

3. Basis of preparation

The consolidated financial statements for 2023 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2023 and 2022, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognised income and expenses for the year then ended.

The consolidated financial statements have been prepared based on the accounting records of Viscofan, S.A. and the companies comprising the Group. However, given that the accounting policies and measurement bases applied in these consolidated financial statements differ from those used by the companies forming the Group (where the prevailing regulations of each country apply), the consolidation process has taken into consideration the adjustments and reclassifications required to adapt such principles and criteria to the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

The Group adopted EU-IFRS as of 1 January 2004 and applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" at that date.

3.1. New and amended standards and interpretations

The accounting policies used during the preparation of these consolidated financial statements are the same as those applied for the consolidated financial statements for the year ended 31 December 2022.

The following amendments came into force in the financial year 2023:

- IAS 1 (Amendment) "Disclosure of Accounting Policies"
- IAS 8 (Amendment) "Definition of Accounting Estimates"
- IAS 12 (Amended) "Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction"
- IAS 12 (Amended) "International Tax Reform: Pillar Two Model Rules"

The amendment introduced by IAS 12 for deferred taxes requires a restatement of the opening balance sheet figures for deferred tax assets and liabilities (Note 18).

3.2. Published standards which are not applicable

The Group intends to adopt these standards, interpretations, and amendments thereof published by the IASB and considered mandatory in the European Union at the date these consolidated financial statements were prepared, applying them as they come into force.

3.3. Policies used by the Group when several options are permitted

International Financial Reporting Standards occasionally allow for more than one alternative accounting treatment for a transaction. The criteria adopted by the Group for its most relevant transactions are the following:

Capital grants can be recognised reducing the cost of the assets for which financing was granted or as deferred income (which was the Group's choice). They are recognised in the income statement under "Other income."

Certain property, plant, and equipment may be measured at market value or historical cost less depreciation and impairment loss. Viscofan has chosen the latter criteria.

3.4. Comparison of information

These consolidated financial statements present for comparative purposes, for each of the headings in the consolidated statement of financial position, the consolidated income statement, the consolidated comprehensive income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, as well as the consolidated figures for 2023 and those for the previous year, except when an accounting standard specifically establishes that this is unnecessary.

Due to the amendment of IAS 12 and its impact on the recording of deferred taxation of leases under IFRS 16, and in order enable comparisons between the figures for the year 2023 and those for 2022, the accounts for the year 2022 have been restated.

3.5. Relevant accounting estimates, assumptions and judgments

The preparation of financial statements in conformity with EU-IFRS requires Group management to make judgments, estimates, and assumptions, and to apply relevant accounting estimates in the process of applying Group accounting policies.

This section describes the main assumptions advanced about the future and other key sources of uncertainty in estimations made at the reporting date that have a significant risk of requiring a material adjustments to the carrying amounts of assets and liabilities within the next financial year. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are duly reflected in assumptions when and as they occur.

(a) Taxes

The subsidiaries comprising the Group are individually responsible for their tax obligations in their respective countries.

The two Navarre companies have filed consolidated tax returns since 1 January 2021.

The Group analyses the possible inspections by the tax authorities of the respective countries and establishes provisions based on its best estimates. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the Group and the corresponding tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country where the respective Group company is domiciled. The Group's policy, affecting all subsidiaries, is to apply conservative criteria when interpreting the different prevailing regulations in each of the countries where it operates.

Deferred tax assets are recognised for all unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and future taxable profits, together with future tax planning strategies.

The years open for review by tax authorities vary depending on each country's tax legislation, and returns are not considered definitive until the corresponding inspection period has elapsed or until they have been inspected and accepted by tax authorities.

The Company's management considers that all applicable taxes have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying financial statements.

Further details on taxes are disclosed in Note 18.

(b) Pension benefits

The cost of defined benefit pension plans and other obligations and the present value of pension obligations are determined using actuarial measurements. Actuarial measurements involve making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future pension increases. Owing to the complexity and long-term scope of estimates, these are sensitive to any changes in assumptions.

Mortality rates are based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective countries.

A sensitivity analysis and details on the hypotheses used are provided in Note 14.1.

(c) Provisions for litigation and contingent assets and liabilities

Estimating provision amounts with respect to potential assets and liabilities derived from ongoing litigation is carried out on the basis of the professional opinion of the legal representatives hired to deal with such matters, as well as on the basis of internal evaluations performed by the Group's Legal Department.

The breakdown of provisions for litigations is shown in Note 14.3, while the main contingent assets and liabilities that may give rise to the future recognition of assets and liabilities are described in Note 14.4.

(d) Fair value of share-based remuneration

Fair value is determined by a third party using an adjusted form of the Black-Scholes model that includes a Monte Carlo simulation model that takes into account the price of the share during the year, the option period, the effect of dilution (where material), the share price at the grant date and the expected volatility of the underlying share price, the expected dividend yield, the risk-free interest rate for the option period and the correlations and volatilities of the reference Group companies.

(e) Other accounting estimates and hypotheses

- Assessment of possible impairment losses on certain assets and goodwill: Notes 4.7, 4.13, 4.14 and 4.16.
- Useful life of property, plant, and equipment and intangible assets: See Notes 4.13 and 4.14.
- Measurement of derivative financial instruments: (Note 4.24)

3.6. Ukraine - Russia conflict

Beyond the loss of life and destruction of resources it has caused, Russia's invasion of Ukraine has altered the dynamics of energy markets and trade sanctions put in place prevent the sale of casings from Europe. Consequently, the Board of Directors of Viscofan S.A. adopted the decision to interrupt the export activity of casings with Russia in 2022, a situation that has continued during 2023.

In view of the situation, Viscofan's risk control and management system continues to work on commercial and operational mitigation measures to offset its impact, such as energy hedging through supply contracts with the main energy suppliers, and searching for energy diversification in operations.

The Group has at no time disposed of any fixed assets owned in either Ukraine or Russia.

3.7. Regulation of energy generating companies

The Group company Viscofan España, S.L.U. operates an electricity cogeneration facility. The Group is careful to comply with the regulation published since 2013 in this area, the most significant aspects of which are expressed below.

On 14 July 2013, Royal Decree-Law 9/2013 entered into force, drawing the bases of a new legal and economic system for existing electricity facilities using renewable energy, cogeneration and waste sources, establishing a remuneration system based on standard parameters in line with those of the various standard facilities defined. The RD eliminates the regulated renewable energy and cogeneration tariffs, creates the Electricity Self-Consumption Register and launches a new economic system whose main characteristic guarantees that the renewable energy facilities obtain an equivalent return to the interest rates on the 10-year State bonds, plus 300 basis points in reference to costs and investments of a standard facility, during its entire regulatory life. The RD also eliminates the efficiency and reactive energy complements existing in the regime that precedes it. Furthermore, the RD does not set new bonuses. The specification of the definitive remuneration has been postponed to the subsequent publication of a ministerial order and the latest existing rates remain as a reference, valid during the provisional term stretching from the publication of the RD to the publication of the subsequent order.

Electricity Law 24/2013, of 26 December, was published on 27 December 2013 to set out a regulation for the electricity sector that guarantees electricity supply with the necessary quality levels at the minimum possible cost, ensuring the economic and financial sustainability of the system and enabling an effective level of competition within it, respecting at all times the environmental protection principles proper to a modern society.

The expected enactment of this Law is defined in Royal Decree 413/2014, of 6 June, regulating the electricity production activity based on renewable, cogeneration and waste sources. The above RD organises the bases of the remuneration framework that enables electricity production facilities assigned to this system to cover the necessary costs in order to be able to compete on the market on an equal footing with the remaining technologies and obtain a reasonable return, establishing a remuneration system based on standard parameters and standard facilities. Towards this end, both article 14.4 of the Electricity Law and article 20 of the above Royal Decree, define an system to update the remuneration parameters of standard facilities. For facilities whose operating costs depend essentially on the price of fuel, Order IET/1345/2015, of 2 July, enacts the aforementioned articles and implements an update methodology on remuneration, to be applied weekly.

The above regulation contemplates the revision of market price estimates for the first three years of the regulatory period corresponding to fiscal years 2014, 2015 and 2016, adjusting them to real market prices. Section 3 of art. 22 of Royal Decree 413/2014 on market price estimates and deviation adjustments indicates that when the annual average price of the daily and intra-daily market is outside the limits set by the regulation, a positive or negative balance will be generated. This balance, accumulated on an annual basis, will be understood as the adjustment value for deviations in market price estimates. The adjustment value due to differences in market price and its estimates will therefore be calculated annually.

In the context of the COVID-19 international pandemic, Order TED/260/2021, of 18 March, was published on 22 March 2021, adopting measures to support facilities whose operating costs depend essentially on the price of fuel. The Order reviews the remuneration of standard facilities whose operating costs depend essentially on the fuel market.

Order TED/1232/2022, dated 2 December 2022, was published on 14 December 2022, updating the remuneration parameters for standard facilities applicable to those using renewable energy sources, cogeneration and waste treatment, with the aim of having the new parameters applied to fiscal year 2022, and setting the remuneration corresponding to the first half of 2022 for these facilities.

Finally, on 28 December 2022, Order TED/1295/2022 of 22 December 2022 is published, setting the remuneration corresponding to the second semester of 2022, applicable to certain electricity production facilities using renewable energy sources, cogeneration and waste treatment, for the purpose of its application to the 2022 financial year.

In relation to the adjustment for pool deviations affecting RECORE installations, the following regulations have been published during 2023:

Royal Decree-Law 6/2022, of 29 March, establishes that by 2023 a new methodology for determining the remuneration for the operation (Ro) of standard installations must be published, and, furthermore, that in this new methodology, the banding adjustments for pool deviations must cease to be applied for installations whose costs depend essentially on the cost of fuel (cogeneration, waste treatment and biomass).

Royal Decree-Law 10/2022 of 13 May requires that the market price for the adjustment for deviations in the pool price cease to be the average of the daily and intra-day market (OMIE) and become the average of a basket of electricity price products (spot and futures).

Royal Decree-Law 20/2022 of 27 December provides that, as it has not been possible to publish a proposal for a new methodology in time, the current methodology will be applicable for the first half of 2023, modifying the provisions of RDL 6/2022.

In December 2022, the Draft Order for the first half of 2023 is published, continuing with the current regulation as set out in RDL 20/2022.

In April 2023 the Draft Order for the second half of 2023 is published, establishing a new Ro calculation methodology, and a new pool deviation adjustment methodology for cogeneration, treatments, and biomass, proposing to replace the banding adjustments with a settlement at the end of each year.

Royal Decree-Law 5/2023, of 28 June, establishes a series of changes for the year 2023, with respect to the previously published regulations and proposals:

- It considers ad hoc commodity prices (electricity, natural gas and CO₂ prices) for 2023, awaiting the new methodology, but resulting in a reduction of the Ro value of the plants.
- For the year 2023 the applicable price for the adjustment for pool deviations will be the smallest between the RDL 10/2022 basket average and the minimum daily market price (OMIE). Given that the average OMIE price was lower than the basket price in 2023, the OMIE price is taken as the adjustment price for 2023.

The value of the Ro for the first half of 2023 is officially set by Order TED/741/2023, of June 30. The Order proposes two alternative Ro values, with the higher value being applicable. This is because one of the alternatives is calculated according to the commodity prices determined by the usual methodology, while the other alternative is calculated according to the prices set by Royal Decree-Law 5/2023. The order also specifies that for the calculation of the adjustment for pool deviations for the 2023-2025 half-period, the targeting coefficient must be applied not only to the actual pool, but also to the adjustment bands.

On 30 June 2023, a new Draft Order is published for the second half of 2023, replacing the one previously published in April 2023. The new proposal removes all mention of setting up a new methodology for calculating Ro or adjustments, maintaining the previous methodology in force, but considering, this time, the prices and parameters set out in RDL 5/2023.

The Draft Order on parameters for the first half of 2024 was published on 22 November 2023. This Order finally sets the new Ro methodology, which will apply from 1 January 2024 and will establish the calculation of Ro on a quarterly basis for cogeneration and waste treatment, and annually for biomasses, and ceases to apply pool adjustments of any kind for cogeneration and waste treatment. The order therefore confirms that adjustments for pool deviations cease to apply from 2024, implying that in 2023 the banding adjustment for cogeneration and waste treatment continues to apply.

