15.2 *Goodwill*

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 2023 and 2022 (note 19).

16. Property, plant and equipment

The reconciliation of the carrying amounts of the Group’s biological assets and the accumulated depreciation in 2023 and 2022 is as follows:

31 December 23	Balance at 1 January 2023 (€ 000)	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 31 December 2023
Forest land	83,794	4,062	-	-	-	87,856
Other land	15,262	1,369	-	79	(5)	16,705
Buildings	160,827	425	-	4,998	-	166,250
Plant and machinery	1,835,754	3,171	(1,555)	41,094	(3)	1,878,461
Other PP&E	56,700	93	-	2,806	-	59,599
Prepayments and PP&E in progress	25,169	68,695	(1,871)	(48,351)	-	43,642
Rights of use (note 17)	47,345	9,843	(2,829)	(431)	-	53,928
Total cost	**2,224,851**	**87,658**	**(6,255)**	**195**	**(8)**	**2,306,441**
Buildings	(73,370)	(5,448)	-	-	-	(78,818)
Plant and machinery	(1,081,064)	(76,562)	44	6	3	(1,157,573)
Other PP&E	(34,248)	(2,749)	-	-	-	(36,997)
Rights of use (note 17)	(9,177)	(4,653)	2,193	-	-	(11,637)
Total depreciation	**(1,197,859)**	**(89,412)**	**2,237**	**6**	**3**	**(1,285,025)**
Impairment (note 19)	**(43,116)**	**(2,853)**	**13,527**	**25**	**-**	**(32,417)**
Carrying amount	**983,876**					**988,999**

31 December 2022	Balance at 1 January 2022 (€ 000)	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
Rights of use (note 17)	25,009	11,055	11,281	-	-	47,345
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)	(76,094)	51,264	(4,181)	(5)	(1,081,064)
Other PP&E	(39,175)	(2,670)	8,029	(431)	(1)	(34,248)
Rights of use (note 17)	(6,489)	(4,144)	1,456	-	-	(9,177)
Total depreciation	**(1,167,828)**	**(88,133)**	**62,952**	**(4,844)**	**(6)**	**(1,197,859)**
Impairment (note 19)	**(203,719)**	**(38,292)**	**194,051**	**4,844**	**-**	**(43,116)**
Carrying amount	**883,561**					**983,876**

The Group's productive assets are all located in Spain.

16.1 *Additions*

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

	€ 000	
	31 Dec. 2023	31 Dec. 2022
Pulp business:		
Pontevedra & corporate	32,765	16,450
Navia	26,885	17,655
Other	1,781	1,351
Renewables business:		
46-MW Huelva	5,605	2,098
50-MW Huelva	3,381	1,548
50-MW Puertollano	3,235	2,390
Other	4,163	3,545
Subtotal	**77,815**	**45,037**
Right-of-use assets (note 17)	9,843	11,055
	87,658	**56,092**

At the Pontevedra biomill it is worth highlighting the €15.5 million invested to clean wastewater from the biomill itself and from the adjacent municipal treatment facility for reincorporation into the industrial process (note 7). At the Navia biomill the Group notably invested €5.8 million to adapt the productive process to enable the manufacture of pulp for absorbent personal care products (fluff pulp) and €1.5 million to overhaul the generation turbine.

Capital commitments

The Group was contractually committed to capital expenditure totalling approximately €33 million at 31 December 2023.

16.2 *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	31 Dec. 2023	31 Dec. 2022
Buildings	28,475	24,408
Plant	130,988	128,289
Machinery & equipment	313,170	304,803
Tools	717	712
Furniture & fittings	2,352	2,348
Other	11,902	11,706
	487,604	**472,266**

16.3 *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 2023 and 2022 and is included in “Valuation adjustments” in equity (note 21.6).

16.4 *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.

17. Right-of-use assets

17.1 *Right-of-use assets*

The reconciliation of the carrying amounts of the various components of "Right-of-use assets" and the corresponding accumulated depreciation charges at the beginning and end of 2023 and 2022:

		€ 000			
31 December 2023	Note	Balance at 1 January 2023	Additions/ (charges)	Derecognitions	December 2023
Cost:					
Pontevedra biomill land	16	19,898	-	-	19,898
Forest leases	16	9,633	1,581	(1,082)	10,132
Other (*)	16	17,383	8,262	(1,747)	23,898
Cost		**46,914**	**9,843**	**(2,829)**	**53,928**
Depreciation:					
Pontevedra biomill land	16	384	391	-	775
Forest leases	16	2,394	687	(793)	2,288
Other (*)	16	6,399	3,575	(1,400)	8,574
Depreciation		**9,177**	**4,653**	**(2,193)**	**11,637**
Impairment	19	-	-	-	-
Carrying amount		**37,737**			**42,291**

(*) Mainly includes offices and vehicles.

		€ 000			
31 December 2022	Note	Balance at 1 January 2022	Additions/ (charges)	Derecognitions	December 2022
Cost:					
Pontevedra biomill land	16	3,791	22,970	(6,863)	19,898
Forest leases	16	9,616	753	(736)	9,633
Other (*)	16	11,602	7,230	(1,449)	17,383
Cost		**25,009**	**30,953**	**(9,048)**	**46,914**
Depreciation:					
Pontevedra biomill land	16	-	384	-	384
Forest leases	16	2,145	680	(431)	2,394
Other (*)	16	4,344	2,973	(918)	6,399
Depreciation		**6,489**	**4,037**	**(1,349)**	**9,177**
Impairment	19	**3,791**	**-**	**(3,791)**	**-**
Carrying amount		**14,729**			**37,737**

(*) Mainly includes offices and vehicles.

17.2 *Lease liabilities*

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2023 and 2022:

		€ 000						
31 December 2023	Note	Balance at 1 January 2023	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 31 December 2023
Current debt	28.2	3,676	-	(7,381)	28	6,420	2,364	5,107
Non-current debt	28.2	35,624	11,135	-	(611)	(6,420)	-	39,728
		39,300	**11,135**	**(7,381)**	**(583)**	**-**	**2,364**	**44,835**

		€ 000						
31 December 2022	Note	Balance at 1 January 2022	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 31 December 2022
Current debt	28.2	3,995	-	(5,891)	(4,567)	8,161	1,978	3,676
Non-current debt	28.2	13,576	32,574	-	(2,365)	(8,161)	-	35,624
		17,571	**32,574**	**(5,891)**	**(6,932)**	**-**	**1,978**	**39,300**

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 contacts with a term of between one and five years; of 6.1%-6.3% 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 6.8%-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.

17.3 *Amounts recognised in the consolidated statement of profit or loss*

The table below depicts the impact on "Depreciation and amortisation" and "Finance costs" in the consolidated statement of profit or loss for 2023 and 2022 of the leases accounted under IFRS 16 and the lease payments made during those years:

		€ 000		
2023	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	13 & 16	391	1,538	1,570
Other land	13 & 16	687	325	1,106
Other assets	13 & 16	3,575	501	4,705
		4,653	**2,364**	**7,381**

		€ 000		
2022	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	13 & 16	384	1,540	1,570
Other land	13 & 16	680	256	913
Other assets	13 & 16	2,973	182	3,408
		4,037	**1,978**	**5,891**

The expenses recognised in connection with short-term leases and variable lease payments not included in the measurement of the lease liability amounted to €942 thousand in 2023 (2022: €774 thousand) (note 12.1).

Considering the leases in place at 31 December 2023, depreciation charges and interest expense related to the Group's right-of-use assets will average €3.9 million and €2.5 million, respectively, in the next five years (at year-end 2022: €2.2 million and €0.4 million, respectively).

18. 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 2023 and 2022:

	€ 000			
2023	Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Balance at 31 December 2023
Pulp business:				
Forest cover	116,700	16,450	(4,368)	128,782
Depletion of forest reserve	(53,815)	(8,797)	4,246	(58,366)
Impairment (note 19)	(2,508)	(1,000)	-	(3,508)
	60,377	**6,653**	**(122)**	**66,908**
Renewables business:				
Forest cover	2,002	49	-	2,051
Depletion of forest reserve	(1,752)	-	-	(1,752)
Impairment (note 19)	(96)	-	-	(96)
	154	**49**	**-**	**203**
	60,531			**67,111**

2022	Balance at 1 January 2022 (€ 000)	Additions/ (charges) (€ 000)	Derecognitions or decreases (€ 000)	Balance at 31 December 2022 (€ 000)
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 (note 19)	(4,430)	(1,000)	2,922	(2,508)
	59,583	**(1,386)**	**2,180**	**60,377**
Renewables business:				
Forest cover	2,381	46	(425)	2,002
Depletion of forest reserve	(2,133)	(30)	411	(1,752)
Impairment (note 19)	(109)	-	13	(96)
	139	**16**	**(1)**	**154**
	59,722			**60,531**

In 2023 ENCE was awarded the forest land of Sniace in Cantabria, which encompasses a total of 3,362 hectares of forest, of which 117 hectares are owned (note 16), five Nitens eucalyptus seed orchards and two commercial *Globulus* eucalyptus species resistant to local pests for a combined sum of €10.8 million.

Elsewhere, in 2023, ENCE planted 1,273 hectares of land (2022: 1,529 hectares) and carried out forest preservation and protection work on 19,878 hectares (2022: 13,843 hectares), work which entailed investment totalling €16,499 thousand (2022: €6,620 thousand). A portion of the above investments - €8,779 thousand in 2023 and €5,707 thousand in 2022 - has been recognised within “Own work capitalised” in the consolidated statement of profit or loss.

In 2023, the Group capitalised €1,012 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs (2022: €936 thousand) (note 17).

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

18.1 *Breakdown of forest cover*

An analysis of the Group’s forest cover at year-end 2023 and 2022 is provided below:

	Spain & Portugal			
	2023		2022	
Age (years)	Hectares (*)	Carrying amount (€ 000)	Hectares (*)	Carrying amount (€ 000)
> 17	1,658	2,722	957	1,490
14 - 16	5,226	12,135	2,357	5,893
11 - 13	7,135	15,832	7,471	17,937
8 - 10	5,923	7,825	7,310	12,357
4 - 7	11,176	12,524	8,018	7,300
0 - 3	18,072	19,677	21,336	18,158
Impairment of biological assets	-	(3,604)	-	(2,604)
	49,190	**67,111**	**47,449**	**60,531**

(*) 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.

19. Impairment of non-financial assets

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

		€ 000				
	Note	01/01/2023	Charges	Amounts used	Amounts reversed	31/12/2023
Goodwill	15	2,737	-	-	-	2,737
Other intangible assets	15	3,600	-	-	12	3,612
Property, plant and equipment	16	43,116	2,853	-	(13,552)	32,417
Biological assets	18	2,604	1,000	-	-	3,604
Inventories						
Spare parts	20	11,898	934	(79)	436	13,189
Net realisable amount & other	20	1,841	7,766	(335)	(9,107)	165
		65,796	**12,553**	**(414)**	**(22,211)**	**55,724**

		€ 000						
			Additions/(charges)					
	Note	01/01/2022	Concession agreement in Pontevedra	Charges	Amounts used	Amounts reversed	Transfers	31/12/2022
Goodwill	15	1,244	-	1,493	-	-	-	2,737
Other intangible assets	15	6,070	(2,386)	-	-	-	(84)	3,600
Property, plant and equipment	16	203,719	(181,548)	38,292	(12,330)	(173)	(4,844)	43,116
Biological assets	18	4,539	(2,479)	1,000	(456)	-	-	2,604
Inventories								
Spare parts	20	18,774	(2,929)	1,022	(4,969)	-	-	11,898
Net realisable amount & other	20	42	-	1,799	-	-	-	1,841
		234,388	**(189,342)**	**43,606**	**(17,755)**	**(173)**	**(4,928)**	**65,796**

(*) The impacts recognised under “Pontevedra concession agreement” are broken down in note 31.

The breakdown of "Impairment of and gains/(losses) on disposal of fixed assets" in the 2023 and 2022 consolidated statements of profit or loss is shown below:

€ 000	Note	2023 Impairment losses (*)	2023 Gains/(losses) on derecognition/ sale	2023 Total	2022 Impairment	2022 Gains/(losses) on derecognition/ sale	2022 Total
Goodwill	15	-	-	-	1,493	-	1,493
Other intangible assets	15	(13)	-	(13)	(2,386)	-	(2,386)
Property, plant and equipment	16	(10,674)	1,864	(8,810)	(143,429)	1,905	(141,524)
Biological assets	18	1,000	-	1,000	(1,479)	-	(1,479)
		(9,687)	**1,864**	**(7,823)**	**(145,801)**	**1,905**	**(143,896)**

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

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), without considering any terminal value. Those projections incorporate assumptions about output, costs and other fundamental variables substantiated by specific studies prepared by experts or borne out by historical data, assumptions regarding future energy prices based on available information gleaned from the futures markets and assumptions regarding macroeconomic developments based on data sourced from reliable independent sources.

At both reporting dates, the Group tested its renewable energy generation facilities fuelled by biomass and gas within ENCE Renewables for impairment as a result of the trend in energy futures, changes in the regulatory environment and the trend in certain macroeconomic variables, including inflation and interest rates, all of which were considered potential indicators of impairment. The Pulp business is a cyclical business so that the assessment of whether there are indications of impairment spans periods of over one year. The forecasts for pulp prices published by specialist sector analysts, which have increased considerably since the third quarter of 2023, together with our estimate for production costs in the medium term, reveal no indications that the various CGUs comprising the Pulp business are impaired.

As a result of those tests, in 2022, considering the regulations applicable in the electricity sector at the time, the Group recognised impairment losses against the assets at the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 27-MW Cordoba facilities totalling €38,291 thousand, with a charge against "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss. That impairment loss included €1,368 thousand corresponding to the remaining goodwill allocated to the 16-MW Jaen and 16-MW Ciudad Real plants (note 16).

In 2023 the Group reversed the impairment losses recognised against the 41-MW Huelva and 27-MW Cordoba facilities by €13,445 thousand, due mainly to the trend in regulatory and pool prices and their impact on the CGUs' Tariff Adjustment, which left their carrying amount at €13,931 thousand at year-end. The Group recognised additional impairment losses at the 16-MW Jaen and 16-MW Ciudad Real facilities totalling €2,853 thousand, due mainly in the trend in the cost of the fuel which those facilities are designed to use, which left their carrying amount at €2,165 thousand at year-end.

The recoverable amount and carrying amount of the cash generating units tested for impairment in 2023 amounted to €438 million and €358 million, respectively (year-end 2022: €445 million and €424 million, respectively).

19.1 *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 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 at year-end 2023 relied on the best forward-looking information available and specifically contemplated the following assumptions:

Biomass-fuelled renewable energy business

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, within a range of between €80/MWh and €85/MWh in 2024 and 2025 and within a range of between €50/MWh and €64/MWh from 2026, along with the supplementary mechanisms provided for in prevailing regulations.

Operating costs and capex. These costs were projected in line with the costs incurred in recent years.

Biomass costs. These costs are projected to vary in line with energy prices, among other considerations.

Growth rates ranging from 1.7% to 2% (except for 2024, when growth is forecast at 3%) and an after-tax discount rate of 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. During the first half of 2023, the drop in pulp prices in the international markets, coupled with an increase in production costs, triggered the recognition of impairment losses to restate the Group's inventories to their net realisable value. Those impairment losses were reverted in full in the second half of 2023 following the recovery in sales prices and levelling of production costs.

19.2 *Sensitivity analysis*

The Group also conducted sensitivity analysis around its impairment tests, varying the pool price curve and biomass price assumptions. Note that a decrease in the energy price curve and an increase in biomass prices of 5% would increase the amount of impairment losses recognised by €1 million and €3.4 million, respectively.

At 31 December 2023, impairment losses on biological assets stood at €3,604 thousand (year-end 2022: €2,604 thousand). A 3% increase in market timber prices would allow the Group to reverse the impairment allowances in full. In contrast, a 3% correction in timber sales prices would imply the need to recognise an additional €6.3 million of impairment losses.

20. Inventories

The breakdown of the Group's inventories at 31 December 2023 and 31 December 2022 is as follows:

€ 000	31/12/2023	31/12/2022
Timber and biomass	17,000	34,214
Other raw materials	3,861	2,388
High-turnover spare parts (*)	14,610	13,321
Greenhouse gas emission allowances	10,909	13,938
Finished goods and work in progress	20,034	30,253
Prepayments to suppliers	911	363
Projects under development	4,942	9,710
Impairment (note 19)	(165)	(1,841)
	72,102	**102,346**

(*) Presented net of impairment allowances of €13,189 thousand and €11,898 thousand at 31 December 2023 and 2022, respectively (note 19).

In March 2023, Magnon Green Energy S.L. closed the sale of two photovoltaic developments under construction in the towns of Andújar (Jaén) and Huelva, with combined capacity of 140 MW, for €38.1 million (note 1).

There are no restrictions on title to inventories.

At 31 December 2023, the Group had contractual agreements with suppliers for the acquisition of 0.9 million tonnes of biomass over the next two years for its energy generation plants.

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

20.1 Emission allowances

The reconciliation of the opening and year-end Group-owned greenhouse gas (GHG) emission allowance balances for 2023 and 2022 is provided in the next table:

	2023		2022	
	Number of allowances	€ 000	Number of allowances	€ 000
Opening balance	222,102	11,076	277,467	7,332
Allocations	100,411	8,352	108,990	9,103
Delivered (*)	(170,751)	(10,292)	(192,355)	(7,130)
Purchased	20,000	1,773	28,000	1,771
Closing balance	**171,762**	**10,909**	**222,102**	**11,076**

(*) 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 100,411 tonnes of carbon emissions, valued at €8,352 thousand, in 2023 (108,990 tonnes valued at €9,103 thousand in 2022).

"Current provisions" on the liability side of the consolidated statement of financial position includes €12,441 thousand at 31 December 2023 (€11,100 thousand at year-end 2022) corresponding to the liability derived from the consumption of 189,671 allowances in 2023 (172,066 allowances in 2022) (note 31).

At 31 December 2023, the Group was contractually committed to the forward purchase of 3,000 allowances at an average price of €69.13/tonne. Those contracts are expected to be executed in 2024. Elsewhere, in 2023 the Group executed forward purchase contracts over 20,000 allowances at a price of €88.65/tonne.

21. Equity

21.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2023 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 2023 and 2022 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	31/12/2023	31/12/2022
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	1.57	1.56
Directors with ownership interest of < 3%	0.62	0.62
Free float	54.70	54.71
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.

21.2 Share premium

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

21.3 Reserves

Below is the reconciliation of the opening and closing reserve balances for 2023 and 2022:

€ 000	Parent company reserves: Legal reserve	Cancelled capital reserve	Capitalisation reserve	Voluntary reserves	Retained earnings (prior-year losses)	Reserves in fully-consolidated investees	Reserves in equity-accounted investees	Total reserves
Balance at 31 December 2021	45,049	10,566	19,701	150,280	-	53,646	(79)	279,163
Appropriation of prior-year profit/(loss)	-	-	-	-	(181,378)	(9,004)	(27)	(190,409)
Trading in own shares	-	-	-	1,033	-	-	-	1,033
Non-controlling interests and other movements	-	-	-	4,220	-	(89)	-	4,131
Balance at 31 December 2022	**45,049**	**10,566**	**19,701**	**155,533**	**(181,378)**	**44,553**	**(106)**	**93,918**
Appropriation of prior-year profit/(loss)	-	-	-	-	21,494	18,564	-	40,058
Trading in own shares	-	-	-	220	-	-	-	220
Redemption of convertible bonds	-	-	-	3,147	-	-	-	3,147
Non-controlling interests and other movements	-	-	(18,928)	(139,782)	159,884	(1,268)	-	(94)
Balance at 31 December 2023	**45,049**	**10,566**	**773**	**19,118**	**-**	**61,849**	**(106)**	**137,249**

Legal reserve

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

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

21.4 Reserves in fully-consolidated companies

The 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.

21.5 Own shares

The reconciliation of "Own shares" at the beginning and end of 2023 and 2022 is as follows:

	31/12/2023		31/12/2022	
	Number of shares	€ 000	Number of shares	€ 000
Opening balance	3,843,111	12,958	3,923,750	12,296
Purchases	15,866,484	50,498	15,240,479	47,629
2019-2025 LT bonus plan (note 11.2)	-	-	(73,853)	(241)
Sales	(15,838,484)	(50,476)	(15,247,265)	(46,726)
Closing balance	**3,871,111**	**12,980**	**3,843,111**	**12,958**

The own shares held by the Company at 31 December 2023 represent 1.57% of its share capital (1.56% at 31 December 2022) and were carried at €3,484 thousand (€3,458 thousand at 31 December 2022). Those shares were acquired at an average price of €3.35 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the long-term incentive plans arranged by ENCE (note 11.2).

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

21.6 Valuation adjustments

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

€ 000	31/12/2023 Fair value	31/12/2023 Tax effect	31/12/2023 Adjustment in equity	31/12/2022 Fair value	31/12/2022 Tax effect	31/12/2022 Adjustment in equity
Revaluation of land (note 16.3)	54,102	13,510	40,592	54,102	13,510	40,592
Hedging transactions (note 30)						
IR swap	(846)	(212)	(634)	3,562	890	2,672
Exchange rate	1,057	264	793	(358)	(90)	(266)
	54,313	**13,562**	**40,751**	**57,306**	**14,310**	**42,998**

21.7 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 2023 and 2022 is as follows:

€ 000	Balance at 1 January 2023	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 31 December 2023
Convertible bonds (note 28)	3,147	(3,147)	-	-	-
Long-term bonus plan (note 11.2)	606	-	961	(239)	1,328
	3,753	**(3,147)**	**961**	**(239)**	**1,328**

€ 000	Balance at 1 January 2022	Bonds bought back	Settlement	Reclassified to profit or loss	Tax effect	Balance at 31 December 2022
Convertible bonds (note 28)	8,778	(5,631)	-	-	-	3,147
Long-term bonus plan (note 11.2)	1,119	-	(541)	38	(10)	606
	9,897	**(5,631)**	**(541)**	**38**	**(10)**	**3,753**

21.8 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2023 and 2022 is as follows:

2023	€ 000				
Company	Balance at 1 January 2023	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 31 December 2023
Energía de la Loma, S.A.	5,568	(259)	(1,959)	-	3,350
Energías de la Mancha Eneman, S.A.	5,490	(2,798)	(2,092)	-	600
Bioenergía Santamaría, S.A.	(2,729)	6,618	-	-	3,889
MAGNON	108,507	242	-	(1,308)	107,441
BioCH4 Developments, S.L.	400	(153)	-	-	247
Total	**117,236**	**3,650**	**(4,051)**	**(1,308)**	**115,527**

2022	€ 000				
Company	Balance at 1 January 2022	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 31 December 2022
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)
MAGNON	102,066	3,187	-	3,254	108,507
BioCH4 Developments, S.L.	-	-	-	400	400
Total	**112,858**	**1,706**	**(982)**	**3,654**	**117,236**

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.

The "Other changes" column mainly reflects the impact on non-controlling interests of the "Valuation adjustments" (note 21.6).

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

22.1 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 proposed 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.

22.2 Dividends paid

In 2022, the Parent's Board of Directors approved three interim cash dividends from 2022 profits in an aggregate amount of €0.274 per share, equivalent to €66.6 million.

In February 2023, the Board of Directors agreed a fourth interim cash dividend from 2022 profits of €0.29 per share and at the Parent's Annual General Meeting on 5 May 2023, the Company's shareholders agreed to pay a final cash dividend of €0.29 per share against 2022 earnings. Those two resolutions resulted in the payment of €140.6 million of dividends in 2023.

The related forecast liquidity position 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 dividends, is provided in the separate annual financial statements of Ence Energía y Celulosa, S.A.

22.3 Proposed appropriation of the Parent's profit

In 2023, Ence Energía y Celulosa, S.A. recognised a separate loss of €34,455 thousand. The Parent's directors propose appropriating that loss to "Retained earnings/(prior-year losses)", a motion that will be submitted for approval at the Annual General Meeting.

23. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2023 and 2022 is as follows:

€ 000	Subsidised loans (note 28.2)	Grants relating to assets	Emission allowances (note 20.1)	Other	Total
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**	**6,408**
Additions, new grants (*)	-	636	-	-	636
Emission allowances granted	-	-	8,352	-	8,352
Reclassified to profit or loss	-	(1,026)	(8,352)	-	(9,378)
Balance at 31 December 2023	**1**	**6,011**	**-**	**6**	**6,018**

(*) 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, development and innovation (RDI) projects. 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 28.2).

24. Financial instruments by category

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

Year-end 2023

€ 000	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total a 31/12/2023
Investments accounted for using the equity method		-	-	34	34
Derivative financial instruments	30	-	4,085	-	4,085
Trade and other receivables	25	34,975	-	-	34,975
Trade receivables and other financial assets - Group companies and related parties	25 & 34	1,779	-	-	1,779
Other financial assets	27.2	47,262	-	19,175	66,437
Cash and cash equivalents	27.1	333,032	-	-	333,032
Total financial assets		**417,048**	**4,085**	**19,209**	**440,342**
Derivative financial instruments	30	-	4,034	-	4,034
Trade and other payables	26	222,920	-	-	222,920
Other non-current and current liabilities	29	104,129	-	-	104,129
Trade payables and other financial liabilities - Group companies and related parties	26 & 34	6,206	-	-	6,206
Notes and other marketable securities	28.1	131,744	-	-	131,744
Bank borrowings	28.1	405,721	-	-	405,721
Other financial liabilities	28.2	87,720	-	-	87,720
Total financial liabilities		**958,440**	**4,034**	**-**	**962,474**

Year-end 2022

€ 000	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 31 December 2023
Investments accounted for using the equity method		-	-	40	40
Derivative financial instruments	30	-	5,910	-	5,910
Trade and other receivables	25	49,168	-	-	49,168
Trade receivables and other financial assets - Group companies and related parties	25 & 34	491	-	-	491
Other financial assets	27.2	18,935	-	23,779	42,714
Cash and cash equivalents	27.1	412,913	-	-	412,913
Total financial assets		**481,507**	**5,910**	**23,819**	**511,236**
Derivative financial instruments	30	-	358	-	358
Trade and other payables	26	344,485	-	-	344,485
Other non-current and current liabilities	29	111,234	-	-	111,234
Trade payables and other financial liabilities - Group companies and related parties	26 & 34	19,663	-	-	19,663
Notes and other marketable securities	28.1	141,736	-	-	141,736
Bank borrowings	28.1	166,190	-	-	166,190
Other financial liabilities	28.2	89,273	-	-	89,273
Total financial liabilities		**872,581**	**358**	**-**	**872,939**

The derivative financial instruments are valued using level 2 inputs, i.e., different quoted price variables that are observable either directly or indirectly (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 fair value of the financial assets and liabilities carried at amortised cost, which include financing arranged at fixed rates of interest (notes 5 and 28), is not significantly different from the amounts at which they are carried.

25. Trade and other receivables

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

€ 000	31/12/2023	31/12/2022
Trade receivables:		
Pulp	28,009	32,255
Renewables	3,373	13,163
Other items	3,058	3,551
Trade receivables, group companies and related parties (note 34)	1,767	455
Other receivables	4,585	4,501
Provision for impairment	(4,050)	(4,302)
	36,742	**49,623**

The credit period on pulp sales averages between 54 and 58 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.

The line item "Provision for impairment" in the table above included additions for the year totalling €1,177 thousand (with a charge against "Impairment of financial assets") in the consolidated statement of profit or loss, and amounts used and other movements totalling €1,429 thousand.

25.1 Discounting facilities

The Group has arranged the following non-recourse discounting facilities (note 3.7):

€ 000	2023		2022	
	Undrawn limit	**Drawn down**	**Undrawn limit**	**Drawn down**
Pulp	94,000	83,900	115,000	45,166
Renewables	33,400	4,455	-	-
	127,400	**88,355**	**115,000**	**45,166**

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 2023 are expected to be collected from the corresponding debtors, rather than via sale.

26. Trade and other payables

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

€ 000	31/12/2023	31/12/2022
Trade and other payables	186,556	311,132
Trade payables, group companies and related parties	1,094	1,457
Payable to fixed-asset suppliers	27,366	22,465
Employee benefits payable	8,998	10,888
	224,014	**345,942**

At 31 December 2022, the Group recognised €85.4 million within "Trade and other payables" corresponding to surplus amounts collected from the electricity sector watchdog in 2022 in light of new regulations applicable to the generation of electricity from renewable sources that were passed in 2022. That balance was reimbursed in full in the first half of 2023.

The Group has arranged the following non-recourse reverse factoring facilities:

€ m	**2023**		**2022**	
	Undrawn limit	**Drawn down**	**Undrawn limit**	**Drawn down**
Pulp	134,500	58,955	130,500	76,511
Renewables	47,000	19,807	48,000	23,055
	181,500	**78,762**	**178,500**	**99,566**

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 disclosures required under final provision two of Law 31/2014 (of 3 December 2014), prepared in accordance with the related Resolution issued by the Spanish Audit and Accounting Institute (ICAC) on 29 January 2016. That information relates to Spain, which is the geography to which this law applies exclusively:

	Days	
	2023	2022
Average supplier payment term (days)	63	64
Paid transactions ratio (days)	65	66
Outstanding transactions ratio (days)	45	53
	€ 000	
Total payments made	874,664	908,982
Total payments outstanding	122,319	156,619

Below also is the information required under Law 18/2022 (of 28 December 2022) on business creation and growth with respect to the inventories paid within the deadline prescribed in applicable legislation:

	2023		2022	
€ 000	Amount	%	Amount	%
Payments made	449,934	51%	405,961	45%
No. of invoices paid	35,127	53%	20,062	33%

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

"Average period of payment to suppliers" is understood as the period that elapses from the delivery of the goods or the provision of the services by the supplier to payment for the transaction. That term is calculated by dividing the sum of the paid transactions ratio times total payments made plus the outstanding transactions ratio times total payments outstanding by the sum of total payments made and total payments outstanding.

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.

27. Financial assets

27.1 Cash and cash equivalents

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

27.2 Other financial assets

The breakdown of this consolidated statement of financial position heading at year-end 2023 and 2022:

	31/12/2023		31/12/2022	
€ 000	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 29)	-	27,129	-	-
ENCE's share liquidity agreement (note 21.5)	1,039	-	2,058	-
Contingent consideration (note 34)	2,657	16,518	5,630	18,149
Receivable under equipment sub-leases	-	4,689	-	2,557
Debt cash reserve	-	10,000	-	10,000
Security deposits and other accounts receivable	1,467	2,938	2,210	2,110
	5,163	**61,274**	**9,898**	**32,816**

The "Debt service reserve account" includes cash held to cover the obligation, stipulated in the financing taken on by the Renewables 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 28), which was fully undrawn at both 31 December 2023 and 2022.

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, of a minority interest of 49% in its subsidiary, Magnon Green Energy, S.L., the holding company for ENCE's Renewables business. 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. At 31 December 2023, ENCE recognised a balance receivable of €17,160 thousand (year-end 2022: 21,920 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.

Elsewhere, "Contingent consideration" includes a receivable in the amount of €2,015 thousand at 31 December 2023 (€1,859 thousand at year-end 2022) 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 €1,025 thousand in 2023 (2022: €1,005 thousand) (note 13). The other movement under this heading in 2023 reflects the collection of €5,630 thousand.

28. Borrowings

28.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2023 and 2022 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

2023			Maturity					
			Current					
€ 000	Limit	Drawn down	2024	2025	2026	2027	Beyond	Total non-current
Borrowings - Pulp business								
Notes issued	53,047	53,047	53,047	-	-	-	-	-
Revolving credit facility	130,000	-	-	-	-	-	-	-
Bank loans	390,500	360,500	82,444	75,610	78,829	67,301	56,316	278,056
Arrangement fees	-	(902)	(285)	(261)	(184)	(106)	(65)	(616)
Interest and coupons payable and other	-	2,303	2,303	-	-	-	-	-
	573,547	**414,948**	**137,509**	**75,349**	**78,645**	**67,195**	**56,251**	**277,440**
Borrowings - Renewables business								
Notes issued	79,000	79,000	-	79,000	-	-	-	79,000
Revolving credit facility	20,000	-	-	-	-	-	-	-
Bank loans	43,983	43,983	33,733	10,250	-	-	-	10,250
Arrangement fees	-	(515)	(180)	(335)	-	-	-	(335)
Interest and coupons payable and other	-	48	48	-	-	-	-	-
	142,983	**122,516**	**33,601**	**88,915**	-	-	-	**88,915**
	716,530	**537,464**	**171,110**	**164,264**	**78,645**	**67,195**	**56,251**	**366,355**

2022			Maturity				
			Current				
€ 000	Limit	Drawn down	2023	2024	2025	2026	Total non-current
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 - Renewables 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**	-	**121,889**
	458,350	**307,926**	**99,076**	**60,889**	**132,932**	**15,029**	**208,850**

Each business finances itself independently of the other. There are no significant cross-guarantees or other recourse mechanisms.

The amount of interest payments payable in the future in relation to the “Bank borrowings and capital markets issues” and “Other financial liabilities - Financing granted by public organisms”, assuming existing indebtedness and prevailing interest rates, range between €15 million and €18 million at ENCE Pulp and between €6 million and €8 million at ENCE Renewables.

ENCE's average borrowing cost was 4.64% in 2023 (2022: 2.13%). The average borrowing cost at ENCE Pulp was 4.68% (2022: 1.55%), compared to 4.51% at ENCE Renewables (2022: 4.03%).

At 31 December 2023, 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 - ENCE Pulp

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 were as follows:

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 (*):	8.5636
Conversion premium:	40%
Conversion ratio (shares / bond):	11,677
Maximum no. of shares to be issued:	18,683,731
Potential dilution (% increase in share capital):	7.59%
Traded on:	Frankfurt stock exchange
ISIN	XS1783932863
Issuance costs:	€2,075,000

(*) The conversion price changed to 8.5636 on 1 July 2022

In March 2023, ENCE redeemed those bonds in full at maturity.

Elsewhere, ENCE has a €130 million revolving credit facility with a syndicate of Spanish and international banks which is due in 2026. This revolving credit facility accrues interest at a rate of interest benchmarked to Euribor. The interest rate may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which has assessed that debt as "green" financing. The revolving credit facility was fully undrawn at 31 December 2023.

Loans

In 2023, ENCE arranged several loans in a total amount of €273 million. As a result, at 31 December 2023, having repaid €7.5 million, ENCE had loans in a combined amount of €360.5 million that fall due between 2023 and 2030 (€95 million due between 2023 and 2026 at 31 December 2022).

A portion of those loans, with a face value of €29.5 million, accrues interest at fixed rates ranging between 1.95% and 4.6%. The remainder mainly accrue interest at Euribor plus a spread of between 1.35% and 2.0%. The interest rate on 76% of the loans arranged may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which has assessed that debt as "green" financing.

In order to hedge the risk associated with these floating-rate borrowings, ENCE has arranged interest-rate swaps over 53% of the balance drawn down, locking in a fixed rate of 3.32% (note 30).

Other financing

On 9 October 2023, ENCE registered a sustainable promissory notes programme with Spain's alternative fixed-income market, MARF, under which is can issue up to €200 million of paper with maturities of up to 24 months. The balance of promissory notes outstanding at 31 December 2023 stood at €53.4 million; those notes fall due during the first half of 2024.

Borrowings - ENCE Renewables

Recourse borrowings

On 24 November 2017, Magnon Green Energy, S.L. (hereinafter, "Magnon"), the holding company for ENCE's Renewables 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			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	36,000	36,000	Dec. 2025 (ii)	3.45%
Tranche 1	9,333	9,333	Dec. 2024	1.75%-3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	21,000	21,000	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)	7,650	7,650	Dec. 2025	1.75%-3.25%
	142,983	**122,983**		

(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 Renewables 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, MAGNON 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 estimated that the Group fully complied with those obligations at both reporting dates.

The financing agreement also stipulates a cash sweep within the scope of the agreement of at least €30 million, specifically the 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, MAGNON restructured the hedge agreements it had written for the purposes of its previous facilities. The new interest-rate swaps cover 90% of the financing drawn down and lock in an average rate of 1.22% (note 30).

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.

28.2 Other financial liabilities

The breakdown of this consolidated statement of financial position heading at year-end 2023 and 2022:

2023		Maturity							
		Current							
€ 000	Drawn down	2024	2025	2026	2027	2028	Beyond	Total non-current
Other financial liabilities - Pulp business								
Financing granted by public organisms	42,885	8,737	8,130	8,161	6,305	6,316	5,236	34,148
Liabilities for right-of-use assets (note 17)	42,003	4,005	3,791	3,128	2,667	1,570	26,842	37,998
	84,888	**12,742**	**11,921**	**11,289**	**8,972**	**7,886**	**32,078**	**72,146**
Other financial liabilities - Renewables business								
Liabilities for right-of-use assets (note 17)	2,832	1,102	665	516	320	152	77	1,730
	2,832	**1,102**	**665**	**516**	**320**	**152**	**77**	**1,730**
	87,720	**13,844**	**12,586**	**11,805**	**9,292**	**8,038**	**32,155**	**73,876**

2022		Maturity						
		Current						
€ 000	Drawn down	2023	2024	2025	2026	2027	Beyond	Total non-current
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 17)	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 - Renewables business								
Liabilities for right-of-use assets (note 17)	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**

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 RDI activities. The loans are repayable over a 10-year term and bear interest at fixed rates ranging between 1% and 2.29%. There is a three-year grace period.

28.3 Statement of cash flows

Below is a reconciliation between the changes in the Group's borrowings (bank borrowings, capital markets issues and other financial liabilities) and the cash flows from financing activities presented under "Proceeds from and repayment of financial liabilities" in the 2023 and 2022 statement of cash flows:

2023 € 000	Balance at 1 January 2023	Cash flows: Issues and drawdowns (net of fees)	Cash flows: Repayments/instalments paid	Cash flows: Notes bought back	Cash flows: Interest paid	Changes in financial liabilities with no impact on statement of cash flows: Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Unwinding of discount and other	Balance at 31 December 2023
Borrowings - Pulp business										
Notes and bonds	63,300	66,400	(76,300)	-	-	-	-	-	(353)	53,047
Bank loans	94,461	272,339	(7,500)	-	-	-	298	-	-	359,598
Other financial liabilities	49,973	858	(7,905)	-	-	(71)	-	-	31	42,886
Interest and coupons payable and other	1,186	-	-	-	(15,171)	16,289	-	-	-	2,304
Liabilities related with right-of-use assets	37,603	-	(5,953)	-		2,274	-	8,079		42,003
	246,522	**339,597**	**(97,658)**	**-**	**(15,171)**	**18,492**	**298**	**8,079**	**(322)**	**499,837**
Derivatives associated with financing	-	-	-	-	1,299	-	-	-	(5,334)	(4,035)
	246,522	**339,597**	**(97,658)**	**-**	**(13,872)**	**18,492**	**298**	**8,079**	**(5,656)**	**495,802**
Borrowings - Renewables business										
Notes and bonds	78,436	-	-	-	-	-	261	-	-	78,697
Bank loans	70,520	-	(27,067)	-	-	-	318	-	-	43,771
Interest and coupons payable and other	23	-	-	-	(9,742)	9,767	-	-	-	48
Liabilities related with right-of-use assets	1,697	-	(1,429)	-		90	-	2,474	-	2,832
	150,676	**-**	**(28,496)**	**-**	**(9,742)**	**9,857**	**579**	**2,474**	**-**	**125,348**
Derivatives associated with financing	5,910	-	-	-	2,867	-	-	-	(5,748)	3,029
	156,586	**-**	**(28,496)**	**-**	**(6,875)**	**9,857**	**579**	**2,474**	**(5,748)**	**128,377**
	403,108	**339,597**	**(126,154)**	**-**	**(20,747)**	**28,349**	**877**	**10,553**	**(11,404)**	**624,179**

2022 € 000	Balance at 1 January 2022	Cash flows: Issues and drawdowns (net of fees)	Cash flows: Repayments/instalments paid	Cash flows: Notes bought back	Cash flows: Interest paid	Changes in financial liabilities with no impact on statement of cash flows: Interest accrued	Arrangement fees accrued	Changes related to right-of-use assets	Unwinding of discount and other	Balance at 31 December 2022
Borrowings - Pulp business										
Notes and bonds	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 - Renewables 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)	-	-	-	3,250	5,910
	197,468	**-**	**(30,569)**	**(14,000)**	**(7,186)**	**5,132**	**803**	**1,688**	**3,250**	**156,586**
	503,030	**66**	**(53,384)**	**(79,279)**	**(12,360)**	**12,150**	**1,457**	**25,642**	**5,786**	**403,108**

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

The breakdown of this consolidated statement of financial position heading at year-end 2023 and 2022:

€ 000	31/12/2023 Current	31/12/2023 Non-current	31/12/2022 Current	31/12/2022 Non-current
Assets:				
Tariff Adj. - reg. stub period: 2023-2025 (note 27.2)	-	27,129	-	-
	-	**27,129**	**-**	**-**
Liabilities:				
Tariff Adjustment - prior reg. stub periods	7,402	95,757	6,892	103,099
Other	-	970	-	1,243
	7,402	**96,727**	**6,892**	**104,342**

The "Adjustment for tariff shortfall/surplus" account includes the amounts due from and/or 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 Adjustment concept (notes 3.15, 9 and Appendix III).

The breakdown of the liability in respect of the “Adjustment for tariff shortfall/surplus” at 31 December 2023 and 2022, classified by the year in which the balances are due settlement (which happens when a facility enters its last regulatory stub period) and/or reclassification to profit or loss, is provided below:

	Maturity							
		Current						
2023	Total	2024	2025	2026	2027	2028	Beyond	Total non-current
Balances payable:								
Pulp business:	32,391	2,073	2,226	2,391	2,568	2,758	20,375	30,318
Renewables business:	70,551	5,329	5,723	5,590	6,004	4,284	43,621	65,222
	102,942	**7,402**	**7,949**	**7,981**	**8,572**	**7,042**	**63,996**	**95,540**
Net position	**102,942**	**7,402**	**7,949**	**7,981**	**8,572**	**7,042**	**63,996**	**95,540**

	Maturity							
		Current						
2022	Total	2023	2024	2025	2026	2027	Beyond	Total non-current
Balances payable:								
Pulp business:	34,321	1,930	2,073	2,226	2,391	2,568	23,133	32,391
Renewables 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 position	**109,991**	**6,892**	**7,402**	**7,949**	**7,940**	**8,527**	**71,281**	**103,099**

30. Derivative financial instruments

In keeping with the financial risk management policy outlined in note 5, the Group arranges derivative financial instruments primarily to hedge its financial risks.

The breakdown of this consolidated statement of financial position heading at 31 December 2023 and 2022 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
€ 000	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Cash flow hedges:								
IR swap	1,283	3,224	1,718	2,579	3,441	-	593	-
IR swap arrangement fee	27	107	-	-	-	-	-	-
Currency hedges	-	-	1,057	-	-	-	-	358
Total	**1,310**	**3,331**	**2,775**	**2,579**	**3,441**	**-**	**593**	**358**

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in 2023 and 2022 are shown below:

€ 000 - Gain/(loss)	2023	2022
Impact on operating profit:		
Currency hedges	(378)	(20,425)
Pulp price hedges	-	73
Energy sales price hedges	-	9
Subtotal	(378)	(20,343)
Impact on net finance costs:		
IR swap (note 13)	3,245	(1,469)
Total	**2,867**	**(21,812)**

All of the derivatives arranged by ENCE at 31 December 2023 qualify for hedge accounting.

30.1 Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 31 December 2023:

Underlying	Expiry	Strike price Call	Strike price Put	Notional amount (USD m)
EUR/USD	1Q24	1.063	1.110	28.5
EUR/USD	2Q24	1.064	1.108	28.5
EUR/USD	3Q24	1.067	1.099	17.5
EUR/USD	4Q24	1.085	1.110	9.0
				83.5

The contracts outstanding at 31 December 2023 cover approximately 17.47% and 8.15% of forecast pulp sales in the first and second halves of 2024, respectively. Those outstanding at 31 December 2022 covered approximately 10.11% and 8.13% of forecast pulp sales in the first and second halves of 2023, respectively.

Those instruments presented a positive market value of €1,057 thousand at 31 December 2023 (a negative market value of €358 thousand at year-end 2022).

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 2023 is shown below:

€ 000	Change in USD/EUR exchange rate	Operating profit (-)/+	Impact on equity (-)/+
2023	5% depreciation	2,865	2,148
	5% appreciation	(2,669)	(2,002)
2022	5% depreciation	2,087	1,565
	5% appreciation	(2,488)	(1,866)

30.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2023 and 2022 are shown below:

€ 000	Fair value	Notional amount at year-end: 2023	2024	2025	2026	2027
2023						
Pulp business	(4,034)	-	154,325	136,539	91,809	46,813
Renewables (*)	3,001	-	3,188	-	-	-
2022						
Renewables (*)	5,803	111,371	3,188	-	-	-

(*) Balance receivable

There was no hedge ineffectiveness in respect of these derivatives in 2023. In 2022 hedge ineffectiveness prompted 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 that year-end.

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 2023 is shown below:

€ 000	Change in interest rates	Impact on finance cost (-)/+	Impact on equity (-)/+
2023	50bp increase	518	1,952
	50bp decrease	(518)	(1,972)
2022	50bp increase	(308)	(900)
	50bp decrease	308	913

31. Provisions, guarantees and contingent liabilities

31.1 Provisions

The reconciliation of the opening and closing balances of current and non-current provisions in 2023 and 2022 is as follows:

2023	€ 000 Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31 December 2023
Non-current:					
Long-term bonus plan (note 12.2)	425	268	(1)	(347)	345
Dismantling provision	24,598	-	827	-	25,425
Other	2,960	467	(909)	-	2,518
	27,983	**735**	**(83)**	**(347)**	**28,288**
Current					
Short-term bonus plan (note 11.2)	-	-	(105)	347	242
Emission allowances (notes 12 & 20.1)	11,100	12,339	(10,998)	-	12,441
Pontevedra Community Plan & other	31,700	-	(2,200)	-	29,500
	42,800	**12,339**	**(13,303)**	**347**	**42,183**

2022	€ 000 Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Balance at 31 December 2022
Non-current:				
Long-term bonus plan (note 11.2)	375	50	-	425
Dismantling provision	42,631	-	(18,033)	24,598
Provisions for contractual obligations	6,059	62	(6,121)	-
Other	2,160	1,119	(319)	2,960
	51,225	**1,231**	**(24,473)**	**27,983**
Current				
Long-term bonus plan (note 11.2)	309	-	(309)	-
Emission allowances (notes 12 & 20.1)	7,578	11,100	(7,578)	11,100
Pontevedra Community Plan & other	10,935	21,000	(235)	31,700
	18,822	**32,100**	**(8,122)**	**42,800**

In 2016, ENCE 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, assuming certain investment and economic contribution commitments.

The investment commitments included investments - already executed - totalling €61 million in environmental upgrade and job creation initiatives at the biomill in Pontevedra, as well as investments - currently under analysis - related primarily with the generation of energy using biomass, in an estimated amount of €94 million.

The contributions include economic contributions designed to improve the living standards of the people of Galicia totalling €21 million and the rollout of a framework 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 life of the concession (note 12).

The heading "Pontevedra Community Plan and other" also includes other potential obligations of uncertain amount derived from the termination of certain contracts related with the Group's logistics activities.

Provision for dismantling:

The present value of the obligations assumed in connection with the dismantling of the pulp manufacturing plant located in Pontevedra, assuming that this work will begin in 2073, is estimated at €25,425 thousand (year-end 2022: €24,598 thousand).

That obligation was estimated assuming a present dismantling cost of €43 million, annual growth in costs of around 2%-3% and a discount rate of 7%-8%.

31.2 Guarantees extended to third parties

At 31 December 2023, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €96,407 thousand (€96,543 thousand at 31 December 2022), as broken down in the table below.

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

31.3 Contingent assets and liabilities

At year-end 2023, 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, a package of implementing regulations were enacted in Spain: 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, which 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 a definitive and 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, ENCE received notice from the General Technical Secretariat of the Ministry of Ecological Transition and Demographic Challenges providing it with a report from the General Directorate of Energy Policy and Mining (the Report) concluding that its claim for damages was not admissible. On 29 November 2023, ENCE presented arguments against the considerations set out in the Report, asking to have access to and see the file, a request the government has yet to answer.

In addition, ENCE has reiterated and recalled on several occasions the government's duty to rule on the Claim submission presented in 2014 in due form and time.

Given the lack of response to its Claim submission, on 10 February 2023, ENCE lodged an appeal (subsequently presenting the statement of claim on 21 June 2023) arguing the total non-viability, generated by the new regulatory framework, from 2013-2014, of the model of generating electricity from energy crops, generating a real, effective and economically quantifiable loss for ENCE related directly to the full termination of the entire production process using energy crops.

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/1232/2022 and Order TED/1295/2022 (Appendix III).

All those appeals have been ruled admissible although the Supreme Court has ruled that just one of out of four of the appeals lodged against Order TED/1232/2022 will be processed on an expedited basis. Lawsuits have been presented for all four appeals:

Ence Energía Huelva S.L.U. - Appeal 1030/2022 – IT-00841

Energías de la Mancha Eneman, S.A. - Appeal 1050/2022 - IT-00855

Energías de la Loma, S.A. - Appeal 1039/2022 - IT-00855

Ence Energía Extremadura, S.L.U. - Appeal 1033/2022 – IT-00843

The challenge mounted by ENCE is based on (i) the fact that the new regulations have retroactive effect, which is prohibited in the Spanish legal system; (ii) the failure to uphold the deadlines stipulated in relation to the remuneration regime contained in the Electricity Sector Act and Royal Decree 413/2014; and (iii) the fact that the regulations are arbitrary and contrary to the principles of good regulatory practice. The challenge also certifies violation of the principle of sufficiency of remuneration. Lastly, the Group has directly challenged Order IET/1345/2015 and asked the Supreme Court to consider the constitutionality of Royal Decree-Law 6/2022. In addition to arguments of a legal character, the challenge is based on an expert analysis determining the existence of a significant economic impact, insofar as the challenged Orders set remuneration for operation parameters that are removed from current real operating costs, so violating the Group's right to receive a remuneration regime on the legally and regulatory contemplated terms.

Public-domain concession – ENCE's biomill in Pontevedra

The resolution of 20 January 2016 granting an extension of the public-domain concession over the land on which ENCE's biomill in Pontevedra is located 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 consecutive court proceedings before the National Appellate Court's Chamber for Contentious Administrative Proceedings, which issued its rulings on 15 July 2021 and 21 September 2021, upholding the appeals lodged by Greenpeace Spain, the town council of Pontevedra and

ADPR and annulling the ministerial resolution of 16 January 2016 extending the concession, based on the Court's understanding that the resolution had failed to substantiate the fact that ENCE's biomill in Pontevedra necessarily had 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 Appellate Court rulings before the Supreme Court on 28 September 2021 and 29 November 2021, receiving rulings in its interests on 6 March 2023, when the Supreme Court upheld 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.

The two Supreme Court rulings annul the above-mentioned National Appellate Court rulings 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. The Supreme Court rulings are not subject to ordinary appeal.

The state attorney and the town council of Pontevedra did however lodge annulment proceedings seeking to have the Supreme Court ruling on the appeal related with the case brought by the town council against the concession extension annulled on technicalities. Likewise, the state attorney attempted to have the Supreme Court sentence related with the case brought by Greenpeace annulled. On 21 June 2023, the Supreme Court dismissed their annulment proceedings, reaffirming the validity of its original rulings.

Greenpeace Spain applied, after the deadline for so doing, to have the Supreme Court ruling of 28 July 2023 annulled, a case that has yet to be ruled on.

The Group is awaiting an 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, that case having been suspended at the behest of the Supreme Court until it ruled on the other two suits, since ruled on in favour of ENCE's interests.

Both the town council of Pontevedra and the state attorney have filed appeals before Spain's Constitutional Court, which has yet to rule on their admissibility.

Impacts recognised in ENCE's annual consolidated financial statements for 2022

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 consolidated statement of profit or loss:

€ 000	Note	2022
Impairment:		
Intangible assets	15 & 19	(2,386)
Property, plant and equipment	16 & 19	(181,548)
Biological assets	18 & 19	(2,479)
Inventories	20	(2,929)
Depreciation of Pontevedra biomill assets, 2022	15 & 16	9,941
Right-of-use assets	17 & 19	470
Deferred tax assets	32	(12,043)
Contractual obligations	31.1	(6,025)
ENCE Pontevedra Environmental Pact	31.1	21,000
Effect of provisions and impairment charges on income tax		7,088
		(168,911)

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, allowing the Group to reverse the outstanding balance of the provisions recognised in prior years 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 rulings likewise triggered the recognition of the obligations assumed under the Environmental Pact entered into with the regional government of Galicia and of deferred tax assets for certain previously accredited unused tax losses and tax credits.

32. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2023 and 2022 are shown below:

	31/12/2023		31/12/2022	
€ 000	Assets	Liabilities	Assets	Liabilities
Non-current:				
Deferred tax assets	94,996	-	80,707	-
Deferred tax liabilities	(26,998)	-	(27,718)	-
Total	**67,998**	-	**52,989**	-
Current:				
VAT	7,931	3,791	20,555	4,101
Current tax on profits for the year	14,993	44	8,028	13
Sundry other taxes	382	5,374	455	4,683
Total	**23,306**	**9,209**	**29,038**	**8,797**

32.1 Regimes applied and tax groups

<u>Group companies resident in Spain for tax purposes:</u>

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 VI of Title VII 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 VII 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.

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2023 and 2022 is provided below:

	€ 000	
	2023	2022
Accounting profit: Profit/(loss) before tax (*)	(33,169)	253,589
Permanent differences:		
Arising in profit or loss	(15,939)	12,681
Arising in profit or loss - Pontevedra concession (note 31)	-	(163,830)
Arising in equity	(37)	(45)
Temporary differences:		
Arising during the current year	(4,376)	24,052
Arising in prior years	(10,194)	(9,317)
Consolidation adjustments	(1,683)	(6,185)
Limiton the utilisation of tax losses	45,303	-
Utilisation of tax losses	(5,855)	(24,959)
Taxable income/(tax loss)	**(25,950)**	**85,986**

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

"Permanent differences" reflect accounting expenses and income that do not compute for income tax purposes. This line item also includes expenses and income that are eliminated as part of the consolidation process but are fully tax deductible or taxable within the scope of the individual tax returns filed by the various Group companies.

The negative permanent differences arising in earnings in 2023 relate mainly to the exemption from taxation on 95% of the gain generated on the sale of investments in photovoltaic development holding companies and on dividends received. The positive permanent differences in 2022 related mainly to impairment allowances against non-financial assets not recognised as a temporary difference.

Law 38/2022 (of 27 December 2022) introduced a temporary tax measure limiting the amount of individual tax losses of each of the companies comprising the income tax group to 50%. The amount by which the use of tax losses is curtailed as a result will be recovered in the tax group's taxable income in equal parts over each of the 10 tax years beginning on or after 1 January 2024.

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2023 and 2022 is provided below:

	€ 000	
	2023	**2022**
Accounting profit: Profit/(loss) before tax (*)	(33,169)	253,589
Permanent differences:		
Arising in profit or loss	(15,939)	12,681
Arising in profit or loss - Pontevedra concession (note 31)	-	(163,830)
Recognition / (derecognition) of unused tax losses and unused tax credits from prior years	6,851	(81,927)
Elimination of the accounting profit of entities not resident in Spain	(168)	228
Consolidation adjustments and eliminations	(1,600)	(5,610)
Taxable income/(tax loss)	**(44,025)**	**15,131**
Tax payable before adjustments	**(11,006)**	**3,783**
Deductions and adjustments in respect of prior year	(1,009)	861
Tax corresponding to entities not resident in Spain	(84)	19
Tax expense /(income)	**(12,099)**	**4,663**

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

The line item "Recognition / (derecognition) of unused tax losses and unused tax credits from prior years" reflects the impact of recognising and/or derecognising deferred tax assets related with certain previously certified accredited temporary differences and unused tax losses.

The breakdown of tax expense / (income) in 2023 and 2022:

	€ 000	
	2023	**2022**
Current tax and other	735	15,079
Deferred tax	(12,834)	(10,416)
Tax expense /(income)	**(12,099)**	**4,663**

32.4 Recognised deferred tax assets and liabilities

The reconciliation of this consolidated statement of financial position heading at the beginning and end of 2023 and 2022:

Deferred tax assets

2023	€ 000				
	Balance at 1 January 2023	Increases	Decreases	Transfers and other	Balance at 31 December 2023
Deferred tax assets recognised in profit or loss:					
Non-current asset depreciation	1,879	-	(940)	-	939
Non-current asset impairment	5,800	253	(2,769)	535	3,819
Provisions	3,259	-	(635)	1	2,625
Commitments to employees	1,460	336	(1)	94	1,889
Impairment of current assets	2,577	314	(433)	(1)	2,457
Limit on deductibility of interest expense and other	118	-	(42)	(16)	60
Leases (IFRS 16)	7,693	293	-	88	8,074
Non-resident companies and consolidation adjustments	3,374	12	(159)	(88)	3,139
Unused tax losses	44,583	18,375	(1,482)	(1,201)	60,275
Unused tax credits	9,875	4	(6)	1,405	11,278
	80,618	**19,587**	**(6,467)**	**817**	**94,555**
Deferred tax assets recognised in equity:					
Hedging derivatives (note 30)	89	706	(353)	(1)	441
	89	**706**	**(353)**	**(1)**	**441**
Total	**80,707**				**94,996**

2022	€ 000				
	Balance at 1 January 2022	Increases	Decreases	Transfers and other	Balance at 31 December 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
Leases (IFRS 16)	-	7,693	-	-	7,693
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	**13,965**	**(15,521)**	**20,498**	**80,618**
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**				**80,707**

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, unused 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 19); and (ii) the prescription periods and limits stipulated in prevailing tax legislation for the utilisation of unused tax credits.

Most of the certified tax losses and tax credits will be recoverable within the indicated tax groups. There are tax losses of €10.6 million and tax credits of €5.2 million dating to before inclusion in the Tax Groups.

The cash flows so estimated indicate that the Group's deferred tax assets are mostly recoverable within an period of around 10 years. The balance of unused tax credits and unused tax losses certified in Spain but not recognised in the statement of financial position at 31 December 2023 amounts to €14.0 million (year-end 2022: €18 million). Nor had the Group recognised assets for tax losses in Portugal of €1.4 million at year-end 2023.

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 in respect of tax credits.

<u>Deferred tax liabilities</u>

	€ 000				
2023	**Balance at 1 January 2023**	**Increases**	**Decreases**	**Transfers and other**	**Balance at 31 December 2023**
Recognised in profit or loss:					
Accelerated depreciation (RDL 4/2004)	549	-	(170)	-	379
Finance costs	35	-	(16)	(1)	18
Future dividends	-	-	-	1,926	1,926
Leases (IFRS 16)	7,795	95	-	(3)	7,887
Consolidation and other adjustments	3,714	2,281	(2,420)	(1,737)	1,838
	12,093	**2,376**	**(2,606)**	**185**	**12,048**
Recognised in equity:					
Revaluation of forest land (note 16.3)	13,510	-	-	-	13,510
Convertible bonds (note 28)	137	-	(137)	-	-
Hedging derivatives (note 30)	-	1	(777)	1,744	968
Consolidation and other adjustments	1,978	338	(97)	(1,747)	472
	15,625	**339**	**(1,011)**	**(3)**	**14,950**
Total	**27,718**				**26,998**

2022	€ 000				
	Balance at 1 January 2022	Increases	Decreases	Transfers and other	Balance at 31 December 2022
Recognised in profit or loss:					
Accelerated depreciation (RDL 4/2004)	731	-	(182)	-	549
Finance costs	51	-	(16)	-	35
Leases (IFRS 16)	-	7,795	-	-	7,795
Consolidation and other adjustments	3,690	1,948	(1,926)	2	3,714
	4,472	**9,743**	**(2,124)**	**2**	**12,093**
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**				**27,718**

Following the amendment of IAS 12 *Income tax*, which took effect on 1 January 2023, with retroactive effect to 1 January 2022, the Group now recognises deferred tax assets and liabilities for leases recognised under IFRS 16 (note 2.6).

32.5 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by the tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The Tax Groups have their returns open to inspection for 2021 and 2022.

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 and of those same companies' value added tax and personal income tax withholding returns for 2019 and 2020.

That review concluded on 13 September 2023 and all of the assessments handed down were signed uncontested. The total net cost of the review, which did not involve any fines for the items reassessed, for the Group was €0.9 million. As a result, the authorities confirmed the unused tax losses and tax credits certified by the Group companies as well as credit pending appropriation for the years reviewed in the amount of €3.2 million.

Also as part of the inspection process, ENCE and MAGNON reaffirmed their right to challenge certain tax measures contained in Royal Decree-Law 3/2016 by signing assessments under protest so to be able to benefit from the potential declaration of their unconstitutional nature. On 18 January 2024, Spain's Constitutional Court, in plenary session, unanimously ruled that several of the income tax modifications introduced via Royal Decree-Law 3/2016, including the limit on the utilisation of tax losses, were unconstitutional, rendering them void (note 36). This ruling was considered a non-adjusting event after the end of the reporting period for the purpose of testing the recoverability of the Group's unused tax losses.

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.

32.6 Other information

In December 2022, the member states of the European Union approved Directive (EC) 2022/2523, of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union (Pillar II). That Directive is currently in the process of being transposed into Spanish law. The Group has conducted a preliminary assessment of the Directive and, pending its definitive transposition into Spanish law, does not expect its application to have any significant impacts on it.

ENCE has availed of the tax neutrality regime provided for in Chapter VII of Title VII of Spain's Corporate Income Tax Act (Law 27/2014, of 27 November 2014) and notified the tax authorities of the following transactions: 1) the non-monetary contribution to Magnon Green Energy, S.L.U. in 2020 of certain industrial assets (including the “El Sancho” dam) located in Huelva, carried at €13,562 thousand, with a market value, which was the value at which they were contributed, of €26,923 thousand; 2) the non-monetary contribution to Magnon Green Energy, S.L.U. in 2018 of land carried at €779 thousand with a market value, which was the value at which that land was contributed, of €2,460 thousand; and 3) the non-monetary contribution to Ence Renovables S.L. in 2023 of shares of Magnon Green Energy, S.L.U. representing 51% of its share capital with a carrying amount of €112,528 thousand, a contribution value of €113,960 thousand and a market value of €124,925 thousand.

Following the sale of 49% of the shares of Magnon Green Energy, S.L. in 2020, ENCE paid tax on 49% of the gain generated by the first two contributions itemised above.

33. Director and key management personnel pay and other benefits

33.1 Compensation paid to the members of the Board of Directors

As stipulated in article 38 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 held on 5 May 2023, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2023-2026 (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 2023 and 2022 in their capacity as directors:

2023 - Director	Type	€ 000			
		2023			
		Fixed remuneration	Attendance fees & other	Total	2022
Fernando Abril-Martorell Hernández	Other external	45	48	93	108
Ángel Agudo Valenciano	Proprietary	45	38	83	66
Carmen Alicia Aquerreta Ferraz	Independent	45	46	91	69
Gorka Arregui Abendivar	Proprietary	45	49	94	105
Javier Arregui Abendivar	Proprietary	45	63	108	110
Oscar Arregui Abendivar	Proprietary	45	34	79	99
José Ignacio Comenge Sánchez-Real	Proprietary	45	31	76	95
Ignacio de Colmenares Brunet	Executive	135	0	135	135
Rosa María García Piñeiro	Independent	45	69	114	114
Rosalía Gil-Albarellos Marcos	Independent	45	54	99	77
Irene Hernández Álvarez	Independent	45	82	127	133
María Paz Robina Rosat	Independent	45	60	105	109
José Guillermo Zubía Guinea	Other external	45	60	105	117
Víctor de Urrutia Vallejo	Proprietary	-	-	-	18
Miren Amaia Gorostiza Tellería	Independent	-	-	-	32
Isabel Tocino Biscarolasaga	Independent	-	-	-	32
		675	**634**	**1,309**	**1,419**

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 2023 or 2022.

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 €750 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 2023, including his fixed and variable remuneration, totalled €1,295 thousand (2022: €1,323 thousand). The Chairman & CEO is also the beneficiary of a mixed savings, life and accident insurance policy (note 3.14), 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. The contribution to that retirement plan was €220 thousand in 2023 (2022: €184 thousand).

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 (note 11). 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 11).

Other considerations

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 2023 or 2022.

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.

There were no changes to the composition of the Board of Directors in 2023.

The changes in the composition of the Board of Directors in 2022 were the following: (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 members of the Board of Directors did not receive any termination benefits in either 2023 or 2022. 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 during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

33.2 Key management personnel remuneration

Key management personnel (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
Ignacio de Colmenares y Brunet	Chairman & Chief Executive Officer
Alfredo Avello de la Peña	Finance, Corporate Development and Forest Assets Officer
Jordi Aguiló Jubierre	Pulp Business Officer
Guillermo Negro Maguregui (i)	Managing Director of Magnon Green Energy, S.L.
Reyes Cerezo Rodríguez-Sedano	General Secretary | Sustainability Officer
Isabel Vallejo de la Fuente (ii)	Human Capital Officer
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
Fernando González-Palacios Carbajo	Planning and Control Manager
Ángel J. Mosquera López-Leyton	Head of Internal Audit

(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, joined the KMP team, and Marc Gómez Ferret left it.

(ii) On 15 May 2023, Isabel Vallejo de la Fuente joined the key management personnel team as Chief Human Capital Officer, replacing María José Zueras Saludas.

Below is a breakdown of the remuneration and other benefits provided to the Group's key management personnel, excluding that corresponding to the Chairman & CEO, in 2023 and 2022:

€ 000	2023	2022
Fixed remuneration	1,931	1,843
Variable remuneration	1,126	1,169
Savings schemes (note 3.14)	102	92
In-kind & other remuneration	129	100
	3,288	**3,204**
2019-2023 LT bonus plan (note 11.2)	-	196
	3,288	**4,054**

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 11). ENCE's key management personnel received €88 thousand and 35,337 ENCE shares (valued at €111 thousand) under that settlement.

The Group's key management personnel are beneficiaries of Cycle II of the long-term bonus plan for 2019-2023, and of the long-term bonus plans for 2023-2027 and for 2021-2025 (note 11).

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.

34. Transactions with Group companies and related parties

34.1 Transactions with investees accounted for using the equity method

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

	€ 000		
31 December 2023	Current loans	Current receivables (note 25)	Current payables (note 26)
Oleoenergía de Puertollano, S.L.	12	-	-
Capacitación de Servicios Forestales, S.L.	-	641	1,036
	12	**641**	**1,036**

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

The transactions performed with investees accounted for using the equity method of consolidation in 2023 and 2022 were as follows:

2023	€ 000 Services rendered	 Operating expenses
Capacitación de Servicios Forestales, S.L.	879	3,100
	879	**3,100**

2022	€ 000 Services rendered	 Operating expenses
Capacitación de Servicios Forestales, S.L.	562	2,308
	562	**2,308**

34.2 Transactions with non-controlling interests

The balances outstanding with non-controlling interests at 31 December 2023 and 2022 are as follows:

31 December 2023	€ 000 Non-current financial assets (note 27.2)	 Current financial assets (note 27.2)	 Current receivables (note 25)	 Non-current borrowings	 Current borrowings	 Current payables (note 26)
Woodpecker Acquisitions S.á r.l.	14,503	2,657	-	4,868	244	-
San Miguel Arcángel, S.A.	-	-	278	-	-	-
Aceites y Energía Santamaría, S.A.	-	-	848	-	-	58
	14,503	**2,657**	**1,126**	**4,868**	**244**	**58**

31 December 2022	€ 000 Non-current financial assets (note 27.2)	 Current financial assets (note 27.2)	 Current receivables (note 25)	 Non-current borrowings	 Current borrowings	 Current payables (note 26)
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**

The non-current debt corresponds to a loan extended by Woodpecker Acquisitions S.a.r.l . to Magnon Green Energy, S.L. A net amount of €12,975 thousand was prepaid in 2023 (€18,992 thousand in 2022).

The transactions carried out with non-controlling shareholders in 2023 and 2022:

2023	Sales (€ 000)	Purchases (€ 000)	Operating expenses (€ 000)	Finance costs (€ 000)
Woodpecker Acquisitions S.á r.l.	-	-	-	538
San Miguel Arcángel, S.A.	-	3,508	-	-
Aceites y Energía Santamaría, S.A.	321	2,033	368	-
	321	**5,541**	**368**	**538**

2022	Sales (€ 000)	Purchases (€ 000)	Operating expenses (€ 000)	Finance costs (€ 000)
Woodpecker Acquisitions S.á r.l.	-	-	-	1,008
San Miguel Arcángel, S.A.	-	2,942	-	-
Aceites y Energía Santamaría, S.A.	320	1,955	315	-
	320	**4,897**	**315**	**1,008**

34.3 Transactions with directors

ENCE had no balances outstanding with its directors at either year-end 2023 or 2022. Moreover, ENCE did not perform any transactions with directors in either year.

35. 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, 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. In 2023, ENCE started a new line of business consisting of the provision of decarbonisation solutions to customers based on renewable heat generation. With this business, the Company is helping sectors that are hard to electrify and require a lot of industrial heat to reduce their carbon footprints.

- ✓ Framed by its diversification strategy, ENCE looks for business opportunities aligned with its circular bioeconomy model. That was what prompted it to 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 2023, ENCE also started to research the production of moulded pulp products for the manufacture of containers and trays apt for replacing plastic products made using fossil fuels.

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 emissions filtering and measurement systems, ways to reduce water consumption and pollution in water 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 2023 is shown below:

	€ 000
Pulp business	22,631
Renewables business	5,004
	27,635

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

Compliance and best available techniques

Although the Company's ambition is to go beyond its legal obligations, ENCE's environmental commitment first and foremost entails stringent and exhaustive compliance with prevailing legislation, which stipulates the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources, and to adapt for the best available techniques (BAT) defined in the sector BREF (Best Available Techniques Reference Document for the pulp and paper industry, 2014) approved by the European Parliament's ENVI Committee and the Best Available Techniques (BAT) Reference Document for Large Combustion Plants (LCPs) - Industrial Emissions Directive 2010/75/EU (2017).

In 2023, 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 2023, the Navia biomill worked to optimise the process whereby, having completed the related project at the end of 2022, it can abate the hydrogen chloride (HCl) emissions from its biomass furnace to levels that are below those proposed in the BREF for LCPs. Although the BREF for LCPs does not apply to the biomass furnace in Pontevedra, on account of its thermal capacity, ENCE took advantage of the maintenance stoppage there to invest in improving its electro-filters in order to reduce particle emissions.

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 emissions limits for each facility, 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 regular 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 area 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 governance

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 annual improvement targets, 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
- UNE-EN-ISO 45001 - occupational health and safety management

- UNE-EN-ISO 50001 - energy management

It is certified by an accredited organism that carries out the corresponding audits.

Elsewhere, the Pontevedra and Navia biomills were pioneers in their respective regions in obtaining certification under Regulation (EC) No. 1221/2009 on the 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.

In early 2024, the two pulp biomills will obtain ISO 22001 food safety certification, culminating a project ENCA worked on throughout the course of 2023.

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 2023, ENCE renewed 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 the biomass consumed in its facilities 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. In 2023, all ENCE facilities boasted that certification and work continued to encourage its suppliers to likewise certify their biomass.

In 2023, Ecovadis awarded ENCE its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance. The score obtained by ENCE puts it at the global forefront in sustainability matters. Indeed, ENCE ranked in the 99th percentile, at the forefront of its sector.

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 its 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.

It is also working to recover waste such as slag and ash by converting them into subproducts and entering niches to give these products a new lease of life.

Climate change and carbon footprint mitigation

ENCE's business model directly helps combat climate change. Thanks to the power it generates from renewable sources (electricity and industrial heat), 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. To that end, in 2023 it defined a new decarbonisation roadmap to 2035, setting reduction targets aligned with the goal of keeping global warming within 1.5ºC, in line with the Paris Agreement. Under that plan, since July 2023, having successfully researched and executed the project and obtained the required permit, the Navia biomill has been replacing some of the fossil fuel burned in its lime furnaces with biomethane, a renewable biofuel produced from decaying organic matter.

Sustainable forestry management

In 2023, Ence reinforced its position and role as the leading private forest manager and a key player in the timber-based product market in Spain by acquiring 3,330 hectares of eucalyptus plantations from Sniace.

ENCE manages the forest value chain end-to-end (from plantation to harvesting of forest assets); 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 its 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) (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 over 73% overall. As for the forests under its management, around 84% 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 2023, ENCE purchased timber from more than 1,600 forest owners and nearly 200 traders, 98% of which are small owners and over 85% of which are small suppliers, evidencing ENCE’s commitment to supporting smaller players.

In 2023, in a bid to reinforce its commitment to the rural community, while fostering the development, sustainability and visibility of the forestry sector, ENCE unveiled Ence Terra, the Company's new vision for its forestry activity. Ence Terra reaches out to the forestry sector to enhance its prospects, cast the sector in a positive light and encourage active dialogue among the various players in the forestry value chain.

Through a number of initiatives, Ence Terra is working to make the sector itself and the value it generates for society more visible (by encouraging sector communication and stepping up the Company's participation in trade fairs and forums and increasing contact with universities and research centres), specifically highlighting the value of the eucalyptus as a key species in producing the timber needed to drive the circular bioeconomy. And reinforcing ENCE's commitment to the rural community in parallel.

Ence Terra is the company encompassing all of the Group's activity around sustainable forestry management in northern Spain: from management of the Group's forests and third-party assets under different contractual arrangements to the purchase and supply of timber, including the provision of advice to owners, the development and sale of nursery plants, research in the forestry area and the ecosystemic services which the Company has certified. This new vision is accompanied by an ambitious plan for reinforcing the relationship between Ence Terra and the rest of the sector companies (suppliers, partners, logistics firms, etc.), forest owners and the various authorities.

Sustainable management of biomass procurement

In 2023, ENCE reinforced its position as a benchmark buyer of agricultural and forestry biomass for power generation purposes, supplying both its independent energy plants and 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 2023, ENCE continued to apply 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. Over 90% of the biomass used by the Company in 2023 compliance with the above criteria.

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.

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 2023, in addition to renewing this certification at all its facilities, ENCE continued to work on encouraging its suppliers to obtain certification, so achieving the certified biomass consumption milestones required by law.

ENCE Pulp

Navia biomill

In 2019, the Navia biomill upgraded and optimised the facility's technology. That work included the implementation of best available practices in a significant number of productive processes, increasing its nominal capacity by 80,000 ADt, while also improving the biomill's environmental performance by enhancing equipment and system technology throughout the productive process, framed by the BREF best available techniques. 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 (m^3 per tonne of pulp produced) for several years already. Between 2022 and 2023, the Navia biomill 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 Navia biomill recorded its best ever performance in this KPI, reducing its unit water consumption by 6% in 2023 vs. 2022 and by 19% by comparison with 2021.

In terms of wastewater quality, improvements were introduced at the treatment plant in order to facilitate water filtering by enhancing the biological system, 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 (replacing the existing decanter), enabling more efficient 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. This investment has unlocked a significant reduction in the ratio of total suspended matter in this 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%. In 2023, both biomills continued to mark new records. Nevertheless, ENCE continues to set new targets year after year.

Between 2022 and 2023, ENCE 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 canopying 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 2023 the related indicators improved considerably: odour at the Navia biomill, measured in minutes, decreased by over 43% from 2022 levels.

In 2023, the Navia biomill renewed certification of its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body. Navia was 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 excellent environmental process management.

In 2023, the biomill's environmental management system was also successfully audited under ISO 14001/2015; compliance was verified 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 its 2022 Environmental Statement was verified. 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 2023, it re-audited its energy management system under the international ISO 50001 standard, renewing its certification. 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 2023, Ence continued to work to implement the BATs, specifically implementing and optimising a system for abating the hydrogen chloride (HCl) emissions from its biomass furnace to levels that were below those proposed in the BREF for LCPs at year-end.

The most noteworthy development in relation to the emissions from the lime furnaces at the Navia biomill is the fact that since last July, the facility has been using technology for the use of biomethane produced via the anaerobic digestion of waste streams as an alternative biofuel, partly replacing the fossil fuels traditionally used there, so reducing the biomill's greenhouse gas emissions.

Pontevedra biomill

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 34% reduction in odour measured in minutes by comparison with 2022. 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 2023 when the facility recorded consumption of 26.0 m³ per tonne of pulp, a new record low in the biomill's history.

In 2022, due to the exceptional drought in Galicia, the Pontevedra biomill was forced to suspend operations due to the shortage of water. Faced by that situation, the Group designed a solution that 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 reintroduction into the pulp production process. In that manner, instead of sending the water from the two treatment facilities (municipal and industrial) to the sea, it was suitably treated and reused at the 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 severe drought in the future.

As for its wastewater, in 2023, the Pontevedra biomill defended the results attained in prior years. All of the biomill's wastewater readings came in 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 55%, coming in at 3.15 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 84% 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 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, in 2023. The Pontevedra biomill was the first of ENCE's facilities to obtain that seal. In 2023, it recovered over 99% of its waste.

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 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.

The Pontevedra biomill also has a management system to demonstrate the sustainability criteria of its biomass under the SURE scheme.

Framed by its circular economy and climate change strategies, in 2023 ENCE continued to develop special products under the umbrella of its “Ence Advanced” trademark, which it uses to offer society natural products with improved environmental attributes. Those products include Naturcell, pulp designed and developed at the Pontevedra biomill, which 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.

Renewables business

In 2023, the Renewables 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 14001 standard in September. Targets were set for reducing water consumption, improving air quality and waste management and cutting noise levels.

Throughout 2023 this business also continued to participate in Group-wide projects, such as research into how to recover waste. A risk assessment pilot test was conducted at one of the energy plants which will be extended to the other plants in 2024.

Circular economy

In 2023, the Group achieved a number of milestones thanks to the taskforce set up in 2022 to study and drive sustainable alternatives for managing the waste generated during the operation of its energy plant. 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.

In parallel, work is ongoing on several research projects for the recovery of slag and ash waste in order to give them a second life, including use as organic compost or to produce artificial aggregates, to cite a couple of examples. The following initiatives are worth highlighting:

- ✓ Further steps were taken to get the ash generated in Huelva classified as a subproduct to replace the paste fill used in underground mining operations. The regional government of Andalusia indicated its intention to give this permission in the fourth quarter of last year. This is a joint and shared achievement and provides 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, replacement of a raw material - so avoiding degradation of the natural surroundings - and reduced carbon emissions.
- ✓ Work also continued with a number of associations from other sectors (manufacturers of aggregates, asphalts and cement and mining companies) to analyse the scope for incorporating ENCE's materials into different productive processes, so sparking cross-sector industrial symbiosis.
- ✓ Within its continuous improvement thrust, ENCE continues to champion high-potential RDI projects such as its pilot plant for the creation of technical flooring designed to remedy the area surrounding mining operations thanks to artificial flooring created mainly from waste products at ENCE's facilities.
- ✓ Another clear example of how ENCE reaches out to other companies on sustainability projects is the Phoseco Project carried out in 2023. Here the goal was to recover the phosphate contained in biomass combustion ash for use in fertilisers.
- ✓ ENCE also collaborated on phase two of the Life Icirbus 4 Industries Project, which is studying initiatives in the circular economy field. The Merida energy plant participated in the first phase of the project, which yielded satisfactory results, by contributing ash for tests.
- ✓ The initiative launched in 2022 for returning the fine materials that come with biomass to where they came from, in order to prevent soil degradation as a result of farming and forestry activities, continued in 2023. That initiative returns a natural material of value in combatting desertification and soil degradation. In 2023, the large majority of the fine materials produced at the plants in Puertollano and Merida were processed so as to enable their return to the original farming land.
- ✓ Approval was obtained for a pilot production test to research the reuse of wood crate waste at the Merida and Puertollano plants, where testing is underway.

- ✓ The Huelva plant is conducting the research, development and experimentation work for the project for drying wet, fatty olive pomace without generating emissions, which is expected to take one year to complete.

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, since 2022, ENCE has held 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.

Work is also underway to align the Company's strategy with AENOR's Circular Economy Management Model in order to achieve AENOR's "100% Circular Strategy" certification.

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, and its air quality parameters remained below the thresholds stipulated in the environmental permit in 2022.

ENCE continues to design and execute projects and action plans for reducing noise emissions.

Merida operations centre

In 2023 Merida kept its environmental readings and water consumption at the levels stipulated in its environmental permit and at the levels targeted by the Company for 2023.

Enemansa operations centre

Although this facility was not operative in 2023 it did comply with its applicable environmental parameters.

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

La Loma operations centre

This facility continued to meet its environmental parameters in 2023.

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

This plant's discharge point was modified in 2023.

The Lucena plant complied with its environmental parameters in 2023.

Biollano operations centre (Puertollano)

Work continued to focus on reducing emissions at Biollano in 2023. 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.

36. Events after the reporting date

The Group appealed, by signing the inspection assessments handed down under protest, the income tax settlements for the tax group of which ENCE is the parent for 2018, 2019 and 2020 and the settlement for Magnon Green Energy, S.L. for 2020, in order to be able to claim its right to challenge the tax measures included in Royal Decree-Law 3/2016, including, among others, the reduction in the ability to use tax losses from 70% to 25% (note 32).

On 18 January 2024, Spain's Constitutional Court, in plenary session, unanimously ruled that several of the income tax modifications introduced via Royal Decree-Law 3/2016 were unconstitutional, rendering them void. The sentence also rules that its ruling cannot be used to revisit tax debts that at the date of the ruling were considered definitive, settlements that had not been challenged by the date of the ruling or self-assessed returns whose rectification had not been requested by that same date.

ENCE has applied, presenting the corresponding appeals, to have the sentence applied to its income tax returns for 2018 to 2020. The Group estimates that if its appeals prevail it stands to recover up to €19 million of tax credits, along with the corresponding late-payment interest.

No other significant events have taken place since 31 December 2023, 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 2023 and 2022:

	Company	Registered office	Business	Interest held directly or indirectly 2023	Interest held directly or indirectly 2022	Consolidation method (b)
	Pulp business:					
	Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	100	Full
	Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	100	Full
	Ibersilva, S.A.U.	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	100	Full
(*)	Ence Terra, S.A.U. (a)	Lourizan, s/n (Pontevedra)	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. (d)	Montevideo (Uruguay)	Dormant	-	100	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
	Capacitación de Servicios Forestales, S.L.	Curtis (La Coruña)	Forestry work	25	25	EM
	Biofibras de Galicia, S.L. (d)	Beatriz de Bobadilla, 14 (Madrid)	Pulp production	100	-	Full
	Ence Biomasa, S.L.U. (d)	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	-	Full
	Ence PV, S.L.U. (d)	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	-	Full
	Ence Servicios Energéticos, S.L.U. (d)	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	-	Full
	Ibersilva Servicios Sucursal em Portugal	Lisbon (Portugal)	Forestry services	100	100	Full
	Renewables business:					
	Ence Renovables, S.L.U. (c) (d)	Beatriz de Bobadilla, 14 (Madrid)	Holdco	100	-	Full
	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
(*)	Ence CO2, S.L.U. (c)	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	100	Full
	Ence Biogás, S.L. (c) (e)	Beatriz de Bobadilla, 14 (Madrid)	Production and sale of biogas and fertilisers	100	-	Full
	BioCH4 Developments, S.L. (c) (e)	Beatriz de Bobadilla, 14 (Madrid)	Development and construction of biogas plants	60	-	Full
(*)	Magnon Servicios Energéticos, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Operation of biomass furnaces	75,5	51	Full
(*)	Magnon Biomasa, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	Sale of biomass	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. (note 1)	Beatriz de Bobadilla, 14 (Madrid)	(**)	-	51	Full
	Huelva 10 Solar, S.L.U.	Beatriz de Bobadilla, 14 (Madrid)	(**)	51	51	Full
	Andújar 100 Solar, S.L.U. (note 1)	Beatriz de Bobadilla, 14 (Madrid)	(**)	-	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. (d)	Beatriz de Bobadilla, 14 (Madrid)	(**)	19,21	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	15,3	15,3	EM
	Magnon - Juan María Estevez UTE	Orense, 58 (Madrid)	Management of forest waste	65	-	PC

(a) Audited annual financial statements

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

(c) In 2023, Ence CO2, Ence Biogás and BioCH4 Developments were transferred from Ence to Ence Renovables.

(d) Changes in consolidation group in 2023 (note 6).

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

(*) Name changed in 2023. Ence Terra, S.A.U., formerly Norte Forestal, S.A.U.; Ence CO2, S.L.U., formerly Ence Servicios Corporativos, S.L.U.; Magnon Servicios Energéticos, S.L. formerly, Ancen Solar VI; Magnon Biomasa, S.L.U. formerly Ancen Solar II

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

Appendix II – Financial statements: Pulp & Renewable Energy

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2023 AND 2022

	2023				2022			
€ 000	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets	17,657	33,744	(12,135)	39,266	15,617	35,000	(12,711)	37,906
Property, plant and equipment	617,490	378,977	(7,468)	988,999	603,372	389,020	(8,516)	983,876
Biological assets	66,907	204	-	67,111	60,375	156	-	60,531
Non-current financial assets:								
Securities portfolio	113,963	-	(113,963)	-	112,528	-	(112,528)	-
Investments accounted for using the equity method	33	1	-	34	39	1	-	40
Loans to group companies and associates	22,270		(22,270)	-	18,575	-	(18,575)	-
Hedging derivatives	-	1,310	-	1,310	-	3,331	-	3,331
Other financial assets	27,684	33,590	-	61,274	20,753	12,063	-	32,816
Deferred tax assets	37,990	26,963	3,045	67,998	30,432	19,367	3,190	52,989
	903,994	**474,789**	**(152,791)**	**1,225,992**	**861,691**	**458,938**	**(149,140)**	**1,171,489**
CURRENT ASSETS:								
Inventories	54,831	17,271	-	72,102	80,486	21,860	-	102,346
Trade and other receivables	33,406	5,308	(1,972)	36,742	39,650	39,187	(29,214)	49,623
Other taxes receivable	6,107	2,206	-	8,313	19,722	1,288	-	21,010
Income tax receivable	4,844	10,149	-	14,993	6,761	1,267	-	8,028
Current financial assets:								
Loans to group companies and associates	230	68	(286)	12	389	45	(398)	36
Hedging derivatives	1,056	1,719	-	2,775	-	2,579	-	2,579
Other financial assets	5,138	25	-	5,163	9,870	28	-	9,898
Cash and cash equivalents	311,227	21,805	-	333,032	278,376	134,537	-	412,913
Other current assets	1,184	166	-	1,350	1,874	408	-	2,282
	418,023	**58,717**	**(2,258)**	**474,482**	**437,128**	**201,199**	**(29,612)**	**608,715**
TOTAL ASSETS	**1,322,017**	**533,506**	**(155,049)**	**1,700,474**	**1,298,819**	**660,137**	**(178,752)**	**1,780,204**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2023 AND 2022

€ 000	2023 Pulp	2023 Renewables (*)	2023 Adjustments & Eliminations	2023 CONSOLIDATED TOTAL	2022 Pulp	2022 Renewables (*)	2022 Adjustments & Eliminations	2022 CONSOLIDATED TOTAL
EQUITY:								
Share capital	221,645	22,795	(22,795)	221,645	221,645	22,604	(22,604)	221,645
Share premium	170,776	91,168	(91,168)	170,776	170,776	48,955	(48,955)	170,776
Reserves	159,687	(4,393)	(18,045)	137,249	118,812	(31,766)	6,872	93,918
Interim dividend	-	-	-	-	(66,553)	-	-	(66,553)
Translation differences	13	-	-	13	1	-	-	1
Own shares - parent company shares	(12,980)	-	-	(12,980)	(12,958)	-	-	(12,958)
Valuation adjustments	39,268	1,483	-	40,751	40,327	5,237	(2,566)	42,998
Other equity instruments	1,328	-	-	1,328	3,753	-	-	3,753
Other shareholder contributions	-	-	-	-	-	170,517	(170,517)	-
Consolidated profit/(loss) for the period	(27,309)	1,111	1,478	(24,720)	243,496	4,542	(818)	247,220
Equity attributable to equity holders of the parent	**552,428**	**112,164**	**(130,530)**	**534,062**	**719,299**	**220,089**	**(238,588)**	**700,800**
Non-controlling interests	**-**	**115,527**	**-**	**115,527**	**400**	**8,818**	**108,018**	**117,236**
TOTAL EQUITY	**552,428**	**227,691**	**(130,530)**	**649,589**	**719,699**	**228,907**	**(130,570)**	**818,036**
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	-	78,697	-	78,697	-	78,436	-	78,436
Bank borrowings	277,440	10,218	-	287,658	86,960	43,454	-	130,414
Other financial liabilities	72,146	1,730	-	73,876	76,221	1,036	-	77,257
Derivative financial instruments	3,441	-	-	3,441	-	-	-	-
Grants	5,535	483	-	6,018	5,783	625	-	6,408
Non-current provisions	28,149	139	-	28,288	27,881	102	-	27,983
Non-current accruals and deferred income	11	2,702	-	2,713	11	3,230	-	3,241
Other non-current liabilities	30,320	66,407	-	96,727	32,392	71,950	-	104,342
Borrowings from group companies and associates	-	27,138	(22,270)	4,868	-	36,418	(18,575)	17,843
	417,042	**187,514**	**(22,270)**	**582,286**	**229,248**	**235,251**	**(18,575)**	**445,924**
CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	53,047	-	-	53,047	63,300	-	-	63,300
Bank borrowings	84,462	33,601	-	118,063	8,685	27,091	-	35,776
Other financial liabilities	12,742	1,102	-	13,844	11,355	661	-	12,016
Derivative financial instruments	593	-	-	593	358	-	-	358
Current borrowings from related parties	53	477	(286)	244	12	749	(398)	363
Trade and other payables	153,621	72,356	(1,963)	224,014	218,524	156,627	(29,209)	345,942
Income tax payable	30	14	-	44	13	-	-	13
Other taxes payable	7,161	2,004	-	9,165	5,928	2,856	-	8,784
Other current liabilities	2,073	5,329	-	7,402	1,930	4,962	-	6,892
Current provisions	38,765	3,418	-	42,183	39,767	3,033	-	42,800
	352,547	**118,301**	**(2,249)**	**468,599**	**349,872**	**195,979**	**(29,607)**	**516,244**
TOTAL EQUITY AND LIABILITIES	**1,322,017**	**533,506**	**(155,049)**	**1,700,474**	**1,298,819**	**660,137**	**(178,752)**	**1,780,204**

(*) This business includes the renewable gas (biomethane) business

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR 2023 AND 2022

	2023				2022			
€ 000	Pulp	Renewables (**)	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables (**)	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	623,191	209,142	(2,730)	829,603	712,875	294,308	(3,809)	1,003,374
Gains/(losses) on hedging transactions	(378)	-	-	(378)	(20,343)	-	-	(20,343)
Changes in inventories of finished goods and work in progress	(10,229)	(10,427)	-	(20,656)	3,567	-	-	3,567
Self-constructed assets	9,738	2,015	-	11,753	5,859	98	-	5,957
Other operating income	14,290	1,598	(1,218)	14,670	13,201	2,009	(1,211)	13,999
Grants taken to profit and loss	7,792	1,586	-	9,378	7,574	2,197	-	9,771
Operating income subtotal	644,404	203,914	(3,948)	844,370	722,733	298,612	(5,020)	1,016,325
Cost of goods sold	(351,495)	(68,123)	2,730	(416,888)	(311,319)	(92,745)	3,808	(400,256)
Employee benefits expense	(83,281)	(20,691)	-	(103,972)	(75,388)	(17,803)	-	(93,191)
Depreciation and amortisation charges	(55,593)	(39,115)	1,620	(93,088)	(52,071)	(40,221)	922	(91,370)
Depletion of forest reserve	(8,797)	-	-	(8,797)	(6,960)	(30)	-	(6,990)
Impairment of and gains/(losses) on disposal of fixed assets	(967)	8,790	-	7,823	184,503	(41,335)	728	143,896
Impairment of financial assets	(1,051)	(126)	-	(1,177)	191	(8)	-	183
Other operating expenses	(158,733)	(72,738)	1,220	(230,251)	(213,366)	(78,208)	1,211	(290,363)
Operating expenses subtotal	(659,917)	(192,003)	5,570	(846,350)	(474,410)	(270,350)	6,669	(738,091)
OPERATING PROFIT/(LOSS)	**(15,513)**	**11,911**	**1,622**	**(1,980)**	**248,323**	**28,262**	**1,649**	**278,234**
Finance income:								
From marketable securities and other financial instruments								
Group companies and associates	787	29	(787)	29	1,022	-	(1,022)	-
Third parties	5,598	935	-	6,533	896	192	-	1,088
Other finance income	29	-	-	29	-	-	-	-
Finance costs:								
Group companies and associates	-	(1,325)	787	(538)	-	(2,031)	1,022	(1,009)
Third-party borrowings	(23,781)	(12,465)	-	(36,246)	(11,823)	(14,512)	-	(26,335)
Change in fair value of financial instruments	-	-	-	-	-	301	-	301
Exchange differences	(947)	15	-	(932)	1,360	(45)	-	1,315
Impairment of and gains/(losses) on disposal of financial instruments	(51)	-	-	(51)	-	-	-	-
NET FINANCE INCOME/(COST)	**(18,365)**	**(12,811)**	**-**	**(31,176)**	**(8,545)**	**(16,095)**	**-**	**(24,640)**
Share of profit/(loss) of entities accounted for using the equity method	(13)	-	-	(13)	(5)	-	-	(5)
PROFIT/(LOSS) BEFORE TAX	**(33,891)**	**(900)**	**1,622**	**(33,169)**	**239,773**	**12,167**	**1,649**	**253,589**
Income tax	6,582	5,661	(144)	12,099	3,723	(8,243)	(143)	(4,663)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(27,309)**	**4,761**	**1,478**	**(21,070)**	**243,496**	**3,924**	**1,506**	**248,926**
Profit/(loss) for the year from continuing operations attributable to non-controlling interests	-	(3,650)	-	(3,650)	-	618	(2,324)	(1,706)
Profit/(loss) for the year attributable to equity holders of the parent (*)	**(27,309)**	**1,111**	**1,478**	**(24,720)**	**243,496**	**4,542**	**(818)**	**247,220**

(*) 100% from continuing operations
(**) This business includes the renewable gas (biomethane) business

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR 2023 AND 2022

€ 000	2023 Pulp	2023 Renewables (*)	2023 Adjustments & Eliminations	2023 CONSOLIDATED TOTAL	2022 Pulp	2022 Renewables (*)	2022 Adjustments & Eliminations	2022 CONSOLIDATED TOTAL
OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	(33,891)	(900)	1,622	(33,169)	41,741	12,671	1,239	55,651
Adjustment for:								
Depreciation and amortisation	64,390	39,115	(1,620)	101,885	24,398	19,998	(512)	43,884
Changes in provisions and other deferred expense (net)	5,579	2,637	-	8,216	(2,413)	586	-	(1,827)
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	1,171	(8,789)	-	(7,618)	1,060	36,988	(727)	37,321
Adjustments for tariff shortfall/surplus (electricity market)	(7,978)	(25,984)	-	(33,962)	14,417	12,081	-	26,498
Finance income and costs (net)	17,672	12,811	-	30,483	2,881	8,873	-	11,754
Grants taken to profit and loss	(884)	(141)	-	(1,025)	(254)	(71)	-	(325)
	79,950	**19,649**	**(1,620)**	**97,979**	**40,089**	**78,455**	**(1,239)**	**117,305**
Changes in working capital:								
Inventories	25,708	(369)	-	25,339	8,566	(1,197)	-	7,369
Trade and other receivables	13,855	33,883	(27,326)	20,412	(23,170)	(1,345)	-	(24,515)
Financial and other current assets	1,760	2	-	1,762	638	(12)	-	626
Trade payables, other payables and other liabilities	(66,059)	(86,883)	27,324	(125,618)	(17,276)	37,180	-	19,904
	(24,736)	**(53,367)**	**(2)**	**(78,105)**	**(31,242)**	**34,626**	**-**	**3,384**
Other cash flows used in operating activities:								
Interest paid (net)	(13,032)	(13,158)	-	(26,190)	(3,328)	(9,767)	-	(13,095)
Income tax paid	2,566	(9,207)	-	(6,641)	(1,887)	(2,457)	-	(4,344)
Other amounts received/(paid)	-	-	-	-	-	-	-	-
	(10,466)	**(22,365)**	**-**	**(32,831)**	**(5,215)**	**(12,224)**	**-**	**(17,439)**
Net cash flows (used in)/from operating activities	**10,857**	**(56,983)**	**-**	**(46,126)**	**45,373**	**113,528**	**-**	**158,901**
INVESTING ACTIVITIES:								
Payments for investments:								
Group companies and associates	(3,539)	-	3,539	-	-	-	-	-
Property, plant and equipment and biological assets	(76,157)	(13,645)	-	(89,802)	(23,841)	(4,658)	-	(28,499)
Intangible assets	(5,357)	(577)	-	(5,934)	(1,595)	(149)	-	(1,744)
Financial assets	(791)	453	47	(291)	(28)	-	-	(28)
	(85,844)	**(13,769)**	**3,586**	**(96,027)**	**(25,464)**	**(4,807)**	**-**	**(30,271)**
Proceeds from disposals:								
Property, plant and equipment	-	-	-	-	3	-	-	3
Financial assets	-	-	-	-	-	380	-	380
	-	**-**	**-**	**-**	**3**	**380**	**-**	**383**
Net cash flows used in investing activities	**(85,844)**	**(13,769)**	**3,586**	**(96,027)**	**(25,461)**	**(4,427)**	**-**	**(29,888)**
FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Transactions with non-controlling interests	5,630	-	-	5,630	-	-	-	-
Buyback of own equity instruments	(50,571)	-	-	(50,571)	(26,997)	-	-	(26,997)
Disposal of own equity instruments	50,769	-	-	50,769	28,385	-	-	28,385
	5,828	**-**	**-**	**5,828**	**1,388**	**-**	**-**	**1,388**
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	44	(9,433)	(3,586)	(12,975)	(655)	655	-	-
Proceeds from issuance of bonds, net of arrangement fees	(9,900)	-	-	(9,900)	(39,432)	(14,000)	-	(53,432)
Increase/(decrease) in bank borrowings, net of issuance costs	264,838	(27,067)	-	237,771	(10,091)	(14,699)	-	(24,790)
Increase/(decrease) in other borrowings	(7,047)	-	-	(7,047)	(3,976)	-	-	(3,976)
Payments for right-of-use assets	(5,952)	(1,429)	-	(7,381)	(2,226)	(530)	-	(2,756)
Grants received, net	636	-	-	636	1,377	-	-	1,377
	242,619	**(37,929)**	**(3,586)**	**201,104**	**(55,003)**	**(28,574)**	**-**	**(83,577)**
Dividends and payments on other equity instruments								
Dividends paid to ENCE shareholders	(140,609)	-	-	(140,609)	(13,119)	-	-	(13,119)
Dividends paid to non-controlling interests	-	(4,051)	-	(4,051)	-	-	-	-
	(140,609)	**(4,051)**	**-**	**(144,660)**	**(13,119)**	**-**	**-**	**(13,119)**
Net cash flows from/(used in) financing activities	**107,838**	**(41,980)**	**(3,586)**	**62,272**	**(66,734)**	**(28,574)**	**-**	**(95,308)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**32,851**	**(112,732)**	**-**	**(79,881)**	**(46,822)**	**80,527**	**-**	**33,705**
Cash and cash equivalents - opening balance	278,376	134,537	-	412,913	318,496	61,468	-	379,964
Cash and cash equivalents - closing balance	311,227	21,805	-	333,032	271,674	141,995	-	413,669

(*) This business includes the renewable gas (biomethane) business

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

The most noteworthy publications in the European Union in 2023:

- The Regulation on the use of renewable and low-carbon fuels in maritime transport (ReFuel EU Maritime), published in the OJEU on 22 September 2023.
- The Directive on the promotion of energy from renewable sources published in the OJEU on 31 October 2023.
- The Regulation on ensuring a level playing field for sustainable air transport (RefuelEU Aviation), published on 31 October 2023.

Directive on the promotion of energy from renewable sources

Directive (EU) 2023/2413 of the European Parliament and of the Council of 18 October 2023 amending Directive (EU) 2018/2001, Regulation (EU) 2018/1999 and Directive 98/70/EC as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652, was published on 31 October 2023.

The most important aspects relate to the renewable energy targets and the areas of transport, industry and bioenergy.

- Renewable generation: the new Directive raises the binding target for the share of renewable energy in total energy consumption in the EU to a minimum of 42.5% by 2030, with an indicative additional top-up of 2.5% to reach the targeted share of 45%.

  Permit procedures for renewable energy projects will be streamlined by designating renewables acceleration areas, among other measures (articles 15.c and 15.d). The Directive stipulates that the member states need to carry out a coordinated mapping for the deployment of renewable energy in their territory, identifying available land surface, sub-surface and sea or inland water for renewable energy plants. The streamlining of certain aspects of the permit-granting process is aimed at speeding that process up. Implementation of renewable energy will be presumed to be of overriding public interest. The goal is to accelerate the deployment of developments under the scope of the REPowerEU initiative.

  There will be specific deadlines for granting permits for renewable energy projects both within and beyond acceleration areas. In renewables acceleration areas, the deadline for permit-granting procedures may not exceed 12 months. The permit-granting procedure for the repowering of renewable energy power plants, for new installations with an electrical capacity of less than 150 kW, for co-located energy storage, including power and thermal facilities, as well as for their grid connection, where located in renewables acceleration areas, may not exceed six months.

A mandatory environmental impact assessment must be carried out within six months of an administrative decision identifying a high likelihood of significant unforeseen adverse effect. Where duly justified on the grounds of extraordinary circumstances, that six-month period may be extended by up to six months. To accelerate the deployment of renewable energy to achieve the climate and renewable energy targets, member states may exempt wind and solar photovoltaic projects from such assessments.

- Transport sector: to increase renewable energy and reduce greenhouse gas intensity in the transport sector, the member states can choose between: a greenhouse gas intensity reduction target of 14.5% through the use of renewable energy or a binding share of renewable energy within the final consumption of energy in the transport sector of at least 29 % by 2030.

  The new rules introduce the requirement that the combined share of advanced biofuels (generally produced from raw materials other than food waste) and of renewable fuels of non-biological origin (RFNBOs) (mainly renewable hydrogen and synthetic fuels based on hydrogen) in the energy supplied to the transport sector equal 5.5 % in 2030. Of the 5.5% target, a share of at least 1 percentage point must come from renewable fuels of non-biological origin in 2030.

- Industry: the members states must endeavour to increase the share of renewable sources in the amount of energy sources used for final energy and non-energy purposes in the industry sector by an indicative increase of at least 1.6 percentage points as an annual average calculated for the periods 2021 to 2025 and 2026 to 2030.

  They must ensure that the specific contribution of renewable fuels of non-biological origin used for final energy and non-energy purposes be at least 42% of the hydrogen used for final energy and non-energy purposes in industry by 2030, and 60% by 2035.

- Bioenergy: the sustainability criteria applicable to the use of biomass to produce energy have been strengthened in order to reduce the risk of unsustainable production. To that end, the member states must take into account the waste hierarchy set out in article 4 of Directive 2008/98/EC[1] and ensure the application of the principle of the cascading use of biomass, with a focus on support schemes and with due regard to national specificities. The Directive specifies that the principle of cascading use implies prioritising the efficient use of biomass, focusing always on its use as a material rather than for energy purposes wherever possible.

Related with the Directive, it is also worth highlighting the delegated hydrogen regulations published on 10 February 2023, notable among which:

- Commission Delegated Regulation (EU) 2023/1184 of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a Union methodology setting out detailed rules for the production of renewable liquid and gaseous transport fuels of non-biological origin.

  This regulation defines the criteria for determining when electricity used for the production of RFNBOs can be considered fully renewable. These rules will apply to the production of renewable

[1] 1: wood-based products; 2: extending the service life of wood-based products; 3: re-use; 4: recycling; 5: bioenergy; and 6: disposal.

liquid and gaseous transport fuels of non-biological origin via electrolysis and analogously for less common production pathways.

It defines the criteria that have to be met when the electrolyser is not and is connected to the electricity grid, defining in the latter instance conditions on additionality, temporal correlation and geographic correlation.

- Commission Delegated Regulation (EU) 2023/1185 of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuels.

ReFuel EU Maritime:

This initiative limits the GHG intensity of the energy used on-board by ships arriving at, within or departing from ports in the EU and establishes requirements for the use of on-shore power supply or zero-emission energy at berth. It sets out the steps to be taken to achieve climate neutrality by 2050.

It applies to the energy used on ships above a gross tonnage of 5,000, including containerships and passenger ships, with the exception of voyages to islands with fewer than 200,000 permanent residents, voyages between outermost regions, member states that do not share any land border with another member state, and passenger ships that provide public services between the mainland of a member state and its islands.

The yearly average GHG intensity of the energy used on board by a ship during a reporting period may not exceed the limit established by reducing the reference value of 91.16 grams of CO_2 equivalent per MJ by a minimum percentage from 2025. The following specific targets have been set: 2% by 2025; 6% by 2030; 14.5% by 2035; 31% by 2040; 62% by 2045 and 80% by 2050.

An additional subtarget has been set whereby the share of RFNBOs used in the yearly energy used on board by ships equal least 2% from 1 January 2034, unless the Commission assesses that there is insufficient production capacity and prices are too high.

The Directive establishes criteria for quantifying greenhouse gas emissions from well-to-tank and while on-board, known as tank-to-wake emissions.

It also sets the criteria for monitoring greenhouse gas emissions and for certifying fuels and emission factors.

Lastly, for ships moored in EU ports from 1 January 2030 the emissions from their consumption must be zero, such that they must cover their electricity requirements by connecting to a renewable onshore power supply.

RefuelEU Aviation:

This initiative seeks to drive the uptake and supply of sustainable aviation fuel (SAF) in the EU. The ultimate goal is to reduce the aviation sector's carbon footprint to enable delivery of the EU's climate targets by setting targets for the use of SAF and synthetic fuels. The proposal was adopted by the Commission on 14 July 2021 as part of the Fit for 55 package. It is also one of the core elements of the Sustainable and Smart Mobility Strategy adopted at the end of 2020.

The main provisions of this Regulation are:

- Sustainable aviation fuels ('SAF') are defined as aviation fuels that are either:
    - Synthetic aviation fuels;
    - Biofuels produced from agricultural or forestry residues, algae, bio-waste, used cooking oil and certain animal fats;
    - Recycled jet fuels produced from waste gases and waste plastic;
    - Biofuels that meet the sustainability and emissions intensity criteria established in the Renewables Directive, expressly excluding feed and food crop-based fuels and fuels derived from palm and soy materials; and
    - Recycled carbon aviation fuels.
- It obliges aviation fuel suppliers to ensure that all aviation fuel made available to aircraft operators at EU airports contains a minimum share of SAF from 2025, including a minimum share of synthetic aviation fuel from 2030, with both shares gradually increasing until 2050. The following specific targets have been set: (i) for SAF: 2% in 2025; 6% in 2030; 20% in 2035; 34% in 2040; 42% in 2045; and 70% in 2050; and for (ii) synthetic fuels: 1.2% in 2030; 2% in 2032; 5% in 2035; gradually increasing to 35% by 2050.
- There is a transition period whereby aviation fuel suppliers can meet their SAF shares by supplying the minimum defined shares of SAF as a weighted average over all the aviation fuel it supplies across EU airports, in order to facilitate sector organisation during the creation phase without affecting overall emissions levels.
- The Regulation introduces the requirement that the yearly quantity of aviation fuel uplifted by a given aircraft operator at a given EU airport must be at least 90% of the yearly aviation fuel required in order to prevent the emissions related with the additional weight caused by tankering practices.
- There are reporting obligations for aviation fuel suppliers and aircraft operators. An environmental labelling scheme will be put in place from 2025 whereby airlines can indicate the expected carbon footprint per passenger and expected CO_2 efficiency per kilometre.
- There are rules about the competent authorities, to be designated by the member states for the purpose of enforcing the Regulation, and rules about fines. Any revenues from fines levied for breaches by the airlines, airports or fuel suppliers must be used to support research and innovation projects aimed at bridging the price differences between SAF and conventional aviation fuels.

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 Iberian 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; and ii) the transmission system operator (TSO): Red Eléctrica de España, S.A. The TSO is responsible for market balancing management so as to guarantee continuous equilibrium between the generation and consumption of electricity and for making technical adjustments to ensure that the market's economic outcomes are compatible with the physical reality of the transmission network.

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 costs of operating an efficient and well-managed undertaking, specifically by introducing a parameter calculated at the difference, if any, between eligible 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: standard operating costs; and 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 continue to earn remuneration for operation but cease to accrue remuneration for investment.

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 their technology, installed capacity and year of commissioning, 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.

Ministerial Order IET/1345/2015 (of 2 July 2015), establishing the methodology for updating remuneration for the operation of facilities entitled to the specific remuneration regime, established the methodology for updating the remuneration for operation parameter for certain standard facilities and set the remuneration for operation amounts for the second half of 2025 resulting from application of the said methodology to the standard facilities to which it applies.

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.

Ministerial Order IET/2735/2015 (17 December 2015) established the access tolls for electricity for 2026 and approved certain standard facilities and remuneration parameters for electricity producing facilities that use renewable energy sources, co-generation or waste.

Ministerial Order IET/1209/2016 (20 July 2016) established the remuneration for operation amounts for the second half of 2016. Ministerial Order ETU/1046/2017 (27 October 2017) established the remuneration for operation amounts for the second half of 2017. Ministerial Order ETU/360/2018 (6 April 2018) established the remuneration for operation amounts for the first half of 2018. Ministerial Order TEC/427/2019 (5 April 2019) established the remuneration for operation amounts for the second half of 2018.

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 entitled to remuneration for investment.

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.

Ministerial Order TED/668/2020 (17 July 2020) 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), revising the remuneration for operation values corresponding to the first half of 2019.

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/257/2021 (18 March 2021) established the remuneration for operation amounts for the second half of 2019.

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 final 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 set 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 consolidates the contribution of €450 million of the taxes obtained from emission allowance auctions to the electricity system and encourages electrification and the development of zero-emission heating systems.

Royal Decree-Law 12/2021 (24 June 2021) 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 excise 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 was since 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 mandated 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 introduced the adjusting coefficients applicable to each standard facility in 2022 and the new remuneration for investment values applicable that year.

Royal Decree-Law 10/2022 (of 13 May 2022) established a temporary production cost adjustment mechanism designed to reduce electricity prices in the wholesale market. To that end it established 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) introduced new standard facilities 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) established 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 called for a review of the remuneration for operation values corresponding to the first half of 2019.

Ministerial Order TED/995/2022 (14 October 2022) established 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) updated 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 upheld average annual pool prices of €33.94/MWh for 2020 and of €111.90/MWh for 2021, set the regulatory pool price for 2022 at €121.92/MWh, determined the NAV and remuneration for investment for each standard facility for 2022 and set the remuneration for operation amounts applicable for the first half of 2022.

Ministerial Order TED/1295/2022 (22 December 2022) established 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, extended 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.

Royal Decree-Law 5/2023 was published on 28 June 2023, adopting and extending certain measures (i) in response to the economic and social consequences of the war in Ukraine and in support of the reconstruction of La Palma and other situations of vulnerability; (ii) to transpose the European Union directives relating to certain aspects of company law and work-life balance for parents and carers into Spanish law; and (iii) to execute and comply with European Union Law (“RDL 5/2023”).

RDL 5/2023 adopted a range of measures applicable to the facilities included in the specific remuneration regime regulated in Royal Decree 413/2014, notably including:

- Establishment of the regulatory pool price for 2023-2025 at €109.31/MWh in 2023, €108.86/MWh in 2024 and €89.37/MWh in 2025.
- For the calculation of the Tariff Adjustment for 2023, applicable in the update of the remuneration parameters for the regulatory stub period beginning on 1 January 2026, the use of the weighted average of the basket of electricity market prices for 2023, which will be the lower of the latter, as defined in article 22 of RD 413/2014, and the annual average daily and intraday prices for 2023.
- The inclusion of provisions for the update of the remuneration for operations parameter for standard facilities whose operating costs depend essentially on their fuel price for the first and second halves of 2023.

Ministerial Order TED 741/2023, published on 30 June 2023, updated the remuneration parameters for standard facilities included under its scope of application for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025, as provided for in article 20.2 of Royal Decree 413/2014 (6 June 2014) on the generation of electricity by means of renewable energy sources, co-generation and waste. It also established the remuneration for operation amounts for the first six months of 2023 for standard facilities whose operating costs depend essentially on the price of their fuel.

The key aspects of that Order are:

- Regulatory pool prices of €109.31/MWh in 2023, €108.86/MWh in 2024 and €89.37/MWh in 2025.
- Biomass prices and operating costs will be increased by 1% annually.
- The Order also itemises the net asset value at 1 January 2023 and future remuneration for investment for each facility.
- It published the remuneration for operation amounts for the first half of 2023, which are zero in the case of all of the Group's facilities, except for the gas co-generation plant in Cordoba, which has been awarded remuneration for operation of €286/MWh.

The draft Order establishing the remuneration for operations values corresponding to the second six months of 2023 applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste was published on 30 June 2023. It published the remuneration for operation amounts for the second half of 2023, which are zero in the case of all of the Group's facilities except for the gas co-generation plant in Cordoba, which has been awarded remuneration for operation of €84.39/MWh.

The draft Order establishing the methodology for updating the remuneration for operation parameter for standard facilities whose operating costs depend essentially on the price of their fuel was sent for public consultation on 22 November 2023. That Order is intended to replace Order IET/1345/2015 and contemplates:

- For standard biomass facilities, the remuneration for operation parameter will be updated annually, in tandem with the calendar years, on the basis of the estimated electricity pool price (€108.86/MWh in 2023) and fuel price (for 2023, €50.48/tonne of biomass b6 and €42.92/tonne of b8), likewise updating the rest of the remuneration parameters that depend on the above estimates.

- In the case of the biomass facilities it has been deemed necessary to estimate a fuel price in order to calculate their remuneration for operation and then make an adjustment on the basis of actual prices to factor in year-on-year changes in transport prices and minimum wages.

  The fuel price is tied to three variables: a) 40% is tied to the market price for biomass estimated annually, increased by 1%; b) 36% is tied to transport prices; and c) 24% is tied to the change in the minimum wage.

  This adjustment will be calculated annually considering the energy sold in the generation market in any of its forms of purchase during the period and the settlement will take place in 12 monthly payments.

- The basket of prices for determining the annual regulatory pool price, which in 2023 was built 75% from pool prices and 25% using futures at different terms, will be formed using 50% market pool prices and 50% futures prices in 2024 and 20% pool and 80% futures prices from 2025 on.

- For gas facilities, the remuneration for operation will be revised quarterly comparing the trend in electricity market prices (based on OMIP futures), carbon allowance prices (based on quarterly futures for allowances) and fuel prices (based on MIBGAS futures).

  In addition, facilities that include a co-generation plant are exempted from application of the tariff adjustment system regulated under article 22 of Royal Decree 413/2014 (6 June 2014).

Royal Decree-Law 8/2023 (28 December 2023), enacting measures to tackle the economic and social consequences of the conflicts in Ukraine and the Middle East and mitigate the effects of the drought in Spain, introduced certain changes, noteworthy among which:

1. A series of tax measures in the energy field:

   • VAT: 10% for all of 2024. In 2023 it was 5%.

   • Excise duty on electricity: 2.5% in the first half of 2024 and 3.8% in the second half. In 2023 it was 0.5%.

   • The levy on the value of electricity output: 3.5% in 1Q24; 5.25%in 2Q24 and 7% from 3Q24 on. In 2023 it was 0%.

2. Changes in deadlines for government permits for grid access and connection:

   • Government construction permit: 49 months versus 43 at present.

   • Government operating permit: 8 years versus 5 at present. In the case of pumped electricity and offshore wind power, the deadline has been extended to 9 years.

3. Criteria for the remuneration for operation for facilities that depend on fuel costs from 2024. Remuneration for operation for the first half of 2024 has been set at €685 million for co-generation and waste treatment and €2.23 million for biomass. Extension of the calculation assumptions established in Ministerial Order TED/741/2023 (30 June 2023) for application from 1 January 2024, nuanced as follows:

   The remuneration for operation calculation, as set forth in Royal Decree 413/2014, will be performed by matching operating income to operating costs.

   For co-generation and energy powered from waste:

   - Market price for the first half of 2024: €104.98/MWh, calculated as the average of OMIP settlement prices for 12-month futures to be settled in 2024 published between 1 January and 30 September 2023.
   - Gas price for the first half of 2024: €51.3/MWh GCV.
   - CO_2 price: €90.72/tonne

   For biomass:

   - The price approved in Ministerial Order TED/741/2023 (30 June 2023) will apply until a new calculation methodology is approved, the deadline being 31 December 2024.
   - In 2024 the value of the market price adjustment will be, as was the case in 2023, the lower of the annual average daily and intraday prices for 2024 and the price defined in article 22 of Royal Decree 413/2014.

The table below itemises the net asset values and remuneration for investment and remuneration for operation amounts applicable to the facilities managed by ENCE in 2023 as per the latest parameters approved in Ministerial Order 741/2023 updating the standard facility remuneration parameters applicable to certain electricity-producing facilities that use renewable energy sources, co-generation or waste with effect for the regulatory stub period which began on 1 January 2023:

Facility	IT	Regulatory life	2022		2023		
			Ro (€/MWh)	Rinv (Miles €)	Ro (€/MWh)	Rinv (Miles €)	VNA (*) (Miles €)
Negocio Energía-							
Huelva - 50 MW	IT-00841	2037	-	10.440	-	7.739	73.799
Huelva - 41 MW	IT-00829 / IT-00832	2025	-	5.583	-	597	3.771
Mérida - 20 MW	IT-00843	2039	-	4.744	-	3.683	37.504
Jaén - 16 MW	IT-00831 / IT-00855	2027	-	2.555	-	918	4.382
Ciudad Real - 16 MW	IT-00831 / IT-00855	2027	-	2.555	-	918	4.382
Córdoba - 14 MW - Biomasa	IT-00859	2031	-	2.234	-	1.251	8.921
Córdoba - 13 MW - Gas	IT-00430	2030	247 / 74	-	286 / 84	-	-
Puertollano biomasa- 50 MW	IT-04005	2044	-	-	-	-	-
Huelva 46 MW	IT-04005	2044	-	-	-	-	-
Negocio Celulosa-							
Navia - 37 MW	IT-00838	2034	-	6.117	-	3.980	33.711
Navia - 40 MW	IT-01035	2034	-	-	-	-	-
Pontevedra - 35 MW	IT-00836-7 / IT-01035	2033	-	1.261	-	757	6.182

(*) Value as of January 1, 2023

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 Group's facilities operate freely in the market, selling their electricity to the pool through Magnon Green Energy, S.L., a Group company, which acts exclusively as representative.

ENCE Energía y Celulosa, S.A. and subsidiaries

2023 Consolidated Management Report

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

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ENCE Energía y Celulosa, S.A. and subsidiaries

2023 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. 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 2023, 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, and submitted separately to the CNMV; they 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 “Our commitment to safety, health and the environment - Eco-friendly operations"), its R&D efforts (mainly in the section titled “Innovating to create value”) and about employee matters (mainly in the section titled “Our commitment to our people"); it also provides the non-financial key performance indicators.
  2. The report providing details about the Group's activities in 2023 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 36 of the consolidated financial statements), own share transactions (note 21) and the average supplier payment term (note 26).

2. Governance structure

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

The Board of Directors is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over 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 & 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.

The Company also has an Internal Audit Department and an Ethics & Compliance Department. Both report to the Audit Committee. The Ethics & Compliance Department 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 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 and at the energy plants. That committee meets weekly to monitor the pulp biomills' and the independent energy plants' key performance indicators with respect to employee safety, environmental matters, workplace climate, sales matters related with customers and products, operational and cost indicators and matters related with the procurement of timber and biomass.

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 company's Management Committee, 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 Ethics & Compliance Department 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, renewable 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 2023, the Group had arranged a number of forward currency agreements to hedge approximately 12.82% of forecast pulp sales in 2024.

c) POOP PRICE VOLATILITY

The remuneration earned by the Group’s power generation plants can be affected by a decrease in pool prices, both futures prices and intraday and day-ahead prices, with an impact on cash.

As a result, deviations in costs, or possible inefficiencies, constitute a risk that could condition the operation of the plants from the standpoint of their expected return, even jeopardising the viability of the plants themselves.

To mitigate this risk, ENCE has developed a strategy for managing its plants efficiently with the aim of optimising their output.

d) TRADE CREDIT RISK - PULP BUSINESS

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

ENCE has a credit insurance policy, which has been renewed until 31 December 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.

e) 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 2024-2028 Framework Strategy.

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. Supporting the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.
3. Establishing leverage targets (based on net debt) tailored for each business unit's revenue volatility profile Against this backdrop, the leverage cap set for the Pulp business is around 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 5 times.
4. Diversifying sources of financing and tailoring the mix for each 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.

f) 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.

g) 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. In 2023 ENCE set up a Regulatory Compliance Department to support the Regulations Committee, made up of Company officers and specialists.

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 productive facility obsolescence risk. In the absence of an investment and maintenance plan to address facility obsolescence, ENCE cannot guarantee delivery of the various operations centres' targets and the biomills' and energy plants' installations, machinery and equipment could become impaired.

In order to manage the risks that could jeopardise delivery of this strategic objective, ENCE works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) review of the public works supporting its facilities, replacing obsolete 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 2023, 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 in the sector. Meanwhile, the prices of timber and biomass can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

ENCE attempts to mitigate the risk of price changes by having the respective buying areas periodically monitor the performance of its main suppliers (industrial, forestry and biomass suppliers) with a view to taking the corresponding action (search for alternative products, identification of more competitive goods and services, enhancement of the firm's bargaining power and additions to the pool of suppliers) in the event of significant incidents.

The risk of a shortfall of timber supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually with higher logistics costs, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity. ENCE's response to the risk of an insufficient supply of biomass for use as an input at its energy plants is focused on closing supply agreements with suppliers, developing the purchase of biomass from traders and continuously searching for new fuels.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers. Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers, the 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 stay ahead of technological developments in the sector, management closely follows market technology developments, 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 2024 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 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 2023, 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.

Given that the risk of water restrictions in the vicinity of our operations materialised in the second half of 2022, significantly affecting the supply of water to our facilities and therefore eroding the Company's revenue, the Group has set ambitious targets for reducing its facilities' water consumption, which are reviewed monthly by the Management Committee and the Board of Directors. That effort has translated into a significant decrease in unit water consumption in recent years. In addition, due to materialisation of that risk factor at its biomill in Pontevedra, ENCE launched a pioneering pilot test in Spain at that biomill consisting of the installation of equipment that allows it to regenerate water sourced from 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.

In rulings issued on 6 March 2023, the Supreme Court upheld the appeals lodged by ENCE, confirming the legality of the 60-year extension of the concession over the land on which the Pontevedra biomill is located, i.e., until 2073.

Subsequently, the state attorney and the town council of Pontevedra applied to have the Supreme Court ruling on the appeal related with the case brought by the town council against the concession extension annulled on technicalities. Likewise, the state attorney attempted to have the Supreme Court sentence related with the case brought by Greenpeace annulled. On 21 June 2023, the Supreme Court dismissed their annulment proceedings, reaffirming the validity of its original rulings. Greenpeace Spain applied, after the deadline for so doing, to have the Supreme Court ruling of 28 July 2023 annulled, a case that has yet to be ruled on.

Since the Supreme Court is the highest court in respect of all lower court orders, its decisions cannot be appealed. The only remaining possible course of appeal would be to bring a case before the Constitutional Court of Spain; such a case would only prosper if the claimant could prove that one of the parties' fundamental rights were breached in the process.

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 ENCE'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 2023, 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.

It also drafted and implemented its Whistleblower Policy and Whistleblower Procedure, in compliance with Law 2/2023 on the protection of persons who report breaches of law. Also in response to its requirements under that piece of legislation, it has published the above policy and procedure on its website and intranet and publicised them throughout the organisation.

Lastly, it implemented the software needed to support the whistleblower channel and, specifically, to enable direct access to that internal reporting channel from ENCE's corporate intranet and website.

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 2023 are provided in note 22 to the accompanying consolidated financial statements for 2023.

APPENDIX I – FOURTH-QUARTER 2023 EARNINGS REPORTS

ENERGÍA & CELULOSA

Earnings Report
4Q23

29 February 2024

SUSTAINALYTICS Global ESG score: 90/100

MSCI ESG RATINGS

FTSE4Good

IBEX® ESG

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
BHKP (USD/t) average price	904.5	1,380.0	*(34.5%)*	837.2	*8.0%*	1,045.5	1,285.0	*(18.6%)*
Average exchange rate (USD/€)	1.07	1.01	*6.0%*	1.09	*(1.8%)*	1.08	1.05	*3.0%*
BHKP (€/t) average price	843.4	1,364.6	*(38.2%)*	767.0	*10.0%*	968.1	1,225.4	*(21.0%)*

Source: Bloomberg

Operating Metrics	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Pulp production (t)	**266,556**	**178,891**	***49.0%***	**230,786**	***15.5%***	**975,345**	**816,311**	***19.5%***
Navia pulp production	160,584	157,739	*1.8%*	162,497	*(1.2%)*	614,032	576,996	*6.4%*
Pontevedra pulp production	105,972	21,152	*n.s.*	68,288	*55.2%*	361,313	239,315	*51.0%*
Pulp sales (t)	**273,082**	**150,345**	***81.6%***	**243,926**	***12.0%***	**978,501**	**826,617**	***18.4%***
	28.2%	12.6%	*15.6 p.p.*	24.8%	*3.4 p.p.*	22.0%	16.5%	*5.5 p.p.*
Average sales pulp price (€/t)	522.2	864.5	*(39.6%)*	477.0	*9.5%*	578.0	756.7	*(23.6%)*
Cash cost (€/t)	455.2	678.8	*(32.9%)*	483.6	*(5.9%)*	525.5	552.7	*(4.9%)*
Operating margin per ton (€/t)	67.0	185.7	*(63.9%)*	(6.6)	*n.s.*	52.5	204.0	*(74.3%)*
Renewable Energy sales volume (MWh)	**140,690**	**291,599**	***(51.8%)***	**250,807**	***(43.9%)***	**947,249**	**1,481,446**	***(36.1%)***
Average sales price (€/MWh)	230.4	165.0	*39.7%*	117.3	*96.4%*	153.2	143.9	*6.5%*
Remuneration for investment (€ m)	6.2	10.2	*(39.4%)*	6.2	-	24.8	40.9	*(39.4%)*

P&L € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Revenue from Pulp business	160.9	159.1	*1.1%*	127.2	*26.5%*	623.2	712.9	*(12.6%)*
Revenue from Renewable Energy business	39.6	58.5	*(32.3%)*	43.9	*(9.8%)*	209.1	294.3	*(28.9%)*
Consolidation adjustments	(0.5)	(1.3)		(0.2)		(2.7)	(3.8)	
Total revenue	**200.0**	**216.3**	*(7.5%)*	**170.8**	*17.1%*	**829.6**	**1,003.4**	*(17.3%)*
Pulp business EBITDA	18.5	26.5	*(30.3%)*	(6.1)	*n.s.*	46.2	137.7	*(66.5%)*
Renewable Energy business EBITDA	6.7	13.5	*(50.9%)*	4.4	*52.1%*	42.6	109.8	*(61.2%)*
EBITDA	**25.1**	**40.1**	*(37.3%)*	**(1.8)**	*n.s.*	**88.8**	**247.6**	*(64.1%)*
Depreciation, amortisation and forestry depletion	(27.2)	(26.7)	*1.6%*	(26.7)	*1.5%*	(101.9)	(98.4)	*3.6%*
Impairment of and gains/(losses) on fixed-assets	8.3	182.9	*(95.5%)*	(0.2)	*n.s.*	7.8	143.9	*(94.6%)*
Other non-ordinary results of operations	9.3	(14.9)	*n.s.*	0.6	*n.s.*	3.3	(14.9)	*n.s.*
EBIT	**15.6**	**181.3**	*(91.4%)*	**(28.2)**	*n.s.*	**(2.0)**	**278.2**	*n.s.*
Net finance cost	(9.4)	(6.9)	*35.7%*	(7.9)	*19.4%*	(30.2)	(26.3)	*15.1%*
Other finance income/(cost) results	(0.9)	(2.1)	*(57.6%)*	0.4	*n.s.*	(1.0)	1.6	*n.s.*
Profit before tax	**5.3**	**172.3**	*(96.9%)*	**(35.7)**	*n.s.*	**(33.2)**	**253.6**	*n.s.*
Income tax	(0.4)	7.8	*n.s.*	8.5	*n.s.*	12.1	(4.7)	*n.s.*
Consolidated Net income	**4.8**	**180.1**	*(97.3%)*	**(27.1)**	*n.s.*	**(21.1)**	**248.9**	*n.s.*
Non-controlling interests	(1.4)	0.1	*n.s.*	3.1	*n.s.*	(3.7)	(1.7)	*114.0%*
Attributable Net Income	**3.5**	**180.2**	*(98.1%)*	**(24.0)**	*n.s.*	**(24.7)**	**247.2**	*n.s.*
Earnings per share (Basic EPS)	0.01	0.74	*(98.1%)*	(0.10)	*n.s.*	(0.10)	1.02	*n.s.*

Cash flow € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
EBITDA	**25.1**	**40.1**	*(37.3%)*	**(1.8)**	*n.s.*	**88.8**	**247.6**	*(64.1%)*
Change in working capital	48.0	5.0	*n.s.*	(20.3)	*n.s.*	(78.1)	67.6	*n.s.*
Maintenance capex	(15.5)	(4.7)	*232.3%*	(8.9)	*73.5%*	(29.7)	(19.6)	*51.5%*
Net interest Payment	(8.9)	(5.7)	*56.7%*	(6.4)	*39.4%*	(26.2)	(23.3)	*12.4%*
Income tax received/(paid)	7.4	(18.2)	*n.s.*	0.0	*n.s.*	(6.6)	(22.6)	*(70.6%)*
Normalised free cash flow	**56.1**	**16.5**	***240.5%***	**(37.4)**	***n.s.***	**(51.8)**	**249.7**	***n.s.***
Energy regulation adjustment (regullatory collar)	(21.2)	(8.4)	*n.s.*	(2.2)	*n.s.*	(34.0)	25.0	*n.s.*
Other cash adjustments	(2.0)	7.2	*n.s.*	3.6	*n.s.*	9.7	9.6	*0.3%*
Efficiency and expansion capex	(14.8)	(3.6)	*n.s.*	(5.2)	*187.2%*	(33.4)	(21.2)	*57.6%*
Sustainability capex and other	(11.1)	(7.7)	*45.1%*	(10.2)	*9.1%*	(32.6)	(14.1)	*132.1%*
Disposals	0.5	0.3	*60.2%*	-	*n.s.*	-	0.8	*(100.0%)*
Free cash flow	**7.5**	**4.3**	*71.8%*	**(51.3)**	*n.s.*	**(142.2)**	**249.8**	*n.s.*
Dividends from the parent	-	(21.9)	*(100.0%)*	-	-	(140.6)	(66.6)	*111.2%*

Net debt € m	Dec-23	Dec-22	Δ%
Net financial debt Pulp business	186.1	(36.1)	*n.s.*
Net financial debt Renewable Energy business	93.5	6.1	*n.s.*
Net financial debt	**279.6**	**(30.0)**	*n.s.*

ROCE LTM (%)	2023	2022	Δ%
ROCE LTM - Pulp business	-2.6%	14.5%	*n.s.*
ROCE LTM - Energy business	3.9%	10.6%	*(63.1%)*
ROCE LTM *	**-0.2%**	**13.5%**	*n.s.*

- ✓ **The Group was profitable once again in the fourth quarter thanks to cost cutting and the onset of a recovery in pulp prices.**
- ✓ **Pulp production increased by a noteworthy 15% year-on-year in the fourth quarter to over 266,000 tonnes, while the cash cost decreased by €28 per tonne of pulp by comparison with the 3Q23 figure, to €455/tonne, driving the unit operating margin up to €67/tonne in 4Q23 and €52/tonne in 2023.**
- ✓ **Sales of our - higher margin – Ence Advanced pulp products, adapted to replace softwood pulp products, increased further, to 28% of total pulp sales in 4Q23 and 22% of 2023 sales.**
- ✓ **The average pulp price in Europe increased by 10% in 4Q23 and continued to recover to $1,220 per tonne (gross) during 1Q24. The leading global producers have announced additional increases to $1,300/tonne (gross).**
- ✓ **EBITDA in the Pulp business amounted to €19m in 4Q23, pushing the annual EBITDA figure in this business to €46m.**
- ✓ **In the Renewables business, lower generation volumes in 4Q23 were offset by a higher earnings per MWh, so that EBITDA increased by 63% from 3Q23, to €7m.**
- ✓ **The Renewables business delivered full-year EBITDA of €43m, including gains of €27m on the two photovoltaic developments with combined capacity of 140 MW sold in the second and third quarters. The Group expects to complete the sale of a further three photovoltaic developments with combined capacity of 233 MW in 2024.**
- ✓ **The Group's consolidated EBITDA amounted to €25m in 4Q23 and €89m in 2023, while normalised cash free flow, before working capital changes, came to €8m in 4Q23 and €26m in 2023, despite the slump in pulp prices.**
- ✓ **Working capital changes implied a cash inflow of €48m in 4Q23, having sustained a transient drop in the third quarter, and a cash outflow of €78m in 2023, due to the reimbursement in 1H23 of the €85m of surplus remuneration collected in 2022 as a result of subsequent regulatory adjustments in renewables.**
- ✓ **Investments in growth and sustainability amounted to €26m in 4Q23 and €66m in 2023. Investments in the Pulp business notably included the acquisition of forest land from Sniace, including 3,362 hectares of eucalyptus plantations in Cantabria, the work done to increase wood-cutting capacity in northern Spain and the capital expenditure related with the new water recovery system in Pontevedra.**
- ✓ **The Company paid out dividends of €0.29 per share in both March and May 2023 for a total payment from 2022 earnings of €140m, implying a shareholder return of 16%.**
- ✓ **The Group's net debt stood at €280m at the December close, implying leverage of 1.7 times mid-cycle EBITDA (2015-2023). Its cash balance stood at €345 million.**
- ✓ **The Company's financial strength gives it the flexibility to pursue its growth and diversification projects in its two core businesses.**
  - **In the Pulp business, Ence continues to bolster the sale of its Ence Advanced pulp products and has started work on its project for diversifying into the production of pulp for absorbent hygienic products (fluff pulp), which is expected to begin in 2026. The Company continues to make progress on the engineering and permitting work at its project in As Pontes for the production of recycled and bleached fibre made from recovered paper and board, without increasing its wood consumption.**
  - **In the Renewables business, the Group continues to diversify its activities into the sale of renewable thermal energy and biomethane, principally, leveraging its leadership position in biomass management in Spain. Magnon Energy Services closed its first services agreement in 2023 and is in talks with potential industrial customers to replace their fossil-fuel thermal energy with renewable thermal energy. Elsewhere, Ence Biogas already has a portfolio of six biomethane plants at the engineering and permitting phase which are expected to begin operations in 2026.**
- ✓ **Ence has been the leading sustainability player in the global pulp market for three years in a row, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 90/100 in 2023.**
- ✓ **In addition, in 2023 Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance. Lastly, Ence was included in the IBEX ESG index last year.**

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.

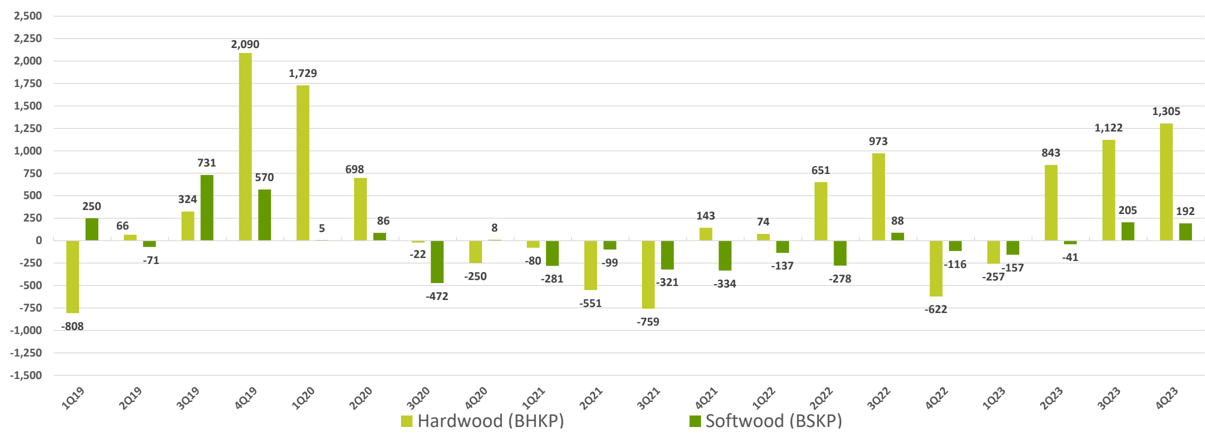
On 7 February 2023, Spain's Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073.

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. 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, particularly in developing countries, where per-capita consumption of these products is well below the average observed in developed economies. 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.

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

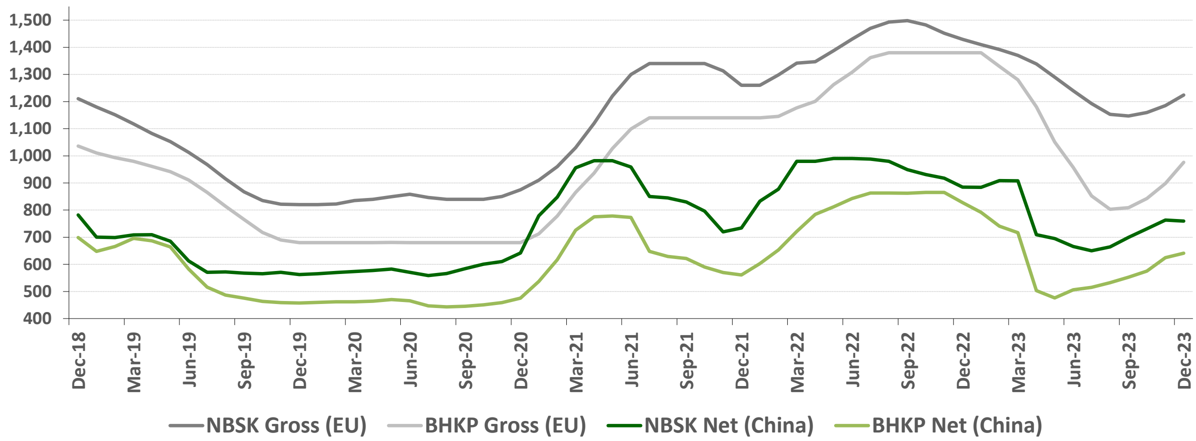


Source: PPPC–G100

Global demand for pulp increased by 4% in 2023 (2.6 million tonnes), thanks to a sharp recovery in China in the second half of the year, boosted by the removal of all remaining Covid restrictions, the displacement of less efficient integrated capacity and inventory restocking by the Chinese paper industry. As a result, the annual growth of 25% in demand in China (+5.8 million tonnes) more than offset the decrease of 12.8% in demand in the western world (-3.2 million tonnes), shaped mainly by destocking in the paper industry throughout the first half.

The sharp growth in demand for pulp during the second half of the year offset the increase in production derived from the influx of new capacity inaugurated during the year, with pulp producer inventories ending the year six days lower, at 40 days.

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



Source: FOEX

Against this backdrop, European pulp prices bottomed out at $800 per tonne (gross) in August 2023 and have since recovered by over 50% to stand at $1,220 per tonne during 1Q24. The leading global producers have announced additional price increases to $1,300/tonne (gross).

Market figures	**4Q23**	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
BHKP (USD/t) average price	904.5	1,380.0	*(34.5%)*	837.2	*8.0%*	1,045.5	1,285.0	*(18.6%)*
Average exchange rate (USD/€)	1.07	1.01	*6.0%*	1.09	*(1.8%)*	1.08	1.05	*3.0%*
BHKP (€/t) average price	843.4	1,364.6	*(38.2%)*	767.0	*10.0%*	968.1	1,225.4	*(21.0%)*

Source: Bloomberg

The benchmark price for hardwood pulp (BHKP) in Europe averaged $904/tonne (gross) in 4Q23, up 8% from 3Q23 and 34.5% below the 4Q22 average. In 2023, hardwood pulp prices averaged $1,045/tonne (gross), down 18.6% from 2022.

2.2. Revenue from pulp sales

The Group sold 273,082 tonnes of pulp in 4Q23, up 12% from 3Q23 and 81.6% from 4Q22, when sales were affected by the temporary suspension of operations at the Pontevedra biomill as a result of the reduced flow from the river that supplies that facility. In 2023, pulp sales volumes totalled 978,501 tonnes, marking growth of 18.4% from 2022.

Elsewhere, the fourth-quarter average sales price increased by 9.5% quarter-on-quarter to €522.2 per tonne, due to the recovery in benchmark prices in Europe, as well as the movement in the euro exchange rate against the dollar. Nevertheless, the average sales price in 4Q23 was still 39.6% below the 4Q22 equivalent. The average sales price decreased by 23.6% year-on-year in 2023.

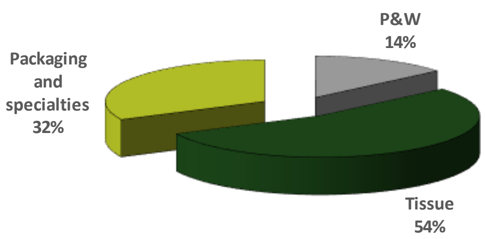
	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Pulp sales (t)	**273,082**	**150,345**	*81.6%*	**243,926**	*12.0%*	**978,501**	**826,617**	*18.4%*
Average sales price (€/t)	522.2	864.5	*(39.6%)*	477.0	*9.5%*	578.0	756.7	*(23.6%)*
Pulp sales revenue (€ m)	**142.6**	**130.0**	*9.7%*	**116.4**	*22.6%*	**565.6**	**625.5**	*(9.6%)*

The combination of the two factors left revenue from pulp sales at €142.6m in 4Q23, up 22.6% compared to 3Q23 and 9.7% versus 4Q22. In 2023, the growth in sales volumes mitigated the drop in average sales prices, so that revenue from pulp sales eased by 9.6% from 2022.

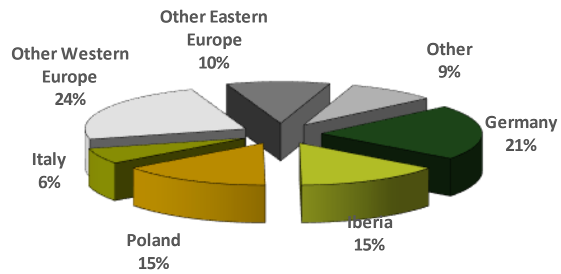
Sales of Ence's Advanced pulp products, such as Powercell and Naturcell, which are more sustainable and better suited for replacing softwood pulp, continued to gain market share, accounting for 28% of the Group's pulp sales in 4Q23 and 22% in all of 2023, compared to 16% in 2022.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 54% of revenue from pulp sales in 2023, followed by the packaging and specialty paper segment, at 32%. The printing and writing paper segment accounted for the remaining 14%.

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 91% of revenue from pulp sales in 2023. Germany and Iberia accounted for 21% and 15% of total revenue, respectively, followed by Poland (15%), and Italy (6%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 10%.

2.3. Pulp production and cash cost

The Group produced 266,556 tonnes of pulp in 4Q23, growth of 15.5% from 3Q23 and of 49% from 4Q22, when sales were affected by the temporary suspension of operations at the Pontevedra biomill as a result of the reduced flow from the river that supplies that facility. 2023 stood out for record production at the Navia biomill, of over 614,000 tonnes, pushing the Group's annual production volume to 975,345 tonnes, growth of 19.5% from 2022.

	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Navia pulp production	160,584	157,739	*1.8%*	162,497	*(1.2%)*	614,032	576,996	*6.4%*
Pontevedra pulp production	105,972	21,152	*n.s.*	68,288	*55.2%*	361,313	239,315	*51.0%*
Pulp production (t)	**266,556**	**178,891**	*49.0%*	**230,786**	*15.5%*	**975,345**	**816,311**	*19.5%*

The cash cost came down again in 4Q23, to €455.2/tonne, which is €28/tonne below the 3Q23 cash cost, thanks mainly to greater dilution of fixed costs over higher production volumes. By comparison with 4Q22, the cash cost decreased by €224/tonne, of which €89/tonne is attributable to the incremental costs derived from the temporary suspension of activity in Pontevedra that quarter and €135/tonne, to the reduction in raw material and transport costs this year.

Figures in €/t	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Total cash cost	455.2	678.8	*(32.9%)*	483.6	*(5.9%)*	525.5	552.7	*(4.9%)*
Operating margin	**67.0**	**185.7**	*(63.9%)*	**(6.6)**	*n.s.*	**52.5**	**204.0**	*(74.3%)*

The reduction in the cash cost per tonne, coupled with the incipient recovery in pulp prices, drove a recovery in the unit operating margin to €67/tonne in 4Q23. The reduction in the cash cost in 2023 likewise mitigated the drop in pulp prices from peak levels to leave an average unit operating margin of €52.5/tonne, compared to €204/tonne in 2022.

2.4. Other income

Ence's pulp production operations are self-sufficient electricity-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.

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.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Revenues from energy sales linked to pulp (€ m)	13.1	23.0	*(43.2%)*	8.9	*46.4%*	38.2	73.6	*(48.1%)*
Forestry and other revenue (€ m)	5.2	6.1	*(14.7%)*	1.9	*177.5%*	19.4	13.8	*40.8%*
Other income	**18.3**	**29.1**	*(37.2%)*	**10.8**	*69.3%*	**57.6**	**87.4**	*(34.1%)*

The reduction in revenue from energy sales was driven mainly by the drop in average sales prices, while the growth in revenue from the sale of wood to third parties was fuelled principally by higher sales volumes.

2.5. Statement of profit or loss

The recovery in the unit operating margin, coupled with higher sales volumes, drove EBITDA in the Pulp business to €18.5m in 4Q23, which was nevertheless 30.3% lower year-on-year due to the drop in the average sales price, partially offset by the significant reduction in the cash cost. In 2023 as a whole, EBITDA amounted to €46.2m, down 66.5% from 2022.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Pulp sales revenue	142.6	130.0	*9.7%*	116.4	*22.6%*	565.6	625.5	*(9.6%)*
Other income	18.3	29.1	*(37.2%)*	10.8	*69.3%*	57.6	87.4	*(34.1%)*
Total net revenue	**160.9**	**159.1**	*1.1%*	**127.2**	*26.5%*	**623.2**	**712.9**	*(12.6%)*
EBITDA	**18.5**	**26.5**	*(30.3%)*	**(6.1)**	*n.s.*	**46.2**	**137.7**	*(66.5%)*
Depreciation and amortisation	(14.9)	(20.5)	*(27.2%)*	(14.4)	*3.6%*	(55.6)	(52.1)	*6.8%*
Depletion of forestry reserves	(1.9)	(1.8)	*3.9%*	(1.9)	*(0.8%)*	(8.8)	(7.0)	*26.4%*
Impairment of and gains/(losses) on fixed-asset dis|	(0.2)	187.2	*n.s.*	(0.2)	*(7.9%)*	(1.0)	184.5	*n.s.*
Other non-recurring gains/(losses)	9.3	(14.9)	*n.s.*	0.9	*n.s.*	3.7	(14.9)	*n.s.*
EBIT	**10.8**	**176.5**	*(93.9%)*	**(21.8)**	*n.s.*	**(15.5)**	**248.3**	*n.s.*
Net finance cost	(6.1)	(3.5)	*74.2%*	(4.7)	*29.0%*	(17.4)	(9.9)	*75.6%*
Other financial results	(0.9)	(2.1)	*(57.2%)*	0.4	*n.s.*	(1.0)	1.4	*n.s.*
Profit before tax	**3.8**	**170.9**	*(97.8%)*	**(26.1)**	*n.s.*	**(33.9)**	**239.8**	*n.s.*
Income tax	(0.8)	8.6	*n.s.*	4.5	*n.s.*	6.6	3.7	*76.8%*
Net Income	**2.9**	**179.5**	*(98.4%)*	**(21.6)**	*n.s.*	**(27.3)**	**243.5**	*n.s.*

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. These hedges implied a cash inflow of €0.1m in 4Q23 and a cash outflow of €0.4m in 2023, compared to outflows €3.8m and €20.3m in the same periods of 2022, respectively.

For the first quarter of 2024, Ence has arranged hedges over a notional amount of $28.5m with a weighted average ceiling of €/$1.11 and a weighted average floor of €/$1.06.

FX Hedges	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Nominal hedged (USD Mn)	25.0	26.0	30.0	**30.0**	28.5	28.5
Average cap (USD / EUR)	1.14	1.10	1.08	**1.09**	1.11	1.11
Average floor (USD / EUR)	1.11	1.04	1.03	**1.06**	1.06	1.06

Below the EBITDA line, amortisation and depreciation charges increased by 6.8% to €55.6m in 2023 (2022: €52.1m) on the back of higher fixed assets. The increase in amortisation and depreciation charges in 4Q22 was due to the resumption of depreciation of the Pontevedra biomill in the wake of the Supreme Court rulings upholding the validity its concession term until 2073.

Forest depletion charges also increased to €1.9m in 4Q23 and €8.8m in 2023 due to higher own wood consumption.

Impairment and gains on disposals in the amount of €187.2m in 4Q22 reflected the reversal of the initially recognised asset impairment losses and provisions at the Pontevedra biomill following the Supreme Court's rulings upholding the validity of its concession until 2073.

Other non-recurring operating items includes income of €9.3m in 4Q23 and €3.7m in 2023 related primarily with the reversal of inventory impairment allowances recognised in previous quarters. The net expense of €14.9m recognised in 2022 included 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, following the above-mentioned Supreme Court ruling.

Elsewhere, the business's net finance cost increased to €6.1m in 4Q23 and €17.4m in 2023, due mainly to a higher gross debt balance and the increase in interest rates. "Other finance income/(cost)" mainly presents the effect of movements in exchange rates on working capital during the period: a net loss of €1m in 2023 compared to a net gain of €1.4m in 2022.

Lastly, the business reported tax expense of €0.8m in 4Q23 and tax income of €6.6m in 2023, compared to tax income of €8.6m in 4Q22 and of €3.7m in 2022.

Overall, the Pulp business reported a net profit of €2.9m in 4Q23 and a net loss of €27.3m in 2023, compared to net profits of €179.5m and €243.5m in 4Q22 and 2022, respectively, periods which included the impact of the reversal of a series of asset impairment and expenditure provision charges at the Pontevedra biomill in the wake of the Supreme Court rulings upholding the validity of its concession until 2073.

2.6. Cash flow analysis

Cash from operating activities amounted to €45.7m in 4Q23, spurred by a €30.4m reduction in working capital. In 2023, cash from operating activities totalled €10.9m, shaped by an increase in working capital of €24.7m.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
EBITDA	**18.5**	**26.5**	*(30.3%)*	**(6.1)**	*n.s.*	**46.2**	**137.7**	*(66.5%)*
Energy regulation adjustment (regullatory collar)	(4.9)	(3.6)	*35.9%*	(0.6)	*n.s.*	(8.0)	14.5	*n.s.*
Other cash adjustments	(0.9)	6.0	*n.s.*	3.2	*n.s.*	7.9	7.7	*2.9%*
Change in working capital	30.4	1.7	*n.s.*	(34.2)	*n.s.*	(24.7)	(3.0)	*n.s.*
Income tax received / (paid)	6.5	(12.0)	*n.s.*	0.0	*n.s.*	2.6	(13.9)	*n.s.*
Net interest received / (paid)	(3.9)	(0.8)	*n.s.*	(4.7)	*(18.5%)*	(13.0)	(6.3)	*107.4%*
Net cash flow from operating activities	**45.7**	**17.7**	*157.9%*	**(42.4)**	*n.s.*	**10.9**	**136.7**	*(92.1%)*

Working capital movements implied a cash inflow of €30.4m in 4Q23 due to a reduction in inventories and normalised use of the receivables discounting facilities (whose use was temporarily reduced in 3Q23), which offset the reduction in accounts payable. In 2023, in contrast, working capital movements implied a cash outflow of €24.7m due mainly to the reduction in trade payables, including the repayment of surplus remuneration collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Inventories	26.0	(16.5)	*n.s.*	9.3	*178.2%*	25.7	(24.3)	*n.s.*
Trade and other receivables	24.0	14.5	*65.2%*	(8.9)	*n.s.*	13.9	8.2	*69.3%*
Financial and other current assets	2.0	1.2	*73.6%*	(1.1)	*n.s.*	1.8	2.4	*(25.3%)*
Trade and other payables	(21.7)	2.5	*n.s.*	(33.5)	*(35.4%)*	(66.1)	10.7	*n.s.*
Change in working capital	**30.4**	**1.7**	*n.s.*	**(34.2)**	*n.s.*	**(24.7)**	**(3.0)**	*n.s.*

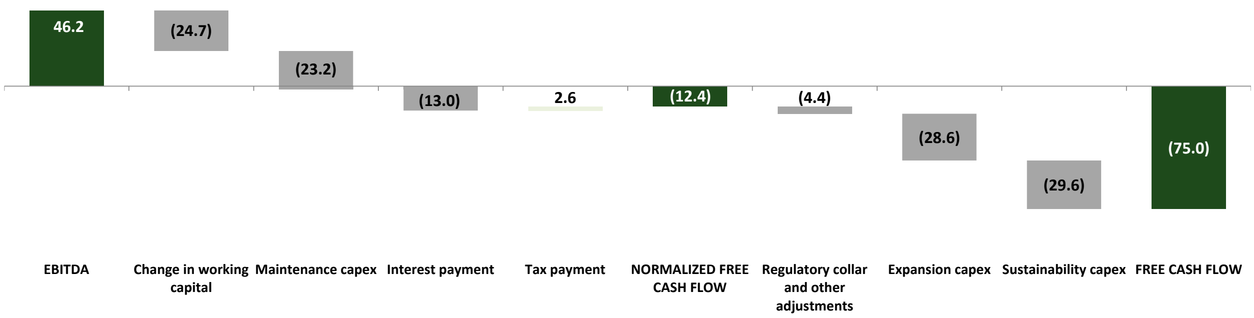
At 31 December 2023, the Pulp business had drawn down €83.9m under its non-recourse receivable discounting facilities, compared to €45.2m at year-end 2022.

Ence has also arranged several reverse factoring facilities, which were drawn down by €58.9m at the December close, compared to €76.5m 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 interest.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Maintenance capex	(11.2)	(3.6)	*211.7%*	(7.9)	*42.0%*	(23.3)	(16.9)	*38.0%*
Sustainability capex and other	(8.9)	(6.5)	*37.5%*	(9.7)	*(8.3%)*	(29.6)	(11.8)	*151.5%*
Efficiency and expansion capex	(13.1)	(1.9)	*n.s.*	(3.7)	*n.s.*	(28.6)	(15.8)	*81.1%*
Financial investments	(1.8)	0.2	*n.s.*	(2.4)	*(24.5%)*	(4.33)	0.2	*n.s.*
Investments	**(35.0)**	**(11.8)**	*197.7%*	**(23.7)**	*47.9%*	**(85.8)**	**(44.3)**	*93.9%*
Disposals	0.5	0.3	*60.2%*	-	*n.s.*	-	0.4	*(100.0%)*
Net cash flow used in investing activities	**(34.5)**	**(11.5)**	*201.3%*	**(23.7)**	*45.9%*	**(85.8)**	**(43.9)**	*95.7%*

Cash used in investing activities totalled €34.5m in 4Q23 and €85.8m in 2023. Maintenance capex amounted to €11.2m in 4Q23 and €23.3m in 2023. Investments in sustainability improvements totalled €8.9m in 4Q23 and €29.6m in 2023. The latter were largely related with the new water recovery system in Pontevedra for use during periods of drought, as well as a range of initiatives targeted at reinforcing safety and reducing odour, noise and water consumption at the biomills, all of which will make Ence more competitive in the long run.

Investments in efficiency and growth amounted to €13.1m in 4Q23 and €28.6m in 2023, including the acquisition of forest assets from Sniace (3,362 hectares of eucalyptus plantations in Cantabria) in 4Q23, and investments to increase wood-cutting capacity in northern Spain.



As a result, normalised free cash flow in the Pulp business was negative by €12.4m in 2023, affected by the movements in working capital. Free cash flow after growth and sustainability capex was negative by €75m.

2.7. Change in net debt

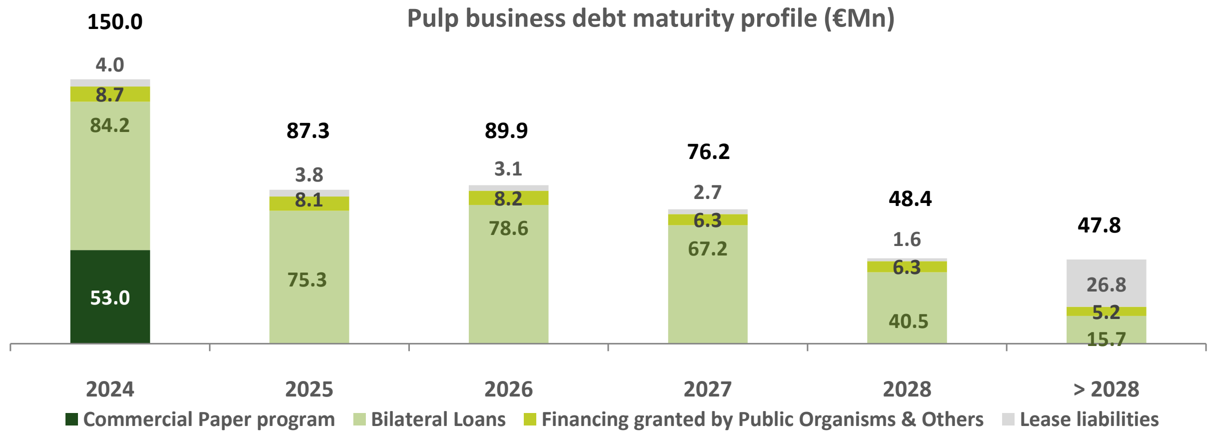
The Pulp business ended the year with net debt of €186.1m, compared to net cash of €36.1m at year-end 2022 (i.e., an increase of €222.2m). In addition to the business's negative free cash flow (75m), it paid €140.6m of dividends against 2022 profits in the first half of the year, while other changes in leases and provisions for interest accounted for an increase of €6.6m.

Figures in € m	Dec-23	Dec-22	Δ%
Non-current financial debt	311.6	128.6	*142.3%*
Current financial debt	146.2	80.3	*82.1%*
Gross financial debt	**457.8**	**208.9**	*119.1%*
Non-current lease contracts	38.0	34.6	*9.9%*
Current lease contracts	4.0	3.0	*32.9%*
Financial liabilities related to lease contracts	**42.0**	**37.6**	*11.7%*
Cash and cash equivalents	311.2	278.4	*11.8%*
Short-term financial investments	2.5	4.2	*(41.5%)*
Net financial debt Pulp business	**186.1**	**(36.1)**	*n.s.*

In 2023, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in March 2018 and arranged a number of bilateral loans with several financial institutions, raising new financing, due in 2030 at the latest, which was drawn down by €273m at year-end. In addition, furthering the strategy of diversifying its sources of financing, the Company listed a sustainable promissory notes programme on Spain's alternative fixed-income market, MARF, in the fourth quarter, under which it had issues outstanding totalling €53m at year-end.

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 €313.7m.

The gross debt of €457.8m at year-end corresponds to the outstanding balance of €361.9m of bilateral loans, a series of loans totalling €42.9m 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, with maturities ranging to 2030, and €53m of notes outstanding under the above-mentioned sustainable promissory notes programme. Finance lease liabilities stood at €42m at the December close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



2.8. Growth and diversification opportunities

Ence's growth strategy in the Pulp business entails remaining cost-competitive and diversifying into the production of higher value-added types of pulp and products in response to growing demands from society, leveraging its competitive advantages in the European market.

In recent years, Ence has developed a range of special pulp products, such as Powercell and Naturcell, adapted to its customers' needs. These are pulp products with enhanced technical properties and a smaller environmental footprint, designed to replace softwood pulp. The value-adding, higher-margin products accounted for 28% of pulp sales in 2023 and the goal is to lift that figure to over 50% by 2028.

In parallel, in 2023 Ence started work on the project for diversifying into the production of pulp for absorbent personal care products (fluff pulp) in Navia, which is expected to entail an investment of around €30m and deliver a targeted ROCE of over 12%. The Navia facilities will be ready to replace up to 125,000 tonnes of standard pulp with this higher-margin product progressively from 2026.

Ence is also in the process of developing a new range of moulded pulp products apt for replacing plastic packaging in the food industry, so furthering the circularity of its business model.

Lastly, the Company continues to make progress on the engineering and permitting work for an innovative project under development in the Coruña town of As Pontes for the production of of 100,000 tonnes of recycled and bleached fibre from recovered paper and board, without increasing its wood consumption. The plan is to take an investment decision around this project in 2025 with an expected return on capital employed (ROCE) of at least 12%.

3. RENEWABLES BUSINESS

Through its subsidiary, Magnon Green Energy, Ence is the largest generator of renewable energy from biomass in Spain. It has installed capacity of 266 MW and two projects in the pipeline with combined capacity of 100 MW with which it is entitled to participate in the future capacity tenders scheduled between now and 2030.

Magnon also has an internal platform for the development and sale of photovoltaic developments. It has developed a pipeline of 373 MW of photovoltaic projects, of which 140 MW were sold in 2023, with the remaining 233 MW slated for sale in 2024. Magnon also has a portfolio of a further 300 MW at an earlier stage of development.

Ence's Renewables business comprises the sale of renewable energy generated from biomass at independent energy plants, unrelated with the pulp production process, the sale of biomass to third parties, the sale of photovoltaic projects and incipient businesses related with the sale of renewable thermal energy, biomethane and CO_2.

3.1. Electricity market trends

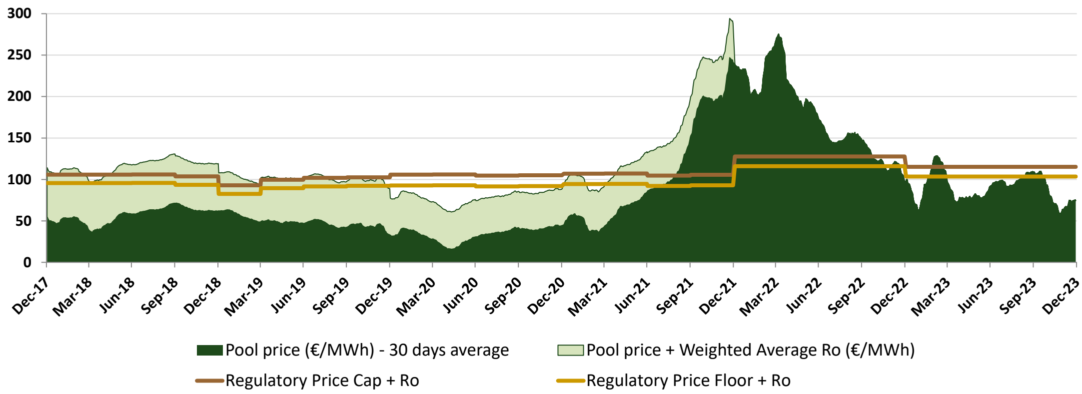
The average price on the day-ahead market (pool price) declined by 33.5% year-on-year to €75.3/MWh in 4Q23 and by 47.8% year-on-year to €87.4/MWh in 2023.

Market figures	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Average pool price (€/MWh)	75.3	113.2	*(33.5%)*	96.6	*(22.1%)*	87.4	167.6	*(47.8%)*

Source: OMIE

However, the price that Ence recognises in its financial statements is a regulated price made up of the regulatory price plus the supplementary remuneration for operations (Ro) earned by each plant, where applicable.

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



The remuneration for investment (Ri) for Magnon's biomass power plants was set at 7.4% for 2020-2031 under Spanish Royal Decree-Law 17/2019. That remuneration will imply an estimated €24.8m of revenue in 2023.

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

3.2. Revenue from energy sales

The Group sold 140,690 MWh of energy in 4Q23, down 43.9% from 3Q23 and 51.8% from 3Q22 due to the contraction in the pool price, as well as the maintenance stoppages carried out at the 46-MW Huelva and 50-MW Ciudad Real plants during the quarter. Both plants resumed production by the end of February 2024.

In 2023 the Group sold 947,249 MWh of energy, an annual decrease of 36.1%, likewise due to the drop in electricity market prices, the above-mentioned maintenance stoppages in 4Q23 and the four-year overhaul at the 50-MW Huelva plant in 2Q23.

Operating figures	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Huelva 41 MW - Biomass	27,171	-	n.s.	35,546	(23.6%)	131,748	136,110	(3.2%)
Jaén 16 MW - Biomass	13,956	14,369	(2.9%)	19,260	(27.5%)	69,023	80,925	(14.7%)
Ciudad Real 16 MW - Biomass	-	3,047	(100.0%)	-	n.s.	-	70,542	(100.0%)
Córdoba 27 MW - Biomass	27,997	35,871	(21.9%)	15,384	82.0%	108,388	145,793	(25.7%)
Huelva 50 MW - Biomass	51,826	76,673	(32.4%)	48,506	6.8%	179,638	351,553	(48.9%)
Mérida 20 MW - Biomass	19,740	31,650	(37.6%)	32,057	(38.4%)	112,994	140,066	(19.3%)
Huelva 46 MW - Biomass	-	69,588	(100.0%)	40,418	(100.0%)	167,599	279,484	(40.0%)
Ciudad Real 50 MW - Biomass	-	60,402	(100.0%)	59,636	(100.0%)	177,858	276,973	(35.8%)
Energy sales (MWh)	**140,690**	**291,599**	(51.8%)	**250,807**	(43.9%)	**947,249**	**1,481,446**	(36.1%)
Average sales price - (€/MWh)	230.4	165.0	39.7%	117.3	96.4%	153.2	143.9	6.5%
Remuneration for investment (€m)	6.2	10.2	(39.4%)	6.2	-	24.8	40.9	(39.4%)
Revenue from energy sales (€ m)	**38.6**	**58.3**	(33.8%)	**35.6**	8.4%	**169.9**	**254.1**	(33.1%)

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

The sales price averaged €233.8/MWh in 4Q23, up 99.3% quarter-on-quarter and up 41.8% year-on-year, due mainly to the adjustment for deviations between the pool price and the regulatory price (regulatory collar) that quarter, as well as a higher contribution from back-up services provided to the grid in secondary markets. In 2023 the sales price averaged €153.7/MWh, up 6.8% from 2022.

Elsewhere, the Group's remuneration for investment decreased by 39.4% in 2023 as a result of the adjustment for the deviation between the pool price and regulatory price (regulatory collar) during the last regulatory stub period.

In all, revenue from energy sales amounted to €39.1m in 4Q23, up 9.7% from 3Q23 but down 33% year-on-year. Revenue from energy sales in 2023 totalled €170.4m, down 32.9% from 2022.

3.3. Statement of profit or loss

EBITDA in the Renewables business amounted to €6.7m in 4Q23, growth of 52.1% from 3Q23, fuelled by the improvement in the average sales price, which more than offset the drop in sales volumes that quarter. By comparison with 4Q22, EBITDA decreased by 50.9%, driven mainly by lower generation volumes and lower remuneration for investment this year.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Revenue from energy sales	38.6	58.3	(33.8%)	35.6	8.4%	169.9	254.1	(33.1%)
Other revenues	1.0	0.1	n.s.	8.3	(88.3%)	39.2	40.2	(2.6%)
Total revenue	**39.6**	**58.5**	(32.3%)	**43.9**	(9.8%)	**209.1**	**294.3**	(28.9%)
EBITDA from energy sales	9.1	13.5	(32.6%)	4.3	113.7%	46.2	109.8	(57.9%)
EBITDA from new businesses	(2.5)	-		0.1		(3.6)	-	
EBITDA	**6.7**	**13.5**	(50.9%)	**4.4**	52.1%	**42.6**	**109.8**	(61.2%)
Depreciation and amortisation	(10.7)	(4.7)	127.3%	(10.8)	(0.8%)	(39.1)	(40.3)	(2.8%)
Impairment of and gains/(losses) on fixed-asset disp.	8.5	(4.3)	n.s.	0.0	n.s.	8.8	(41.3)	n.s.
EBIT	**4.4**	**4.5**	(1.4%)	**(6.8)**	n.s.	**11.9**	**28.3**	(57.9%)
Net finance cost	(3.3)	(3.4)	(4.0%)	(3.1)	5.0%	(12.8)	(16.3)	(21.5%)
Other finance income/(cost)	0.0	(0.0)	n.s.	0.0	(75.0%)	0.0	0.3	(94.1%)
Profit before tax	**1.1**	**1.0**	8.6%	**(9.9)**	n.s.	**(0.9)**	**12.2**	n.s.
Income tax	0.4	(0.7)	n.s.	4.0	(89.5%)	5.7	(8.2)	n.s.
Net Income	**1.6**	**0.3**	n.s.	**(5.9)**	n.s.	**4.8**	**3.9**	21.3%
Non-controlling interests	(1.4)	0.5	n.s.	(1.1)		(3.7)	0.6	n.s.
Attributable Net Income	**0.2**	**0.8**	(75.9%)	**(7.0)**	n.s.	**1.1**	**4.5**	(75.6%)

The business delivered full-year EBITDA of €42.6m, including other operating income of €26.7m on the two photovoltaic projects with combined capacity of 140 MW sold in the second and third quarters. That is nevertheless 61.2% below EBITDA in this business in 2022, when other income included the reversal of a provision for the regulatory collar of €39.6m in 1H22, offset by an impairment loss below the EBITDA line of €38.3m.

Below the EBITDA line, amortisation and depreciation charges decreased by 2.8% to €39.1m in 2023. The €4.7m reduction in depreciation and amortisation charges in 4Q22 reflected the reclassification of €4.1m as an asset impairment loss.

Impairment and gains on disposals of €8.5m in 4Q23 mainly reflects the reversal of asset impairment charges. In 2022, this heading included an impairment loss of €38.3m against the plants (the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants) for which it was estimated that the remuneration for investment parameter from 2023 would be zero or scantly material as a result of high pool prices.

Finance costs decreased by 21.5% to €12.8m in 2023, due mainly to the lower gross debt balance.

Lastly, tax income amounted to €5.7m in 2023, compared to tax expense of €8.2m in 2022.

As a result, the net profit attributable to the Renewables business amounted to €0.2m in 4Q23 and €1.1m in 2023, compared to net profits of €0.8m and €4.5m in 4Q22 and 2022, respectively.

3.4. Cash flow analysis

The Renewables business generated €4m of cash from operating activities in 4Q23 and used €57m in 2023, due mainly to the reimbursement of the surplus remuneration for operations (Ro) collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
EBITDA	**6.7**	**13.5**	*(50.9%)*	**4.4**	*51.9%*	**42.6**	**109.8**	*(61.2%)*
Energy regulation adjustment (regulatory collar)	(16.3)	(4.8)	*240.4%*	(1.6)	*n.s.*	(26.0)	10.4	*n.s.*
Other cash adjustments	0.3	1.0	*(69.3%)*	0.1	*n.s.*	2.1	1.8	*15.7%*
Change in working capital	17.4	3.3	*n.s.*	14.1	*23.1%*	(53.4)	70.6	*n.s.*
Income tax received / (paid)	0.9	(6.2)	*n.s.*	0.0	*n.s.*	(9.2)	(8.6)	*6.6%*
Net interest received / (paid)	(5.1)	(4.8)	*4.4%*	(1.7)	*201.1%*	(13.2)	(17.0)	*(22.7%)*
Net cash flow from operating activities	**4.0**	**2.1**	*93.1%*	**15.3**	*(73.9%)*	**(57.0)**	**167.0**	*n.s.*

Movements in working capital implied a cash inflow of €17.4m in 4Q23, shaped mainly by the reduction in trade receivables on the back of lower generation volumes. In contrast, working capital movements implied a cash outflow of €53.4m in 2023, due mainly the reduction in trade payables, which includes the reimbursement of the surplus remuneration for operations (Ro) collected in the wake of the regulatory adjustments applicable to renewables in 2022.

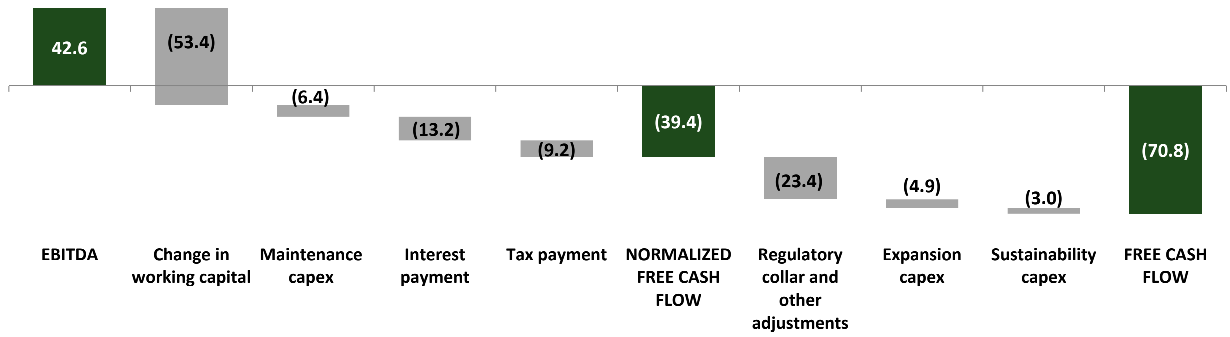
Figures in € m	**4Q23**	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Inventories	(2.4)	(8.9)	*(72.7%)*	8.1	*n.s.*	(0.4)	(10.3)	*(96.4%)*
Trade and other receivables	12.2	(5.4)	*n.s.*	7.9	*53.3%*	33.9	0.6	*n.s.*
Current financial and other assets	-	2.0	*(100.0%)*	-	*n.s.*	-	-	*n.s.*
Trade and other payables	7.6	15.6	*(51.0%)*	(1.9)	*n.s.*	(86.9)	80.3	*n.s.*
Change in working capital	**17.4**	**3.3**	*n.s.*	**14.1**	*23.1%*	**(53.4)**	**70.6**	*n.s.*

At 31 December 2023, the Renewables business had drawn down €4.4m under its non-recourse receivable discounting facilities. Magnon has also arranged several non-recourse reverse factoring facilities, which were drawn down by €19.8m at year-end 2023, compared to €23m at year-end 2022. 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 interest.

Figures in € m	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Maintenance capex	(4.3)	(1.1)	*n.s.*	(1.0)	*n.s.*	(6.4)	(2.7)	*135.7%*
Sustainability capex and other	(2.2)	(1.2)	*86.0%*	(0.5)	*n.s.*	(3.0)	(2.3)	*31.8%*
Efficiency and expansion capex	(1.7)	(1.7)	*2.0%*	(1.5)	*15.5%*	(4.9)	(5.4)	*(10.6%)*
Financial investments	0.1	-	*n.s.*	-	*n.s.*	0.5	-	*n.s.*
Investments	**(8.2)**	**(4.0)**	*106.9%*	**(3.0)**	*170.2%*	**(13.8)**	**(10.4)**	*32.2%*
Disposals	-	-	*n.s.*	-	*n.s.*	-	0.4	*(100.0%)*
Net cash flow from investing activities	**(8.2)**	**(4.0)**	*106.9%*	**(3.0)**	*170.2%*	**(13.8)**	**(10.0)**	*37.2%*

Cash used in investing activities totalled €8.2m in 4Q23 and €13.8m in 2023. Maintenance capex amounted to €4.3m in 4Q23 and €6.4m in 2023, while sustainability capex totalled €2.2m in 4Q23 and €3m in 2023. The sustainability investments were mainly earmarked to reinforcing facility safety and reducing dust, odour, noise and water consumption at the energy plants, bolstering their competitiveness in the long term.

Lastly, investments in efficiency and growth amounted to €1.7m in 4Q23 and €4.9m in 2023, related mainly with the execution of new growth and diversification projects, as well as small investments to render a number of plants more efficient.



As a result, normalised free cash flow in the Renewables business was negative by €39.4m in 2023, affected by the reimbursement of surplus remuneration for operations collected in the wake of subsequent regulatory adjustments. Free cash flow after those adjustments and efficiency, growth and sustainability capex was negative by €70.8m in 2023.

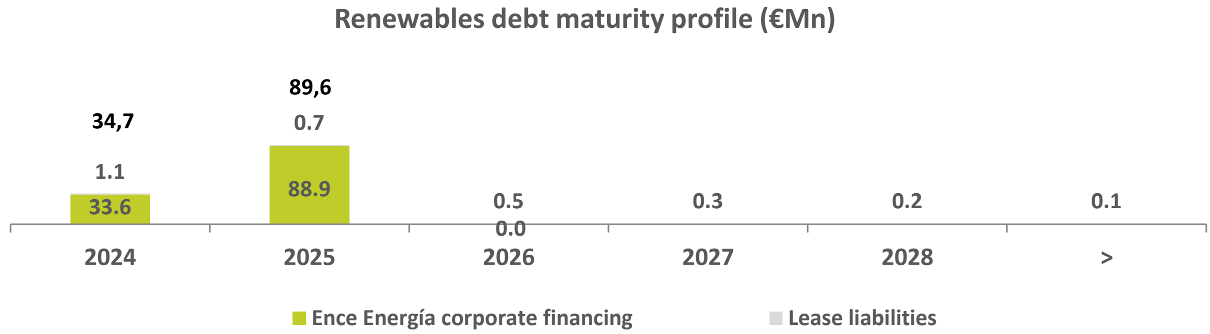
3.5. Change in net debt

Net debt in the Renewables business increased by €87.4m from year-end 2022 to €93.5m. In addition to the business' negative free cash flow (€70.8m), it paid €4.1m of dividends to non-controlling interests and repaid some of its loans from associates (in the amount of €14.7m) in 3Q23.

Following the repayments made in 2022 and 2023, the balance drawn under loans from associates stood at €5.1m at year-end (total limit: €10.2m).

Figures in € m	Dec-23	Dec-22	Δ%
Non-current financial debt	88.9	121.9	*(27.1%)*
Current financial debt	33.6	27.1	*24.0%*
Gross financial debt	**122.5**	**149.0**	*(17.8%)*
Non-current lease contracts	1.7	1.0	*67.0%*
Current lease contracts	1.1	0.7	*66.7%*
Financial liabilities related to lease contracts	**2.8**	**1.7**	*66.9%*
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	21.8	134.5	*(83.8%)*
Net financial debt Renewable Energy business	**93.5**	**6.1**	*n.s.*

Gross debt, due by 2025, stood at €122.5m at the December close, while lease liabilities amounted to €2.8m. The Renewables business had €31.8m of cash at 31 December 2023.



3.6. Growth and diversification opportunities

Biomass has a major role to play in industry decarbonisation. Thermal energy generated from biomass is not only carbon-neutral but could also be more stable price-wise and competitive than the thermal energy generated using fossil fuels. Through its subsidiary Magnon Energy Services, in 2023 Ence closed its first services agreement with an important player in the food sector in Spain and is in talks with other potential industrial customers to replace their fossil-fuel thermal energy with renewable thermal energy.

In addition, in 2022, Ence incorporated a new subsidiary, Ence Biogas, to develop and operate biomethane and organic fertiliser plants, underpinned by a model based on sustainable and circular management of organic waste, mainly agricultural and breeding waste. Ence Biogas plans to develop 20 plants with capacity to supply over 1 TWh of biomethane a year by 2030, a project with an expected ROCE of at least 12%. At year-end 2023, Ence Biogas already had a portfolio of six developments at the engineering and permitting phase, which are expected to begin to operate in 2026.

Lastly, Ence's forestry assets, in addition to producing timber for pulp, also capture 600,000 tonnes of CO_2 annually. Some of these forestry assets produce carbon credits that can be sold in the voluntary carbon markets to help other companies offset their carbon footprints.

Note, additionally, that agricultural and forestry biomass is the only source of biogenic CO_2, a raw material needed to produce green fuels. The Group produces close to 6 million tonnes of biogenic CO_2 annually and is studying the viability of using it to produce green fuels in the future.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Summarised statement of profit or loss

	2023				2022			
Figures in € m	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Total revenue	**623,2**	**209,1**	**(2,7)**	**829,6**	**712,9**	**294,3**	**(3,8)**	**1.003,4**
Other income	28,9	5,2	(1,2)	32,8	20,5	4,3	(1,2)	23,6
Foreign exchange hedging operations results	(0,4)	-	-	(0,4)	(20,3)	-	-	(20,3)
Cost of sales and change in inventories of finished produ	(361,7)	(78,6)	2,7	(437,5)	(307,8)	(92,7)	3,8	(396,7)
Personnel expenses	(83,3)	(20,7)	(0,0)	(104,0)	(75,4)	(17,8)	-	(93,2)
Other operating expenses	(160,5)	(72,5)	1,2	(231,7)	(192,2)	(78,2)	1,2	(269,2)
EBITDA	**46,2**	**42,6**	**-**	**88,8**	**137,7**	**109,8**	**-**	**247,6**
Depreciation and amortisation	(55,6)	(39,1)	1,6	(93,1)	(52,1)	(40,2)	0,9	(91,4)
Depletion of forestry reserves	(8,8)	-	-	(8,8)	(7,0)	(0,0)	-	(7,0)
Impairment of and gains/(losses) on fixed-asset disposal	(1,0)	8,8	-	7,8	184,5	(41,3)	-	143,9
Other non-ordinary operating gains/(losses)	3,7	(0,4)	-	3,3	(14,9)	-	-	(14,9)
EBIT	**(15,5)**	**11,9**	**1,6**	**(2,0)**	**248,3**	**28,3**	**1,6**	**278,2**
Net finance cost	(17,4)	(12,8)	-	(30,2)	(9,9)	(16,3)	-	(26,3)
Other finance income/(costs)	(1,0)	0,0	-	(1,0)	1,4	0,3	-	1,6
Profit before tax	**(33,9)**	**(0,9)**	**1,6**	**(33,2)**	**239,8**	**12,2**	**1,6**	**253,6**
Income tax	6,6	5,7	(0,1)	12,1	3,7	(8,2)	-	(4,7)
Net Income	**(27,3)**	**4,8**	**1,5**	**(21,1)**	**243,5**	**3,9**	**1,5**	**248,9**
Non-controlling interests	-	(3,7)	-	(3,7)	-	0,6	(2,3)	(1,7)
Atributable Net Income	**(27,3)**	**1,1**	**1,5**	**(24,7)**	**243,5**	**4,5**	**(0,8)**	**247,2**
Earnings per Share (EPS)	(0,11)	0,00	0,01	(0,10)	1,00	0,02	(0,00)	1,02

4.2. Summarised statement of financial position

	Dec-23				Dec-22			
Figures in € m	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Intangible assets	17.7	33.7	(12.1)	39.3	15.6	35.0	(12.7)	37.9
Property, plant and equipment	617.5	379.0	(7.5)	989.0	603.4	389.0	(8.5)	983.9
Biological assets	66.9	0.2	-	67.1	60.4	0.2	-	60.5
Non-current investments in Group companies	114.0	0.0	(114.0)	0.0	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	22.3	-	(22.3)	-	18.6	-	(18.6)	-
Deferred tax assets	38.0	27.0	3.0	68.0	30.5	19.4	3.1	53.0
Non-current financial assets	27.7	24.9	-	52.6	20.8	5.4	-	26.1
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
Total non-current assets	**904.0**	**474.8**	**(152.8)**	**1,226.0**	**861.8**	**459.0**	**(149.2)**	**1,171.5**
Inventories	54.8	17.3	-	72.1	80.5	21.9	-	102.3
Trade and other accounts receivable	39.5	7.5	(2.0)	45.1	59.4	40.5	(29.2)	70.6
Income tax	4.8	10.1	-	15.0	6.8	1.3	-	8.0
Other current assets	3.8	0.2	-	4.0	7.5	0.4	-	7.9
Hedging derivatives	1.1	1.7	-	2.8	0.0	2.6	-	2.6
Current financial investments in Group companies	0.2	0.1	(0.3)	0.0	0.4	0.0	(0.4)	0.0
Current financial investments	2.5	0.0	-	2.5	4.2	0.0	-	4.3
Cash and cash equivalents	311.2	21.8	-	333.0	278.4	134.5	-	412.9
Total current assets	**418.0**	**58.7**	**(2.3)**	**474.5**	**437.1**	**201.2**	**(29.6)**	**608.7**
TOTAL ASSETS	**1,322.0**	**533.5**	**(155.1)**	**1,700.5**	**1,298.9**	**660.2**	**(178.8)**	**1,780.2**
Equity	**552.5**	**227.7**	**(130.5)**	**649.6**	**719.8**	**228.9**	**(130.6)**	**818.1**
Non-current borrowings	349.6	90.6	-	440.2	163.2	122.9	-	286.1
Non-current loans with Group companies and associates	-	27.1	(22.3)	4.9	-	36.4	(18.6)	17.8
Non-current derivatives	3.4	-	-	3.4	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	28.1	0.1	-	28.3	27.9	0.1	-	28.0
Other non-current liabilities	35.9	69.6	(0.0)	105.5	38.2	75.8	-	114.0
Total non-current liabilities	**417.0**	**187.5**	**(22.3)**	**582.3**	**229.2**	**235.3**	**(18.6)**	**445.9**
Current borrowings	150.3	34.7	(0.0)	185.0	83.3	27.8	-	111.1
Current derivatives	0.6	-	-	0.6	0.4	-	-	0.4
Trade and other account payable	162.8	79.7	(2.0)	240.6	226.4	164.4	(29.2)	361.6
Short-term debts with group companies	0.1	0.5	(0.3)	0.2	0.0	0.7	(0.4)	0.4
Income tax	0.0	0.0	-	0.0	0.0	-	-	0.0
Current provisions	38.8	3.4	-	42.2	39.8	3.0	-	42.8
Total current liabilities	**352.5**	**118.3**	**(2.3)**	**468.6**	**349.9**	**196.0**	**(29.6)**	**516.2**
TOTAL EQUITY AND LIABILITIES	**1,322.0**	**533.5**	**(155.1)**	**1,700.5**	**1,298.9**	**660.2**	**(178.8)**	**1,780.3**

4.3. Statement of cash flows

	2023				2022			
Figures in € m	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	**(33.9)**	**(0.9)**	**1.6**	**(33.2)**	**239.8**	**12.2**	**1.6**	**253.6**
Depreciation and amortisation	64.4	39.1	(1.6)	101.9	59.0	40.3	(0.9)	98.4
Changes in provisions and other deferred expense	5.6	2.6	-	8.2	23.4	2.1	-	25.5
Impairment of gains/(losses) on disposals intangible asset	1.2	(8.8)	-	(7.6)	(184.5)	41.2	(0.7)	(144.0)
Net finance result	17.7	12.8	-	30.5	8.6	16.0	-	24.6
Energy regulation adjustment (regulatory collar)	(8.0)	(26.0)	-	(34.0)	14.5	10.4	-	25.0
Government grants taken to income	(0.9)	(0.1)	-	(1.0)	(0.5)	(0.1)	-	(0.7)
Adjustments to profit	**80.0**	**19.6**	**(1.6)**	**98.0**	**(79.5)**	**109.9**	**(1.6)**	**28.8**
Inventories	25.7	(0.4)	-	25.339	(24.3)	(10.3)	-	(34.6)
Trade and other receivables	13.9	33.9	(27.3)	20.415	8.2	0.6	11.7	20.5
Current financial and other assets	1.8	0.0	-	1.8	2.4	(0.0)	(0.0)	2.3
Trade and other payables	(66.1)	(86.9)	27.3	(125.617)	10.7	80.3	(11.7)	79.3
Changes in working capital	**(24.7)**	**(53.4)**	-	**(78.102)**	**(3.0)**	**70.6**	**-**	**67.6**
Interest paid	(13.0)	(13.2)	-	(26.2)	(6.3)	(17.0)	-	(23.3)
Dividends received	-	-	-	-	-	-	-	-
Income tax received/(paid)	2.6	(9.2)	-	(6.6)	(13.9)	(8.6)	-	(22.6)
Other collections/(payments)	-	-	-	-	(0.4)	-	-	(0.4)
Other cash flows from operating activities	**(10.5)**	**(22.4)**	**-**	**(32.8)**	**(20.6)**	**(25.7)**	**-**	**(46.3)**
Net cash flow from operating activities	**10.9**	**(57.0)**	**-**	**(46.1)**	**136.7**	**167.0**	**-**	**303.7**
Property, plant and equipment	(76.2)	(13.6)	-	(89.8)	(41.7)	(10.1)	-	(51.8)
Intangible assets	(5.4)	(0.6)	-	(5.9)	(2.8)	(0.3)	-	(3.1)
Other financial assets	(4.3)	0.5	3.6	(0.3)	0.2	-	-	0.2
Disposals	-	-	-	-	0.4	0.4	-	0.8
Net cash flow used in investing activities	**(85.8)**	**(13.8)**	**3.6**	**(96.0)**	**(43.9)**	**(10.0)**	**-**	**(53.9)**
Free cash flow	**(75.0)**	**(70.8)**	**3.6**	**(142.2)**	**92.8**	**157.0**	**-**	**249.8**
Buyback/(disposal) of own equity instruments	5.8	-	-	5.8	0.1	-	-	0.1
Proceeds from and repayments of financial liabilities	242.6	(37.9)	(3.6)	201.1	(66.5)	(82.9)	-	(149.4)
Dividends payments	(140.6)	(4.1)	-	(144.7)	(66.6)	(1.0)	-	(67.6)
Net cash flow from/ (used in) financing activities	**107.8**	**(42.0)**	**(3.6)**	**62.3**	**(132.9)**	**(83.9)**	**-**	**(216.8)**
Net increase/(decrease) in cash and cash equivalents	**32.9**	**(112.7)**	**-**	**(79.9)**	**(40.1)**	**73.1**	**-**	**32.9**

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.

Any subsequent amendment of coastal regulations would not apply to the extended concession in Pontevedra.

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.

On 4 July 2023, the Supreme Court dismissed the annulment proceedings brought by the town council of Pontevedra and state attorney against the sentence upholding the validity of the extension of our concession in Pontevedra.

Since the Supreme Court is the highest judicial authority in Spain, appeals against its decisions are not permitted. Nevertheless, an appeal may be made to the Constitutional Court of Spain on the grounds of unconstitutionality. Such an appeal may only be admitted if the violation of one of the parties' fundamental rights, during the legal process, can be proven. Both the Town Hall of Pontevedra and the Central Administration of Spain have presented appeals on the grounds of unconstitutionality.

Dividend payments

The Company paid out dividends of €0.29 (before withholdings) from 2022 earnings on each of 16 March and 18 May 2023, for a total outlay of €140.6m.

Update of the regulatory energy prices applicable in 2023 – 2025

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively.

These new regulations set the regulatory prices for 2023, 2024 and 2025 at €109.31/MWh, €108.86/MWh and €89.37/MWh, respectively, compared to the prices of €207.88/MWh, €129.66/MWh and €78.19/MWh published in the draft Order dated 28 December 2022, now defunct.

The new regulations also annul the draft Royal Decree and proposed Order published in April 2023 proposing new methodology for calculating and settling deviations between the regulated energy price and electricity market prices.

At any rate, the Group's renewable energy power plants continue to be regulated by Royal Decree 413/2014 which ensures the generation of a reasonable return, which was set at 7.4% for 2020-2031 under Royal Decree-Law 17/2019.

The accounting effect (with no impact on cash) of the updated regulatory energy price applicable in 2023 will be offset via the collection of higher remuneration for investment in the amount of €14m per annum from this year on.

Sale of photovoltaic projects

On 28 March 2023, Magnon Green Energy closed the sale of one of its photovoltaic solar facilities under construction in Jaen, with capacity of 100 MW, triggering the recognition of revenue of €29.5m and EBITDA of €22.7m.

On 27 July 2023, Magnon completed the sale of a second 40-MW capacity development in Huelva, generating revenue of €7.7m and EBITDA of €4m.

Ence Biogas hires Sener to carry out the engineering work for six biomethane plants

On 28 March 2023, Ence Biogas mandated Sener to perform the conceptual engineering work for six biomethane plants in Spain, which are expected to be commissioned in 2026.

Ence Biogas is planning to develop 20 biomethane plants in the next five years.

Repayment at maturity of the remainder of the convertible bonds issued in 2018 and new bilateral loans

On 6 March 2023, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in 2018 and in the first half of 2023 arranged a number of bilateral loans with several financial institutions, raising €268m of new financing due in 2030 at the latest.

Issuance of a sustainable commercial paper programme

On 9 October 2023, the Company listed a sustainable commercial paper programme on Spain's alternative fixed-income market, MARF for its acronym in Spain, as part of its efforts to diversify its sources of financing. At year-end 2023, €53m were outstanding under that programme.

2023 Annual General Meeting

Ence held its Annual General Meeting on 5 May 2023. The agenda motions ratified were:

1) Examination and ratification of the annual financial statements and management reports of ENCE ENERGÍA Y CELULOSA, S.A. and of its consolidated group for the year ended 31 December 2022.
2) Examination and ratification of the group's non-financial statement (2022 Sustainability Report) for the year ended 31 December 2022.
3) Examination and ratification of the motion for the appropriation of the profit of ENCE ENERGÍA Y CELULOSA, S.A. for the year ended 31 December 2022.
4) Examination of and grant of discharge for the performance of the Board of Directors of ENCE ENERGÍA Y CELULOSA, S.A. during the year ended 31 December 2022.
5) The offset of retained losses with a charge against voluntary reserves.
6) The re-election of Ignacio de Colmenares Brunet as executive director.
7) Examination and ratification of the director remuneration policy for 2024, 2025 and 2026.
8) Examination and ratification of the new long-term incentive plan for 2023-2027.
9) Delegation of powers in the Board of Directors to interpret, supplement, rectify, execute and formalise the resolutions ratified at the Annual General Meeting.
10) Advisory vote on the annual report on director remuneration for 2022.

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.

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. Ence has updated that plan, designing a new 2024-2028 Master Sustainability Plan, formulating its sustainability roadmap for the coming years. Preparation of the new plan included a double-materiality assessment in order to identify the material matters on which to focus and help pin down the next universe of targets.

The current master plan (2019-2023) is articulated around seven priority lines of initiative. An account is provided on the progress made on each in the following sections.

Ence’s noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2023, Sustainalytics gave Ence an overall ESG score of 90 points out of 100, ranking it as a global leader in the pulp and paper sector for the third year running. The Company has been part of the prestigious FTSE4Good Index Series since 2021. In addition, in June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies’ sustainability performance. Ence has also been included in the IBEX ESG, a sustainability index recently launched by BME. To be eligible for this index, in addition to being traded as part of the main IBEX 35 or IBEX Medium Cap indices, candidates must have an ESG rating of C+ or higher (out of 12 possible ratings which run from A+ to D-). Moreover, they must uphold the principles enshrined in the United Nations Global Compact and revenue from certain critical activities may not exceed specific thresholds.

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, among others.

In terms of the generation of **quality work**, note that as of year-end 2023, 94% of Ence employees had indefinite employment contracts and 98% were working full time. Moreover, the headcount increased by 10% in the first nine months of 2023.

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 2023 the Company secured Great Place to Work certification for the fourth year in a row.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and motivates 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 2023, it promoted 54 professionals internally, 19 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
- ✓ Compliance
- ✓ Leadership Skills

- ✓ Health and Safety
- ✓ Sustainability
- ✓ Operations and Maintenance Services
- ✓ Digital Transformation

In 2023, the Group imparted 20,983 hours of training, i.e., 17.2 hours per employee, adapting the formats to make them compatible with remote working arrangements. The training effort focused particularly on technical operations matters, health and safety and compliance.

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 15% in 2023 to account for 27% of the workforce at year-end.

Under its equality programme, 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. In 2023 it successfully negotiated a new collective bargaining agreement at the Pontevedra biomill and an Equality Plan is currently under negotiation.

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 business by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised decarbonisation plans based on continuous improvement and the substitution of fossil fuels at the biomills. Since 2021, it has been implementing the measures set down in those plans, starting with the substitution of fossil fuels (coke) at the Pontevedra biomill. In 2023, under the scope of the new 2024-2028 Sustainability Master Plan, the Group established a new decarbonisation plan which will reduce its Scope 1 and 2 emissions by 70% by 2035 compared to the base year (2018). To achieve this target, it is working on projects for replacing fossil fuels at its biomills with biomass. The first step in that direction was already taken in 2023 when the use of natural gas at the Navia lime furnace was replaced by biomethane produced internally. Thanks to these efforts, the Navia biomill ended the year with its lowest ever fossil fuel emissions per tonne of pulp produced.

Ence also 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, which was performed in keeping with the IPCC guidelines, showed that in 2023 the forests managed by Ence sequestered over 200,000 tonnes of CO_2, 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 1.5ºC, for its analysis.

This year, Ence has also analysed the financial impacts of the main climate risks that could affect the Company and revised the mitigation measures in place for each risk factor so as to avoid material impacts.

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 terms of occupational **health and safety**, it is worth highlighting the performance of Magnon, where there were no lost-time injuries in the first nine months of the year. Indeed, Magnon reported a 83% reduction in its injury frequency ratio in 2023. The pulp biomills, meanwhile, continue to report accident metrics that are 3.5 times below the sector average, despite an uptick in their ratios in 2023. There is room for improvement in forestry business which also reported higher injury frequency numbers in 2023 than in 2022.

As for Ence's **environmental performance**, the pulp biomills made further progress in 2023, cutting monthly odour emissions by 43% year-on-year in Navia and by 34% in Pontevedra, with both biomills continuing to mark new records in that respect. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 6% in both cases, similarly recording new lows.

In the Renewables business, in 2023, the Group continued to execute and monitor its plans for delivering its unit water consumption, noise and air quality targets across its plants.

As for its circular economy transition, Ence continues to present high waste recovery and recycling readings (above 95% of all waste at year-end 2023), 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). As of 2023, all of the Group's facilities boast that certification.

At Magnon, it is worth highlighting the improved management of fine materials returned to the soil, at the sites from which the biomass was originally sourced whenever possible. That initiative returns a natural material of value in combatting desertification and soil degradation. In 2023, the large majority of the fine materials produced at the plants in Puertollano and Merida were processed so as to enable their return to the original farming land. In parallel, Ence is working on several research projects for the recovery of slag and ash waste in order to give them a second life, including use as organic compost or to produce artificial aggregates, to cite a couple of examples.

In terms of environmental performance, the pulp biomills successfully completed their ISO 14001, ISO 45001, ISO 50001 and Zero Waste certification renewal audits. They also verified their compliance with European Community eco-management and audit scheme (EMAS) and renewed SURE certification for their sustainable management of biomass. Ence is optimising its systems with a view to obtaining ISO 22000 food safety management certification in early 2024.

The Renewables business obtained approval for a pilot production test to research the reuse of wood crate waste at the Merida and Puertollano plants. Testing is underway at both plants. The Huelva plant is conducting the research, development and experimentation work for the project for drying wet, fatty olive pomace without generating emissions, which is expected to take one year to complete.

Lastly, Magnon has ISO 14001, ISO 45001 and Zero Waste certification at all its plants, as well as SURE certification, with the Huelva plants additionally boasting ISO 9001 and EMAS certification.

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 2023, nearly 80% of its forest assets were certified under one or other of those standards and over 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 2022, 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. Further progress is being made in 2023 in the form of new fauna and flora biodiversity studies at more than 50 forest tracts owned by Ence.

In order to **create value** for land owners and suppliers, Ence lends particular support to smaller sized companies. In 2023 the Company bought wood from around 1,250 forest owners, 75% of which are small sized.

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; indeed, most of the wood and biomass bought comes 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 by means of complementary tools: the 10-Point Declaration on the Sustainability of Biomass (a voluntary self-regulation scheme) and plant certification under the SUstainable REsources Verification Scheme (SURE) to comply with the European Renewable Energy Directive (RED II).

Some 92% of the agricultural biomass used in 2023 was compliant with the 10-Point Plan criteria, ahead of the target for this year. In industrial biomass, compliance stands at 90%, which is likewise ahead of target.

As for implementation of the SURE scheme to comply with RED II, the energy plants and biomills have completed the audits for renewing their certifications in 2023. As well as renewing its own facilities' certifications, Ence is working to encourage its suppliers to get certified. As a result, by year-end 2023, over 90% of the biomass arriving at Ence's facilities was SURE-certified.

Elsewhere, Ence continues 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 99% as of September 2023.

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 higher 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, but also the GHG emissions derived from its life cycle are offset by credits purchased on the voluntary market. All sales of Naturcell made in Pontevedra in 2022 involved the carbon-neutral product, Naturcell Zero, topping the related sustainability target set by the Company. The Company also delivered its sales target for its carbon-neutral product in 2023.

On the carbon footprint front, in 2023, the Company completed the work needed to enable its pulp customers obtain information about the GHG emissions derived from the products they purchase, from raw material supply through manufacture, transportation and final delivery. Customers can get this information directly from Ence's website.

In 2023 **Ecovadis** awarded Ence its platinum medal, this entity's highest accolade. The Ecovadis platform assesses organisations' non-financial performance at the global level. It has grown to become the world's largest and most trusted provider of business sustainability ratings, analysing more than 100,000 business worldwide around a wide range of non-financial criteria. In its assessment, Ecovadis highlighted Ence's performance in terms of environmental sustainability, labour practices & human rights, sustainable procurement and ethics, the areas where Ecovadis' analysts awarded Ence their highest scores. The score obtained by Ence puts it at the global forefront in sustainability matters. Specifically, Ence ranked in the 99th percentile, ahead of all of its peers, evidencing the work being done by the Company to lead the way and become the best possible partner for its customers.

Similarly 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. The new PCR(1) and the revised and updated EDPs(2) have been available for consultation since March and August 2022, respectively. The EDP for the unbleached pulp made in Navia, Encell ECF(3) was completed, audited and published in 2023.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set new and very ambitious sales targets for Naturcell, Powercell and Naturcell Zero for 2023. Sales of those special products accounted for 22% of total pulp sales in 2023.

In parallel, in 2023, Ence continued to work to have pulp manufacturing at both of its biomills certified for food safety purposes under ISO 22000 with the goal of obtaining that certification in early 2024.

(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
(3) https://www.environdec.com/library/epd7965

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 2023, Ence called a new tender for the Ence Pontevedra Community Plan, endowed with €3 million per call. More than 300 projects benefitted from this latest round of assistance.

In addition to the above community investments, in 2023 Ence continued to roll out specific community relations plans with the aim of educating local residents and other stakeholders about the Company's activities. In 2023, Ence welcomed over 1,000 visitors to its facilities in Navia, Pontevedra, Huelva and Puertollano and held over 50 meetings with representatives from a range of stakeholders. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects. It participated in the sixteenth edition of the International Bioenergy Congress, the "Energy in Galicia: Challenges and Opportunities of the Energy Transition" Workshop organised by the Energy Club and the event organised by AENOR at which the Company was distinguished for "20 years caring for the environment by Ence in Pontevedra".

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. It is estimated that the Group's activities generate over 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.

Notably in 2023, Ence approved its due diligence policy around sustainability, setting out its main commitments and principles to ensure there are no human rights violations or adverse environmental effects along its value chain; in parallel, it formulated a due diligence procedure which Ence will apply to its business dealings with suppliers, shareholders, customers and other third parties.

APPENDIX 2: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S POWER PLANTS

Facility	Type of facility	MW	2023 Remuneration for investment in P&L (Ri; €/MW) *	Type of fuel	Remuneration for operation 2S23 (Ro; €/MWh)	Sale hours limit under regulated price	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	-	6,500	2032
	Biomass generation		46,362	Agroforestry biomass	-	7,500	
Navia	Biomass co-generation	40.3	-	Lignin	-	6,500	2034
	Biomass generation	36.2	210,395	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	39,759	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	123,610	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	66,232	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	184,086	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	84.4	6,537	2030
Huelva 50MW	Biomass generation	50.0	242,587	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	267,374	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:

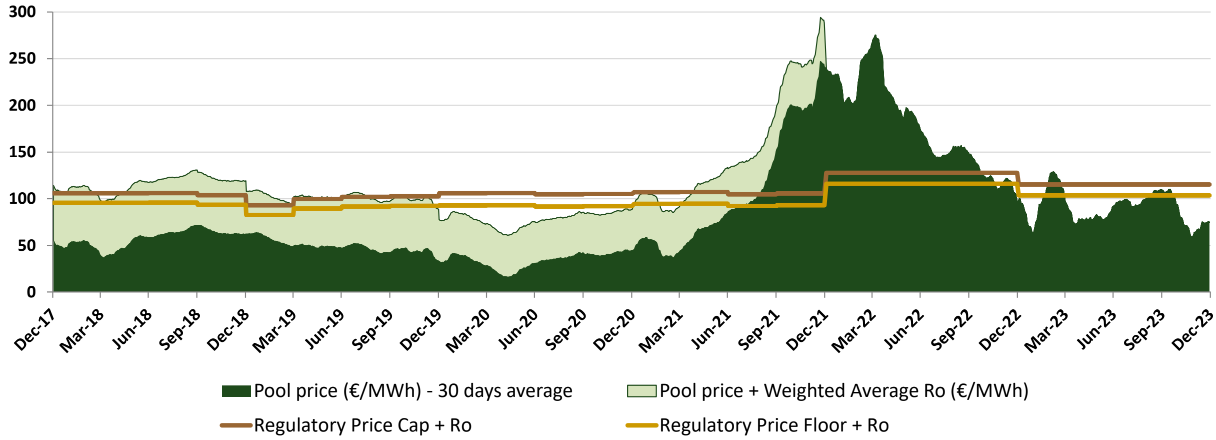
1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a minimum return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for 2020–2031 via Royal Decree-Law 17/2019 (22 November 2019).

2. The **regulated sales price (€/MWh)** enables plant owners to cover all the estimated costs of operating a 'standard' plant, including fuel costs. That price is made up of the regulatory price plus the supplementary remuneration for operations (Ro) earned by each plant, where applicable.

   The Ministry of Green Transition determines the supplementary remuneration for operation of each plant (Ro) as a function of the estimated costs of operating a 'standard' plant, which are updated annually, and the electricity prices estimated at the start of each 3-year regulatory stub period (regulatory price). Any deviations between the electricity market price and the price estimated by the Ministry at the start of each period (regulatory price) are settled by adjusting the remuneration for investment to be collected during the plants' remaining regulatory useful lives.

   When estimating electricity market prices, the Ministry will rely on the weighted average value of a basket of prices made up of day-ahead market prices and market prices gleaned from futures markets.

   If the price estimated by the Ministry (regulated price) 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.



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 Ministry has accordingly reduced the Company's plants' remuneration for operations.

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively.

These new regulations establish the regulatory prices for 2023, 2024 and 2025 at €109.31/MWh, €108.86/MWh and €89.37/MWh, respectively, compared to the prices of €207.88/MWh, €129.66/MWh and €78.19/MWh published in the draft Order dated 28 December 2022, now defunct.

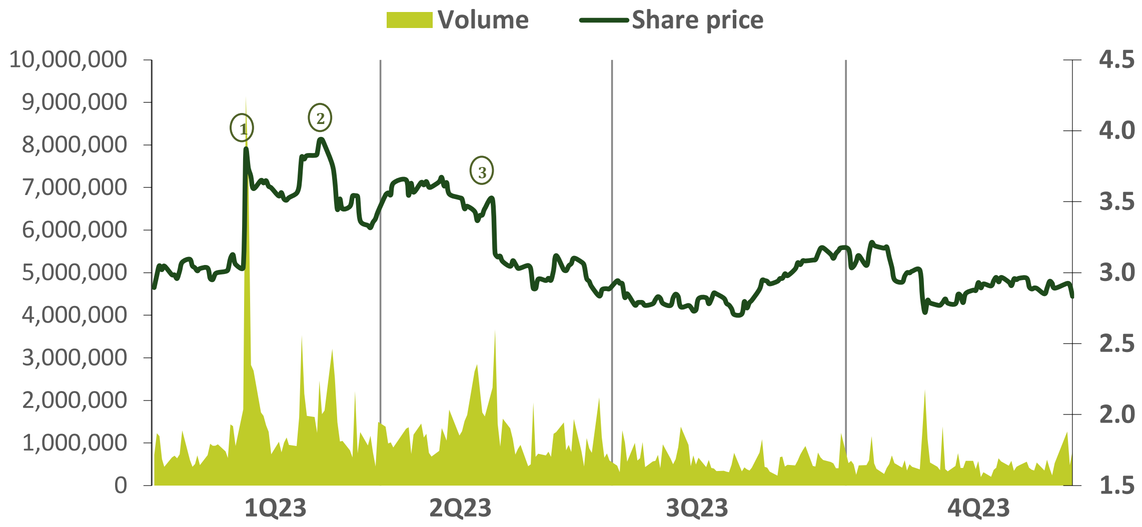
Below are the **pool prices estimated by the regulator for 2023-2025**, along with the corresponding annual ceilings and floors:

Eur / MWh	2023	2024	2025
LS2	117.1	116.7	97.2
LS1	113.2	112.8	93.3
Estimated price pool	109.3	108.9	89.4
LI1	105.4	105.0	85.5
LI2	101.5	101.1	81.6

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 and Ibex Top Dividendo indices.

Ence's share price ended 2023 at €2.83, a gain of 0.8% from year-end 2022, or 21.4% adjusting for the two interim dividends of €0.29 per share paid out on each of 16 March and 18 May 2023.



1) On 7 February 2023, Spain's Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. That day the Company's share price jumped 27%.

2) Ence's shares traded ex-dividend from 14 March 2023, i.e., excluding collection of an interim dividend against 2022 profits of €0.29/share (€70m).

3) Ence's shares traded ex-dividend from 16 May 2023, i.e., excluding collection of a second interim dividend against 2022 profits of €0.29/share (€70m).

SHARES	4Q22	1Q23	2Q23	3Q23	4Q23
Share price at the end of the period	2.81	3.43	2.89	3.17	2.83
Market capitalization at the end of the period	692.0	844.7	710.7	781.7	697.4
Ence quarterly evolution	(8.5%)	22.1%	(15.9%)	10.0%	(10.8%)
Daily average volume (shares)	745,786	1,455,322	1,222,432	605,663	551,485
Peers quarterly evolution *	(4.0%)	(10.5%)	(4.4%)	7.0%	(0.3%)

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp – prices in euros

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, 2.5, 2.6, 3.3, 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 Group'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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	(15.5)	11.9	1.6	(2.0)	248.3	28.3	1.6	278.2
Depreciation and amortisation charges	€ m	P&L	55.6	39.1	(1.6)	93.1	52.1	40.2	(0.9)	91.4
Depletion of forest reserve	€ m	P&L	8.8	-	-	8.8	7.0	0.0	-	7.0
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	1.0	(8.8)	-	(7.8)	(184.5)	41.3	-	(143.9)
Other non-operating items	€ m	APM	(3.7)	0.4	-	(3.3)	14.9	-	-	14.9
EBITDA	**€ m**		**46.2**	**42.6**	**-**	**88.8**	**137.7**	**109.8**	**-**	**247.6**

Other non-recurring items, presented in sections 1, 2.5 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. The balance of €3.3m recognised in 2023 related mainly with inventory impairment losses in the Pulp business and the favourable outcome of the last tax inspection. In 2022, it included 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 the wake of the Supreme Court's ruling upholding the validity of the Pontevedra concession until 2073.

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 2.3 of this report.

The cash cost includes all of the costs directly related with the production and sale of pulp that impact cash flows, without considering 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 deviations in electricity market prices (the regulatory collar), 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2022 Pulp
Revenue from pulp sales	€ m	P&L	565.6	625.5
EBITDA	€ m	APM	(46.2)	(137.7)
Total costs (Revenue - EBITDA)	€ m		519.4	487.7
Gains/(losses) on hedging transactions	€ m	APM	(0.4)	(20.3)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		8.0	(14.5)
Depletion of forest reserve	€ m	P&L	8.8	7.0
Change in inventories	€ m	P&L	(10.2)	3.6
Other income and expenses	€ m		(12.8)	(11.3)
ADJUSTED CASH COST	€ m		512.8	452.2
Pulp production costs	€ m		434.4	373.8
No. of tonnes produced	Unit		975,345	816,311
	€/tonne		**445.4**	**457.9**
PRODUCTION-RELATED COSTS PER TONNE				
Overhead, sales and logistics costs			78.4	78.4
No. of tonnes sold	Unit		978,501	826,617
	€/tonne		**80.1**	**94.8**
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE				
CASH COST	**€/tonne**		**525.5**	**552.7**

"Other income and expenses" includes the gain/(loss) on the sale of wood to third parties (-€1.2m in 2023 and -€0.8m in 2022), nursery costs (-€1.1m in 2023 and -€1.1m in 2022), long-term remuneration and termination benefits (-€1.3m in 2023 and -€1.2m in 2022), receivables impairment allowances (-€2.0m in 2023 and -€1.3m in 2022) and bank charges (-€2.3m in 2023 and -€1.1m in 2022). The remaining items implied expenses totalling €4.9m in 2023 and €5.8m in 2022, related primarily with the implementation of a new solution for recovering wastewater in Pontevedra.

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.3 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2022 Pulp
Revenue from pulp sales	€ m	P&L	565.6	625.5
No. of tonnes sold	Unit		978,501	826,617
Average sales price per tonne (Revenue / # tonnes)	€/tonne		578.0	756.7
Cash cost (€)	€/tonne	APM	525.5	552.7
TOTAL OPERATING PROFIT PER TONNE OF PULP	**€/tonne**		**52.5**	**204.0**

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 2.5, 3.3 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	6.4	1.0	(0.8)	6.6	1.9	0.2	(1.0)	1.1
Finance costs	€ m	P&L	(23.8)	(13.8)	0.8	(36.8)	(11.8)	(16.5)	1.0	(27.3)
NET FINANCE COST	**€ m**		**(17.4)**	**(12.8)**	**-**	**(30.2)**	**(9.9)**	**(16.3)**	**(0.0)**	**(26.3)**
Change in fair value of financial instruments	€ m	P&L	-	-	-	-	-	0.3	-	0.3
Exchange differences	€ m	P&L	(0.9)	0.0	-	(0.9)	1.4	(0.0)	-	1.3
OTHER FINANCIAL ITEMS	**€ m**		**(0.9)**	**0.0**	**-**	**(0.9)**	**1.4**	**0.3**	**-**	**1.6**
NET FINANCE INCOME/(COST)	€ m	P&L	(18.3)	(12.8)	-	(31.2)	(8.5)	(16.1)	-	(24.6)

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, 2.6 and 3.4, 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 Group'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 these headings and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both reporting periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(23,3)	(6,4)	-	(29,7)	(16,9)	(2,7)	-	(19,6)
Efficiency and growth capex	€ m		(29,6)	(3,0)	-	(32,6)	(11,8)	(2,3)	-	(14,1)
Sustainability capex	€ m		(28,6)	(4,9)	-	(33,4)	(15,8)	(5,4)	-	(21,2)
Financial investments	€ m	EFE	(4,3)	0,5	3,1	(0,8)	0,2	-	-	0,2
TOTAL CAPITAL EXPENDITURE	**€ m**	**EFE**	**(85,8)**	**(13,8)**	**3,1**	**(96,5)**	**(44,3)**	**(10,4)**	**-**	**(54,7)**

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.6 and 3.4 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	46.2	42.6	-	88.8	137.7	109.8	-	247.6
Other non-recurring items	€ m	APM	3.7	-	(0.4)	3.3	(14.9)	-	-	(14.9)
Adjustments to reconcile profit before tax to net cash flows:					-				-	
Changes in provisions and other deferred expense (net)	€ m	CF	5.6	2.6	-	8.2	23.4	2.1	-	25.5
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	(8.0)	(26.0)	-	(34.0)	14.5	10.4	-	25.0
Grants taken to profit and loss	€ m	CF	(0.9)	(0.1)	-	(1.0)	(0.5)	(0.1)	-	(0.7)
Exchange differences with an impact on cash	€ m		(0.5)	(0.4)	0.4	(0.5)	0.0	(0.2)	-	(0.1)
Change in working capital	€ m		(24.7)	(53.4)	-	(78.1)	(3.0)	70.6	-	67.6
Interest paid, net (including right-of-use assets)	€ m	CF	(13.0)	(13.2)	-	(26.2)	(6.3)	(17.0)	-	(23.3)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	2.6	(9.2)	-	(6.6)	(13.9)	(8.6)	-	(22.6)
Other collections/(payments)	€ m	CF	-	-	-	-	(0.4)	-	-	(0.4)
OPERATING CASH FLOW			**10.9**	**(57.0)**	**-**	**(46.1)**	**136.7**	**167.0**	**-**	**303.7**

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, 2.6, 3.4 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	10.9	(57.0)	-	(46.1)	136.7	167.0	-	303.7
Net cash flows from/(used in) investing activities	€ m	CF	(85.8)	(13.8)	-	(96.0)	(43.9)	(10.0)	-	(53.9)
FREE CASH FLOW	**€ m**		**(75.0)**	**(70.8)**	**-**	**(142.2)**	**92.8**	**157.0**	**-**	**249.8**

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow metrics for each of its two business units in sections 1, 2.6 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Group'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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	46.2	42.6	-	88.8	137.7	109.8	-	247.6
Changes in working capital:					-				-	
Inventories	€ m	CF	25.7	(0.4)	-	25.3	(24.3)	(10.3)	-	(34.6)
Trade and other receivables	€ m	CF	13.9	33.9	(27.3)	20.4	8.2	0.6	11.7	20.5
Short-term investments	€ m	CF	1.8	0.0	-	1.8	2.4	(0.0)	-	2.3
Trade payables, other payables and other liabilities	€ m	CF	(66.1)	(86.9)	27.3	(125.6)	10.7	80.3	-	79.3
Maintenance capex	€ m	APM	(23.3)	(6.4)	-	(29.7)	(16.9)	(2.7)	-	(19.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(13.0)	(13.2)	-	(26.2)	(6.3)	(17.0)	-	(23.3)
Income tax paid	€ m	CF	2.6	(9.2)	-	(6.6)	(13.9)	(8.6)	-	(22.6)
NORMALISED FREE CASH FLOW	**€ m**		**(12.4)**	**(39.4)**	**-**	**(51.8)**	**97.6**	**152.1**	**-**	**249.7**

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 2.7 and 3.5 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 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			Dic. 2023				Dic. 2022			
		Source Financial Statement (*)	Negocio Celulosa	Negocio de Renovables	Ajustes y Eliminaciones	TOTAL CONSOLIDADO	Negocio Celulosa	Negocio de Renovables	Ajustes y Eliminaciones	TOTAL CONSOLIDADO
Non-current borrowings:										
Bonds and other maketable securities	€ m	BS	-	78.7		78.7	-	78.4		78.4
Bank borrowings	€ m	BS	277.4	10.2		287.7	96.9	43.7		140.6
Other financial liabilities	€ m	BS	72.1	1.7		73.9	66.3	0.8		67.0
Current borrowings:	€ m									
Bonds and other maketable securities	€ m	BS	53.0	0.0		53.1	64.1	0.0		64.1
Bank borrowings	€ m	BS	84.5	33.6		118.0	13.0	27.2		40.1
Other financial liabilities	€ m	BS	12.7	1.1		13.8	6.3	0.6		6.9
Cash and cash equivalents	€ m	BS	311.2	21.8		333.0	278.4	134.5		412.9
Current financial assets - Other financial investments	€ m	BS	2.5	0.0		2.5	4.2	0.0		4.3
Cash reserve for debt service	€ m	BS	-	10.0		10.0	-	10.0		10.0
NET DEBT/(CASH)	€ m		**186.1**	**93.5**		**279.6**	**(36.1)**	**6.1**		**(30.0)**

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. ROCE is widely used in the capital markets to measure and compare the earnings performance of different companies.

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 Renewables business.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	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	(15.5)	12.4	1.1	(2.0)	84.3	28.3	1.6	114.2
Average capital employed, last 12 months					-					
Average equity	€ m	BS	481.5	236.6	-	718.2	615.5	224.8	-	840.3
Average net debt	€ m	BS	107.3	66.9	-	174.1	(33.4)	40.6	-	7.2
ROCE	**%**		**-2.6%**	**4.1%**	**n.s.**	**-0.2%**	**14.5%**	**10.6%**	**n.s.**	**13.5%**

To calculate the ROCE in 2022, adjustments were made for the impact of the reversal of the impairment losses and provisions associated with the Pontevedra biomill in the wake of the Supreme Court rulings upholding the validity of the concession term in Pontevedra until 2073, with a net impact on EBIT and equity of €164m and €169m, respectively.

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
4Q23

Global ESG score: 90/100

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).