ENERGÍA & CELULOSA

Second-quarter 2021 earnings report

28 September 2021

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1. EXECUTIVE SUMMARY

Market figures	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
BHKP (USD/t) average price	998.7	680.4	*46.8%*	759.9	*31.4%*	880.2	680.2	*29.4%*
Average exchange rate (USD/€)	1.20	1.10	*9.7%*	1.21	*(0.3%)*	1.21	1.10	*9.5%*
BHKP (€/t) average price	829.0	619.7	*33.8%*	628.9	*31.8%*	729.7	617.6	*18.2%*
Average pool price (€/MWh)	76.3	23.3	*227.8%*	48.1	*58.6%*	62.2	29.0	*114.2%*
Source: Bloomberg	39.7			4.4				

Operating Metrics	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Pulp production (t)	**269,496**	**258,860**	***4.1%***	**224,411**	***20.1%***	**493,907**	**520,617**	***(5.1%)***
Pulp sales (t)	**251,610**	**246,584**	***2.0%***	**246,157**	***2.2%***	**497,767**	**519,820**	***(4.2%)***
Average sales pulp price (€/t)	525.5	416.8	*26.1%*	403.7	*30.2%*	465.3	417.5	*11.4%*
Cash cost (€/t)	367.7	375.1	*(2.0%)*	385.8	*(4.7%)*	375.9	377.6	*(0.5%)*
Renewable Energy sales volume (MWh)	**331,697**	**354,508**	***(6.4%)***	**325,795**	***1.8%***	**657,455**	**612,945**	***7.3%***
Average sales price - Pool + Ro (€/MWh)	95.6	97.6	*(2.0%)*	102.7	*(7.0%)*	99.1	97.1	*2.1%*
Remuneration for investment (€ m)	10.2	15.9	*(35.5%)*	10.2	-	20.5	31.7	*(35.5%)*

P&L € m	2Q21 pre rullings	Rullings impact	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Revenue from Pulp business	164.1	-	164.1	128.8	*27.4%*	123.8	*32.5%*	287.9	267.9	*7.5%*
Revenue from Renewable Energy business	42.2	-	42.2	50.8	*(17.0%)*	43.9	*(3.9%)*	86.0	96.0	*(10.4%)*
Consolidation adjustments	(0.9)	-	(0.9)	(1.1)		(0.6)		(1.5)	(1.9)	
Total revenue	**205.4**	**-**	**205.4**	**178.4**	*15.1%*	**167.0**	*22.9%*	**372.4**	**362.0**	*2.9%*
Pulp business EBITDA	40.6	1.5	42.1	8.4	*n.s.*	5.9	*n.s.*	48.1	18.4	*161.6%*
Margin %	*25%*	*1%*	*26%*	*7%*	*19.1 p.p.*	*5%*	*20.9 p.p.*	*17%*	*7%*	*9.8 p.p.*
Renewable Energy business EBITDA	13.8	-	13.8	15.5	*(10.9%)*	8.7	*58.9%*	22.6	26.9	*(16.0%)*
Margin %	*31%*	*2%*	*33%*	*31%*	*2.3 p.p.*	*20%*	*13.0 p.p.*	*26%*	*28%*	*(1.8) p.p.*
EBITDA before hedges	**54.5**	**1.5**	**56.0**	**24.0**	*133.6%*	**14.7**	*n.s.*	**70.6**	**45.2**	*56.2%*
Margin %	*26%*	*1%*	*27%*	*13%*	*13.8 p.p.*	*9%*	*18.5 p.p.*	*19%*	*12%*	*6.5 p.p.*
Pulp business EBITDA	31.2	1.5	32.7	3.4	*n.s.*	8.2	*n.s.*	41.0	8.9	*n.s.*
Margin %	*19%*	*1%*	*20%*	*3%*	*17.3 p.p.*	*7%*	*13.3 p.p.*	*14%*	*3%*	*10.9 p.p.*
Renewable Energy business EBITDA	9.4	-	9.4	15.5	*(39.2%)*	8.5	*10.9%*	18.0	26.9	*(33.1%)*
Margin %	*21%*	*1%*	*22%*	*31%*	*(8.2) p.p.*	*19%*	*3.0 p.p.*	*21%*	*28%*	*(7.1) p.p.*
EBITDA	**40.7**	**1.5**	**42.2**	**19.0**	*122.5%*	**16.8**	*151.7%*	**58.9**	**35.7**	*65.0%*
Margin %	*20%*	*1%*	*21%*	*11%*	*9.9 p.p.*	*10%*	*10.5 p.p.*	*16%*	*10%*	*6.0 p.p.*
Depreciation, amortisation and forestry depletion	(25.5)	-	(25.5)	(27.9)	*(8.6%)*	(25.3)	*1.0%*	(50.8)	(54.5)	*(6.7%)*
Impairment of and gains/(losses) on fixed-asset disposal	(0.6)	(188.5)	(189.2)	(0.0)	*n.s.*	(0.5)	*n.s.*	(189.7)	0.4	*n.s.*
Other non-ordinary results of operations	-	6.3	6.3	(1.3)	*n.s.*	(1.3)	*n.s.*	5.0	(2.5)	*n.s.*
EBIT	**14.5**	**(180.7)**	**(166.2)**	**(10.3)**	*n.s.*	**(10.3)**	*n.s.*	**(176.5)**	**(20.8)**	*n.s.*
Net finance cost	(4.9)	-	(4.9)	(7.2)	*(31.9%)*	(5.3)	*(6.8%)*	(10.5)	(13.0)	*(19.3%)*
Other finance income/(cost) results	(0.1)	-	(0.1)	(0.1)	*(26.8%)*	1.5	*n.s.*	1.7	0.5	*241.8%*
Profit before tax	**9.5**	**(180.7)**	**(171.3)**	**(17.6)**	*n.s.*	**(14.0)**	*n.s.*	**(185.3)**	**(33.3)**	*n.s.*
Income tax	2.8	(15.7)	(12.9)	4.6	*n.s.*	3.4	*n.s.*	(9.6)	8.7	*n.s.*
Net income	**12.3**	**(196.5)**	**(184.2)**	**(13.0)**	*n.s.*	**(10.7)**	*n.s.*	**(194.9)**	**(24.6)**	*n.s.*
Non-controlling interests	(0.8)	-	(0.8)	(0.5)	*44.9%*	1.0	*n.s.*	0.3	(0.7)	*n.s.*
Atributable Net Income	**11.5**	**(196.5)**	**(185.0)**	**(13.6)**	*n.s.*	**(9.6)**	*n.s.*	**(194.6)**	**(25.4)**	*n.s.*
Earnings per share (Basic EPS)	0.05	(0.81)	(0.76)	(0.06)	*n.s.*	(0.04)	*n.s.*	(0.80)	(0.10)	*n.s.*

Cash flow € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**42.2**	**19.0**	*122.5%*	**16.8**	*151.7%*	**58.9**	**35.7**	*65.0%*
Change in working capital	7.3	5.5	*31.5%*	(31.1)	*n.s.*	(23.8)	10.9	*n.s.*
Maintenance capex	(3.8)	(3.9)	*(3.1%)*	(3.8)	*0.1%*	(7.5)	(9.1)	*(16.9%)*
Net interest Payment	(7.2)	(7.3)	*(0.7%)*	(3.0)	*144.0%*	(10.2)	(9.7)	*4.7%*
Income tax received/(paid)	(0.1)	(0.2)	*(49.0%)*	0.3	*n.s.*	0.3	1.0	*(75.2%)*
Normalised free cash flow	**38.3**	**13.1**	*192.3%*	**(20.7)**	*n.s.*	**17.6**	**28.8**	*(38.9%)*
Other collection (payments) and non cash expenses (revenues)	2.0	(8.9)	*n.s.*	(1.0)	*n.s.*	1.1	(8.5)	*n.s.*
Pending payments for expansion capex	(8.1)	(7.5)	*8.4%*	(20.9)	*(61.1%)*	(29.0)	(29.8)	*(2.5%)*
Sustainability capex and other	(4.3)	(2.4)	*76.2%*	(6.7)	*(36.2%)*	(11.0)	(11.8)	*(6.9%)*
Disposals	0.2	-	*n.s.*	0.2	*47.9%*	0.4	0.4	*(0.7%)*
Free cash flow	**28.2**	**(5.7)**	*n.s.*	**(49.1)**	*n.s.*	**(20.9)**	**(20.8)**	*0.5%*

Net debt € m	Jun 21 pre rullings	Rullings impact	Jun-21	Dec-20	Δ%
Net financial debt Pulp business	72.0	(28.8)	43.2	43.4	*(0.4%)*
Net financial debt Renewable Energy business	132.9		132.9	134.5	*(1.2%)*
Net financial debt	**204.9**	**(28.8)**	**176.1**	**177.8**	*(1.0%)*

- On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession, granted in 2016, over the public-domain land on which Ence's biomill in Pontevedra is located. The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.
- As a result of those sentences, in keeping with applicable accounting rules, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148m, together with a provision of €42m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts. The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.
- Excluding the accounting impact of the sentences, the Group would have reported a net profit of €12m in 2Q21 and of €2m in 1H21.
- Pulp prices have been staging a rapid recovery in 2021, having hovered at record lows for all of 2020. In Europe, hardwood pulp prices have recovered to $1,140 per tonne (gross) in the third quarter, marking a rebound of 68% from price lows.
- Pulp production increased by 4% year-on-year in 2Q21 and by 20% compared to 1Q21, when both biomills were idled for maintenance work. 2Q21 output marked a new quarterly record of 269,500 tonnes, thanks to the capacity added at the end of 2019.
- The reduction in conversion costs derived from the growth in output, coupled with savings eked out in overhead, offset the impact of raw material inflation. As a result, the Company's cash cost declined by 2% year-on-year in 2Q21 to €368 per tonne.
- Group EBITDA, before the impact of hedges, amounted to €56m in 2Q21 and €71m in 1H21, which is more than double the EBITDA obtained in 2Q20 and year-on-year growth of 56% in the first half.
- EBITDA in the Pulp business, before hedges, amounted to €42m in 2Q21 and €48m in 1H21, which is 5 times and more than 2.6 times the EBITDA obtained in 2Q20 and 1H20, respectively. The pulp price hedges arranged exceptionally in 2020 implied an outflow of cash of €10m in 2Q21, whereas the Group's exchange rate hedges gave rise to a cash inflow of €1m in 2Q21 and of 3m in 1H21.
- Elsewhere, EBITDA before the impact of hedges in the Renewable Energy business amounted to €14m in 2Q21 and €23m in 2H21, growth - on a like-for-like basis (excluding the sale of the solar thermal power plant in December) - of 31% compared to 2Q20 and of 24% compared to 2H20, driven by higher electricity prices. The fixed-price contracts arranged in 2020 implied an outflow of cash of €4m in 2Q21 and of €5m in 1H21.
- The Group's net debt ended June at €176m, €43m in the Pulp business and €133m in the Renewable Energy business, including €17m of lease liabilities under IFRS 16. That financial position is largely unchanged from year-end 2020 and includes more than €380m of cash.
- In light of reduced uncertainty regarding the direction of COVID-19 and following the sale of a 49% equity interest in Ence Energía in December 2020, the Company prepaid €95m of bilateral loans held by the Pulp business in the first half in order to reduce the associated financial costs. After the close, in July, it also refinanced the Pulp business's revolving credit facility, increasing its limit to €130m and extending its maturity to 2026.
- Ence is the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, after Ence lifted its overall ESG performance score to 91/100 in 2Q21.
- So as to continue to grow in renewables, Ence has a pipeline of 513 MW of developments, for which grid access and locations are assured, of which 140 MW corresponds to three biomass plants and 373 MW relates to five photovoltaic power plants. Their permitting is underway and the expectation is that they will be ready for construction on a staggered basis from 2022, depending on the outcome of the upcoming capacity auctions and potential PPA agreements.

2. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in 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 biomills use eucalyptus wood procured locally from sources that can certify sustainable forest management.

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

2.1. National Appellate Court Sentences affecting the concession in Pontevedra

On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession over the public-domain land on which Ence's biomill in Pontevedra is located.

The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.

If the Supreme Court does not agree to hear, or dismisses, the appeal, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (in a decision endorsed by the National Court) the deadline for potentially discontinuing activities at the biomill.

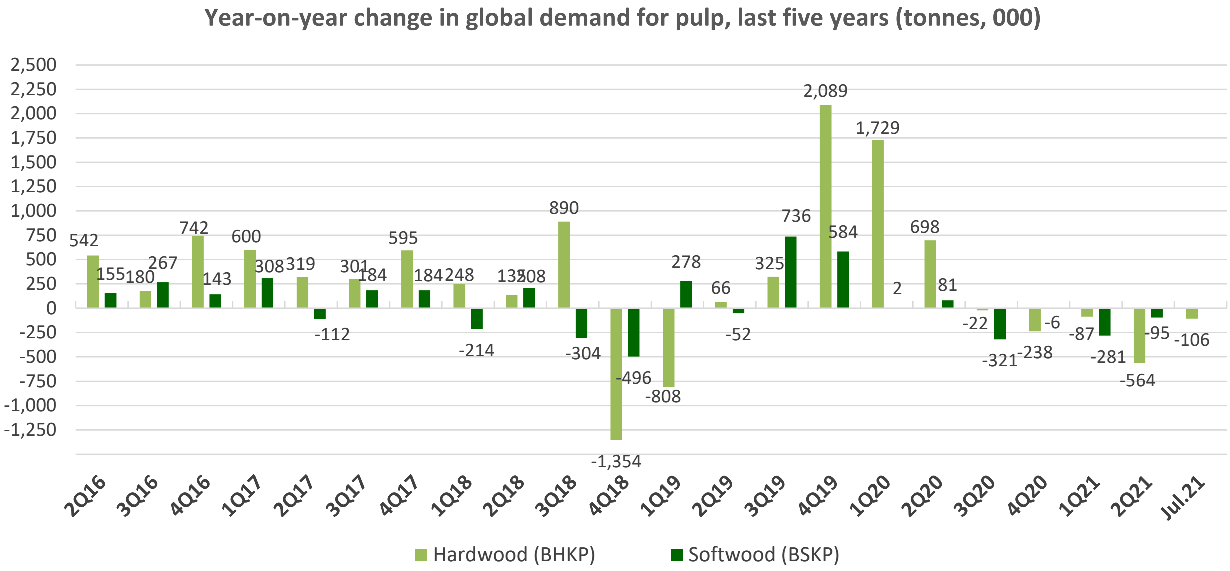
2.2. Pulp market trends

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material that is a good substitute for less environmentally-friendly materials such as plastics and synthetic fibres.

These demand dynamics are very consistent over time and contrast with the abrupt destocking observed in the paper industry at the end of 2018 (although inventories went on to recover at the end of 2019). That destocking by the paper industry put pressure on pulp prices which hit a 10-year low at the end of 2019, a trough in which they stayed for a year. Prices began to recover towards the end of 2020.

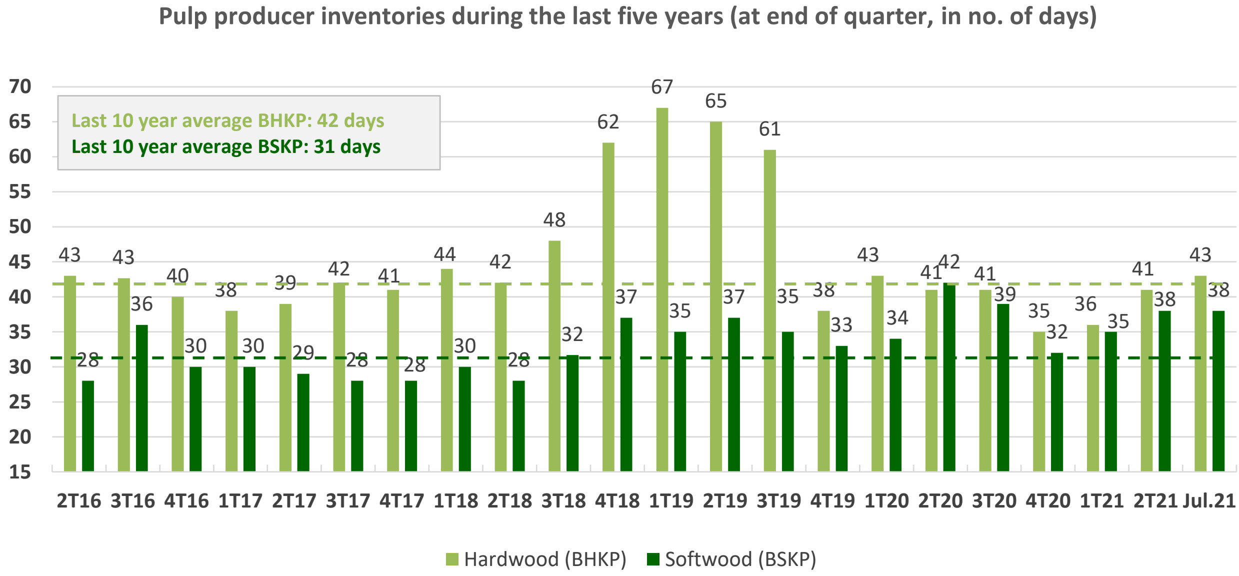
In 2020, demand for pulp increased by 3% (equivalent to 1.9m tonnes, compared to average annual growth of 1.6m tonnes during the last decade), driven by strong demand for tissue paper and restocking by the paper industry, which offset the decline in demand for printing and writing papers as a result of the pandemic.

Demand for pulp eased by 2.1% year-on-year in the first seven months of 2021 (equivalent to 0.8m tonnes), shaped largely by paper industry destocking and a tough comparison, as the same period of 2020 was marked by sharp growth in demand for tissue paper.



Source: Ence, PPPC–G100

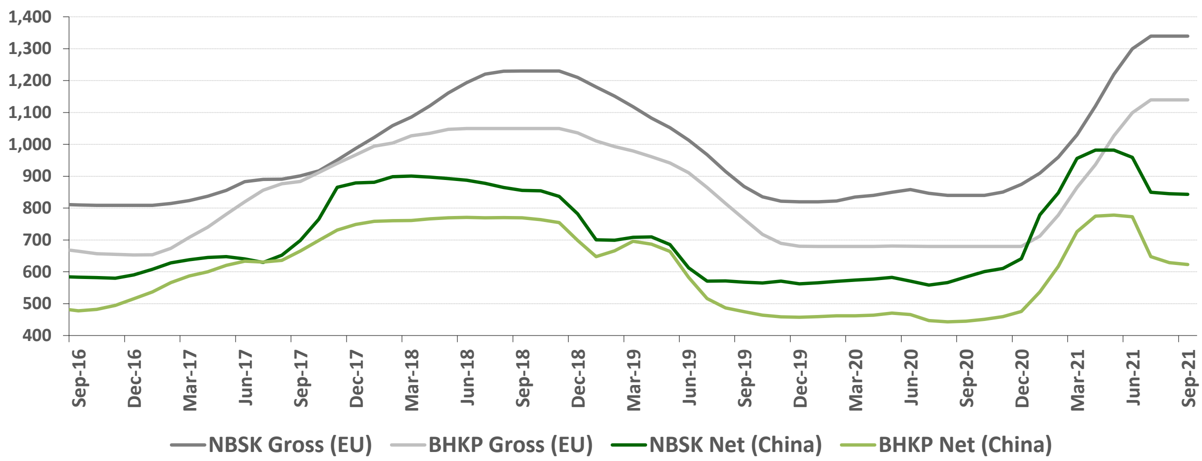
Pulp producer inventories were higher in July than in December 2020 due mainly to pulp destocking in the paper industry. Hardwood pulp inventories increased by eight days, to 43, compared to an average of 42 days in the last 10 years, while softwood pulp inventories increased by six days, to 38, which is higher than the 10-year average of 31 days.



Source: Ence, PPPC–G100

Pulp prices have rebounded swiftly since the end of 2020, having hovered at record lows for a year. In China, hardwood pulp prices peaked at $780 (net) per tonne in May, marking a recovery of 70% from their lows, and are currently trading at close to $620 per tonne. Those increases gradually spilled over to the European market, where gross prices have remained at $1,140 per tonne since July, a recovery of 68% from trough levels.

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



Source: FOEX

2.3. Revenue from pulp sales

Pulp sales volumes sustained growth of 2% year-on-year to 251,610 tonnes in 2Q21, thanks to production growth of 4.1%, partially offset by the replenishment of pulp inventories. In 1H21, pulp sales volumes totalled 497,767 tonnes, down 4.2% year-on-year, affected by the stoppage of both biomills for maintenance in the first quarter, compared to the third quarter in 2020.

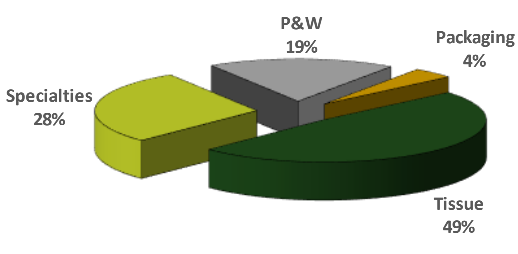
	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Pulp sales (t)	**251,610**	**246,584**	*2.0%*	**246,157**	*2.2%*	**497,767**	**519,820**	*(4.2%)*
Average sales price (€/t)	525.5	416.8	*26.1%*	403.7	*30.2%*	465.3	417.5	*11.4%*
Pulp sales revenue (€ m)	**132.2**	**102.8**	*28.6%*	**99.4**	*33.0%*	**231.6**	**217.0**	*6.7%*

Pulp inventories increased by almost 17,900 tonnes in 2Q21 to approximately 42,600 tonnes. In 2Q20, inventories increased by nearly 12,300 tonnes to approximately 55,500 tonnes.

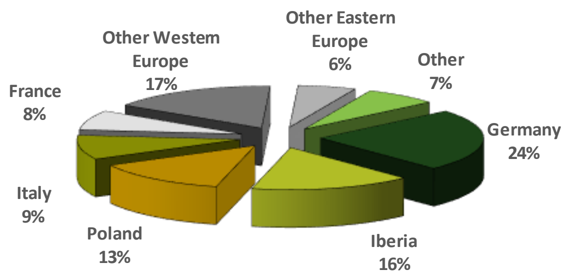
The average sales price increased by 26.1% in 2Q21 to €525.5 per tonne, thanks to growth of 46.8% in average benchmark prices, partially offset by the dollar's 9.7% slide against the euro. Note that Ence's monthly sales are largely referenced to the average benchmark price for the previous month. In 1H21, average sales prices firmed by 11.4% year-on-year.

The combination of the two factors drove year-on-year growth in revenue from pulp sales of 28.6% to €132.2m in 2Q21 and of 6.7% to €231.6m in 1H21.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 49% of revenue from pulp sales in 1H21, followed by the specialty paper segment, at 28%. The printing and writing paper segment accounted for 19% of sales and packaging, the remaining 4%.

Most of the pulp produced by Ence is sold in Europe, namely 93% of revenue from pulp sales in 1H21. Germany and Iberia accounted for 24% and 16% of total revenue, respectively, followed by Poland (13%), Italy (9%) and France (8%). The other western European countries accounted for 17% of the total, with the rest of Eastern Europe representing 6%.

Ence’s differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 14% of 1H21 sales.

2.4. Pulp production and the cash cost

Rigorous and ongoing application of Ence's internal protocols for the prevention and minimisation of Covid-19 risks for the Group's people and operations have enabled it to operate without interruption throughout the initial outbreak and subsequent waves of the health crisis, with no jobs lost.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Navia pulp production	152,937	143,353	*6.7%*	129,655	*18.0%*	282,592	286,321	*(1.3%)*
Pontevedra pulp production	116,559	115,507	*0.9%*	94,756	*23.0%*	211,315	234,296	*(9.8%)*
Pulp production (t)	**269,496**	**258,860**	*4.1%*	**224,411**	*20.1%*	**493,907**	**520,617**	*(5.1%)*

Pulp production increased by 4.1% year-on-year in 2Q21 to 269,496 tonnes, enabled by greater stability at the Navia biomill following the capacity expansion work done at the end of 2019. In 1H21, pulp production amounted to 493,907 tonnes, down 5.1% year-on-year, as a result of the stoppage of both biomills for 12 days in March for annual maintenance purposes. In 2020, those annual stoppages were carried out at both facilities in July.

In addition to investing in maintenance, the Group invested to make its biomills safer and to reduce their emissions, odours and water consumption.

Figures in €/t	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Wood cost	211.0	206.1	*2.4%*	206.2	*2.3%*	208.8	205.2	*1.8%*
Conversion costs	96.0	105.9	*(9.3%)*	120.9	*(20.6%)*	107.4	112.0	*(4.2%)*
Sales and logistic costs	32.9	28.9	*13.6%*	32.6	*0.8%*	32.7	30.3	*7.9%*
Overheads	27.8	34.2	*(18.7%)*	26.1	*6.5%*	27.0	30.1	*(10.2%)*
Total cash cost	**367.7**	**375.1**	*(2.0%)*	**385.8**	*(4.7%)*	**375.9**	**377.6**	*(0.5%)*

The second-quarter cash cost was €367.7/tonne, an improvement of 2% (or €7.4/tonne) from 2Q20 and of 4.7% (or €18.1/tonne) from 1Q21, when the metric was affected by the stoppage of both biomills. The reduction in conversion costs and overhead was partially offset by the higher cost of wood and logistics. In 1H21, the cash cost decreased by 0.5% per tonne year-on-year (equivalent to €1.7/tonne).

Wood costs were 2.4% higher year-on-year in 2Q21 (equivalent to €4.9/tonne) as a result of the increase in the premium tied to pulp prices and the higher cost of transportation from proprietary plantations in southern in Spain in order to mitigate the temporary reduction in felling capacity in Galicia following entry into effect in June of a four-year moratorium on eucalyptus plantations. In 1H21, wood costs increased by 1.8% year-on-year (equivalent to €3.6/tonne).

Conversion costs decreased by 9.3% year-on-year in 2Q21 (or €9.9/tonne) due to a higher contribution by the energy component and better fixed price dilution thanks to higher production and sales volumes. In 1H21, conversion costs decreased by 4.2% year-on-year (equivalent to €4.6/tonne).

Logistics costs were 13.6% higher year-on-year in 2Q21 (equivalent to €4/tonne) due to higher freight costs. In 1H21, logistics costs increased by 7.9% year-on-year (equivalent to €2.4/tonne).

Lastly, overhead declined by 18.7% year-on-year in 2Q21 (equivalent to €6.4/tonne) as a result of the cost savings plan embarked on last year. In 1H21, overhead decreased by 10.2% year-on-year (equivalent to €3.1/tonne).

2.5. Revenue from the sale of energy in connection with pulp production

Ence uses the lignin and forest biomass derived from its manufacturing activities to generate the renewable energy needed for the process. Specifically, it operates a 34.6-MW lignin-fired CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP lignin-fired plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biomill. The renewable energy generated at these power plants is sold to the grid and subsequently repurchased.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Navia energy sales	155,523	143,745	*8.2%*	117,361	*32.5%*	272,884	283,150	*(3.6%)*
Pontevedra energy sales	71,241	67,298	*5.9%*	54,180	*31.5%*	125,452	129,018	*(2.8%)*
Energy sales linked to the pulp process (MWh)	**226,764**	**211,043**	*7.4%*	**171,541**	*32.2%*	**398,337**	**412,169**	*(3.4%)*
Average sales price - Pool + Ro (€/MWh)	104.4	78.5	*33.1%*	84.0	*24.3%*	95.6	78.4	*22.0%*
Remuneration for investment (€ m)	2.6	2.6	*0.0%*	2.6	*(0.0%)*	5.1	5.1	*(0.0%)*
Revenues from energy sales linked to pulp (€ m)	**26.2**	**19.1**	*37.3%*	**17.0**	*54.7%*	**43.2**	**37.4**	*15.5%*

The sale of energy in connection with pulp production increased by 7.4% year-on-year in the second quarter to 226,764 MWh, boosted by higher pulp output and efficiency gains at the Pontevedra turbine. In 1H21, energy sales related with pulp production fell by 3.4% year-on-year to 398,337 MWh, due to the stoppage of both biomills for annual maintenance work during the first quarter.

The averages sales price improved by 33.1% year-on-year in 2Q21 to €104.4/MWh, fuelled by higher pool prices. In 1H21, average sales prices improved by 22% year-on-year, to €95.6/MWh.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - increased by 37.3% year-on-year to €26.2m in 2Q21 and by 15.5% year-on-year to €43.2m in 1H21.

2.6. Revenue from forestry and other activities

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.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Forestry and other revenue (€ m)	**5.6**	**6.9**	*(18.2%)*	**7.5**	*(24.3%)*	**13.1**	**13.4**	*(2.2%)*

Revenue from forestry activities amounted to €5.6m in 2Q21, down 18.2% from 2Q20, due to higher internal consumption of wood in order to offset the temporary reduction in felling capacity in Galicia following entry into effect in June of a four-year moratorium on eucalyptus plantations.

2.7. Statement of profit or loss

As a result of the National Court sentences annulling the extension of the Pontevedra biomill concession, in keeping with applicable accounting rules, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148m, together with a provision of €42m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts.

The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.

Excluding the impact of those sentences, the Pulp business would have reported a net profit of €11.1m in 2Q21 and of €2.8m in 1H21, compared to net losses of €14m and €24.3m in the same periods of 2020, respectively.

Figures in € m	2Q21 pre rullings	Rullings impact	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Total net revenue	**164.1**	**-**	**164.1**	**128.8**	*27.4%*	**123.8**	*32.5%*	**287.9**	**267.9**	*7.5%*
EBITDA before hedges	**40.6**	**1.5**	**42.1**	**8.4**	*n.s.*	**5.9**	*n.s.*	**48.1**	**18.4**	*161.6%*
EBITDA margin	*25%*		*26%*	*7%*	*19.1 p.p.*	*5%*	*20.9 p.p.*	*17%*	*7%*	*9.8 p.p.*
EBITDA	**31.2**	**1.5**	**32.7**	**3.4**	*n.s.*	**8.2**	*n.s.*	**41.0**	**8.9**	*n.s.*
EBITDA margin	*19%*		*20%*	*3%*	*17.3 p.p.*	*7%*	*13.3 p.p.*	*14%*	*3%*	*10.9 p.p.*
Depreciation and amortisation	(13.2)	-	(13.2)	(14.1)	*(6.3%)*	(13.9)	*(4.6%)*	(27.1)	(28.0)	*(3.3%)*
Depletion of forestry reserves	(3.4)	-	(3.4)	(3.2)	*4.6%*	(3.0)	*11.3%*	(6.4)	(6.7)	*(3.7%)*
Impairment of and gains/(losses) on fixed-asset disp	(0.5)	(188.5)	(189.0)	(0.1)	*n.s.*	(0.4)	*n.s.*	(189.4)	0.8	*n.s.*
Other non-recurring gains/(losses)	-	6.3	6.3	(1.3)	*n.s.*	(1.3)	*n.s.*	5.0	(2.5)	*n.s.*
EBIT	**14.1**	**(180.7)**	**(166.6)**	**(15.3)**	*n.s.*	**(10.3)**	*n.s.*	**(176.9)**	**(27.5)**	*n.s.*
EBIT margin	*9%*		*-102%*	*-12%*	*(89.7) p.p.*	*-8%*	*(93.2) p.p.*	*-61%*	*-10%*	*(51.2) p.p.*
Net finance cost	(2.4)	-	(2.4)	(2.8)	*(15.2%)*	(2.3)	*3.6%*	(4.7)	(5.4)	*(12.4%)*
Other financial results	(0.3)	-	(0.3)	(0.4)	*(23.6%)*	1.8	*n.s.*	1.5	0.5	*183.7%*
Profit before tax	**11.4**	**(180.7)**	**(169.3)**	**(18.5)**	*n.s.*	**(10.8)**	*n.s.*	**(180.1)**	**(32.3)**	*n.s.*
Income tax	(0.3)	(15.7)	(16.0)	4.6	*n.s.*	2.5	*n.s.*	(13.6)	8.0	*n.s.*
Net Income	**11.1**	**(196.5)**	**(185.4)**	**(14.0)**	*n.s.*	**(8.3)**	*n.s.*	**(193.7)**	**(24.3)**	*n.s.*

EBITDA in the Pulp business, before hedges, amounted to €42.1m in 2Q21, which is five times the 2Q20 figure, thanks to growth in the average sales price of 26.1%, the 1.8% reduction in the unit cash cost and growth of 2% in pulp sales volumes. First-half EBITDA, again excluding the impact of hedges, amounted to €48.1m, which is 2.6 times that of 1H20.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a cash inflow of €1.1m in 2Q21 and of €3m in 1H21, compared to outflows €5m and €9.5m in the same periods of 2020, respectively.

Elsewhere, in 2020, Ence took the exceptional decision of locking in a price of $773/tonne for the sale of 247,200 tonnes of pulp in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Those hedges implied a cash outflow of €10.5m in 2Q21 and of €10.1m in 1H21.

Layering in the impact of those hedges, EBITDA in the Pulp business amounted to €32.7m in 2Q21 and €41m in 1H21, 4.6 times the EBITDA posted in 1H20.

Note, lastly, that EBITDA includes other income and expenses not included in the cash cost with a net positive impact of €2.4m in 2Q21 and of €3.9m in 1H21. Those items of income and expenses include, among other things, the EBITDA generated from forestry activities, the effect of the regulatory collar on energy sales related with pulp production, charges for community work in the vicinity of the Group's biomills, working capital provisions, non-recurring staff costs and *ad-hoc* advisory service costs. In 2Q21, the Company reversed the €1.5m provision recognised at the time in respect of the 2021 Pontevedra Community Plan as a result of the above-mentioned Appellate Court sentences.

Below the EBITDA line, depreciation and amortisation charges declined by 3.3% year-on-year in 1H21 to €27.1m, following the technical review of the useful lives of the productive assets used in the Pulp business; forest depreciation charges decreased by 3.7% to €6.4m due to the lower cost of wood sourced from proprietary plantations.

"Impairment of and gains/(losses) on fixed asset disposals", in the amount of €189.7m in 1H21, mainly reflects the impairment losses recognised against assets associated with the Pontevedra biomill (€146.3m) and a provision for the estimated cost of dismantling the biomill (€42.3m).

"Other non-recurring operating items" includes (i) the reversal of the provision accumulated to the June close to cover the Company's commitments under the Pontevedra Environmental Pact in the amount of €15.2m; and (ii) a €2.9m provision to cover the potential devaluation of spare parts at the biomill and a €6m provision to cover the termination of contracts outstanding following the potential discontinuation of operations at the biomill.

Net finance costs declined by 12.4% to €4.7m, while other finance income (net) of €1.5m reflects the impact of exchange rate movements on working capital during the reporting period.

Lastly, the first-half income tax charge of €13.6m includes the derecognition of deferred taxes of €13.4m along with the tax effect of the reversal of the Environmental Pact provision, in the amount of €2.3m.

In all, the Pulp business reported a net loss of €185.4m in 2Q21 and of €193.7m in 1H21, mainly as a result of the asset impairment charges and provisions recognised in the wake of the Appellate Court sentences in keeping with applicable accounting rules.

2.8. Cash flow analysis

Cash flow from operations totalled €25m in 2Q21 and €11m in 1H21, compared to €7.7m in 1Q20 and €21.5m in 1H20. The growth in EBITDA was largely offset by the opposite trend in working capital.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**32.7**	**3.4**	*n.s.*	**8.2**	*n.s.*	**41.0**	**8.9**	*n.s.*
Non cash expenses / (income)	(0.6)	(1.5)	*(62.1%)*	(2.7)	*(79.5%)*	(3.3)	1.6	*n.s.*
Other collections / (payments)	0.1	(0.1)	*n.s.*	(0.0)	*n.s.*	0.1	0.2	*(60.9%)*
Change in working capital	(5.8)	6.4	*n.s.*	(17.2)	*(66.3%)*	(22.9)	13.2	*n.s.*
Income tax received / (paid)	-	0.0	*(100.0%)*	-	*n.s.*	-	0.0	*(100.0%)*
Net interest received / (paid)	(1.5)	(0.6)	*144.1%*	(2.4)	*(34.8%)*	(3.9)	(2.4)	*62.4%*
Net cash flow from operating activities	**25.0**	**7.7**	*223.6%*	**(14.0)**	*n.s.*	**11.0**	**21.5**	*(49.0%)*

The change in working capital implied a cash outflow of €5.8m in 2Q21 and of €22.9m in 1H21. The increase in accounts receivable in the first half, shaped by the growth in pulp prices and the reduced drawdown of the receivables factoring facilities (by €11.9m) were partially mitigated by a €6.3m reduction in inventories.

Figures in €Mn	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Inventories	(0.0)	(12.0)	*(99.7%)*	6.4	*n.s.*	6.3	(4.8)	*n.s.*
Trade and other receivables	(10.1)	(6.6)	*53.1%*	(20.7)	*(51.0%)*	(30.8)	(8.8)	*n.s.*
Financial and other current assets	1.8	0.0	*n.s.*	(1.7)	*n.s.*	0.1	(1.7)	*n.s.*
Trade and other payables	2.6	25.1	*(89.8%)*	(1.2)	*n.s.*	1.4	28.6	*(95.2%)*
Change in working capital	**(5.8)**	**6.4**	*n.s.*	**(17.2)**	*(66.3%)*	**(22.9)**	**13.2**	*n.s.*

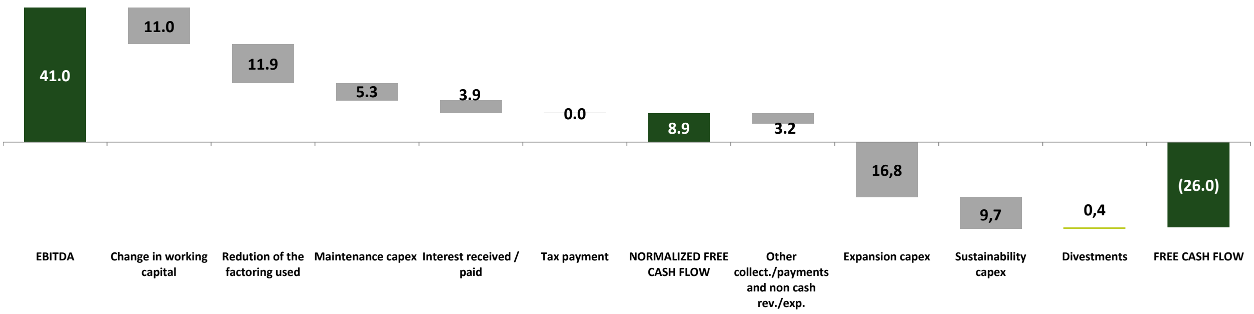
At 30 June 2021, the Pulp business had drawn down €54.2m under its receivable factoring facilities, down from €66.1m at year-end 2020. The Company has reduced its use of discounting facilities in a bid to lower the associated financial cost. In addition, Ence has a number of non-recourse reverse factoring agreements, which were drawn down by €88.4m at 30 June 2021, down from €104.6m at year-end 2020.

Figures in €Mn	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Maintenance capex	(3.1)	(2.9)	*6.2%*	(2.2)	*40.7%*	(5.3)	(6.7)	*(21.0%)*
Sustainability capex and other	(3.9)	(2.1)	*81.2%*	(5.8)	*(33.1%)*	(9.7)	(9.6)	*1.5%*
Efficiency and expansion capex	(5.6)	(4.3)	*30.9%*	(16.8)	*(66.8%)*	(22.4)	(21.2)	*5.4%*
Financial investments	(0.0)	0.0	*n.s.*	(0.0)	*(17.6%)*	(0.0)	0.0	*n.s.*
Investments	**(12.6)**	**(9.3)**	*35.2%*	**(24.8)**	*(49.4%)*	**(37.4)**	**(37.4)**	*(0.1%)*
Disposals	0.2	-	*n.s.*	0.2	*47.9%*	0.4	0.4	*(0.7%)*
Net cash flow used in investing activities	**(12.3)**	**(9.3)**	*32.6%*	**(24.7)**	*(50.1%)*	**(37.0)**	**(37.0)**	*(0.1%)*

Cash used in investing activities amounted to €12.3m in 2Q21 and €37m in 1H21, in line with the amounts reported in the same period of 2020.

Maintenance capex totalled €3.1m in 2Q21 and €5.3m in 1H21, compared to €2.9m in 1Q20 and €6.7m in 1H20. Investments in sustainability initiatives, meanwhile, amounted to €3.9m in 2Q21 and €9.7m in 1H21, compared to €2.1m and €9.6m in the same periods of 2020, respectively, and were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term.

Investments in efficiency and growth amounted to €5.6m in 2Q21 and €22.4m in 1H21, compared to €4.3m and €21.2m in the same periods of 2020, respectively. Those payments were largely related with the capacity increases implemented in 2019, for which €28m remains outstanding.



As a result, normalised free cash flow in the Pulp business amounted to €8.9m in 1H21, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €26m.

2.9. Change in net debt

Net debt in the Pulp business stood at €43.2m at 30 June 2021, virtually in line with the year-end 2020 balance. Free cash flow for the first half was offset by the derecognition of lease liabilities related with the concession fee in Pontevedra in the amount of €28.8m, reducing lease liabilities to €15.5m.

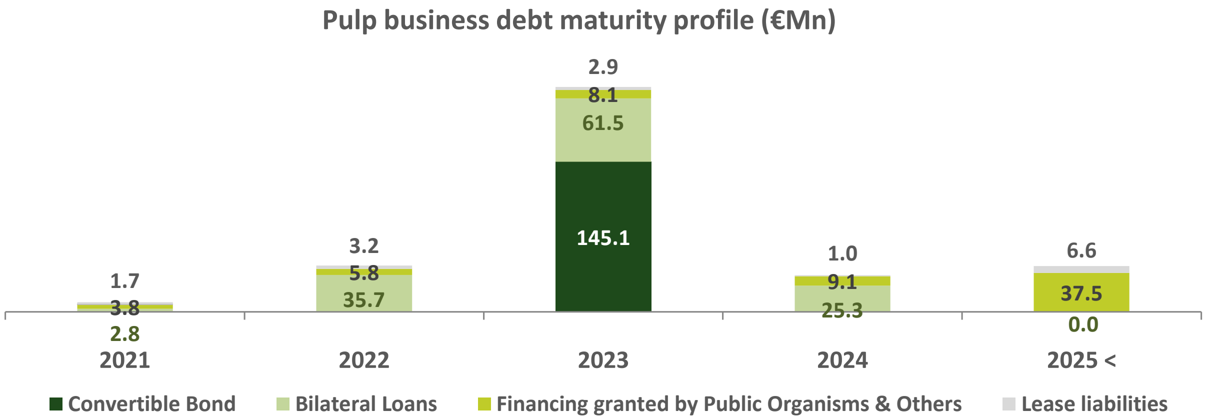
Figures in € m	2Q21 pre rullings	Rullings impact	Jun-21	Dec-20	Δ%
Non-current financial debt	315.8		315.8	401.2	*(21.3%)*
Current financial debt	19.0		19.0	54.4	*(65.1%)*
Gross financial debt	**334.8**		**334.8**	**455.6**	*(26.5%)*
Non-current lease contracts	42.3	(30.0)	12.3	42.8	*(71.3%)*
Current lease contracts	2.0	1.2	3.2	2.0	*56.8%*
Financial liabilities related to lease contracts	**44.3**	**(28.8)**	**15.5**	**44.8**	*(65.5%)*
Cash and cash equivalents	298.2		298.2	448.1	*(33.5%)*
Short-term financial investments	8.8		8.8	9.0	*(1.7%)*
Net financial debt Pulp business	**72.0**	**(28.8)**	**43.2**	**43.4**	*(0.4%)*

Due to the cyclical nature of the Pulp business, it is financed with covenant-free, long-term debt and ample liquidity. Cash and cash equivalents stood at €307m at 30 June 2021.

In light of heightened uncertainty regarding the direction of COVID-19 and following the sale of a 49% equity interest in Ence Energía in December 2020, the Company prepaid €94.6m of bilateral loans and reduced the use of receivables factoring facilities by €11.9m in the first half in order to reduce the associated financial cost. Those prepayments were additional to €24.1m of ordinary scheduled debt repayments during the first half.

After the close, in July, it also prepaid €20m of bilateral loans and refinanced the Pulp business's revolving credit facility, increasing its limit to €130m and extending its maturity to 2026.

The gross debt of €437m at the June close corresponds mainly to the €145.1m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €125.3m on bilateral loans and a series of loans totalling €64.4m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at plants that have no relation to the pulp production process. Ence has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

The new agricultural and forestry biomass plants in Huelva (46 MW) and Puertollano (Ciudad Real) (50 MW) were brought on line on 31 January and 31 March 2020, respectively. In December 2020, Ence Energía, S.L. sold its 50-MW solar thermal plant in Puertollano (Ciudad Real).

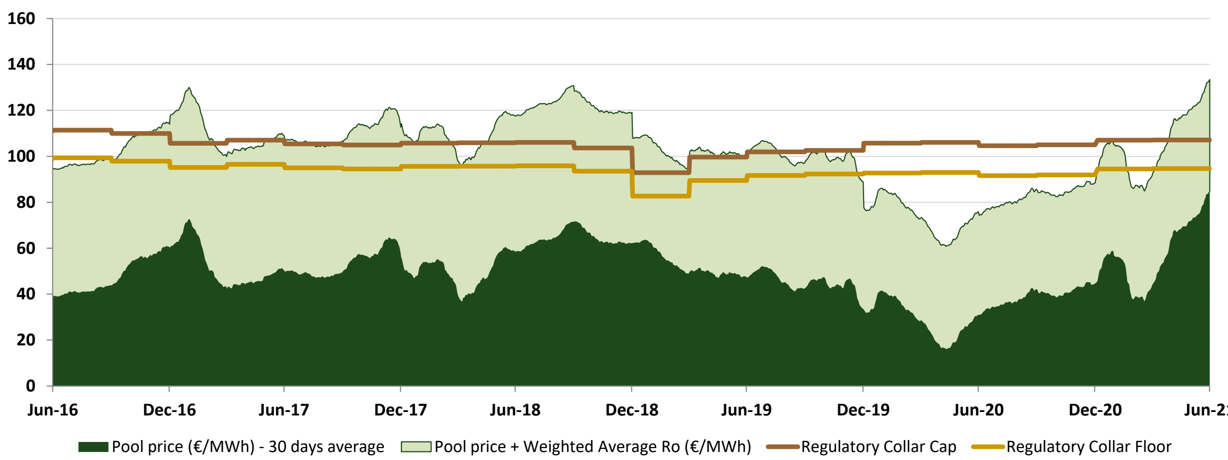
3.1. Electricity market trends

Electricity pool prices averaged €76.3/MWh in 2Q21, which is 3.3 times the 2Q20 level, and €62.2/MWh in 1H20, 2.1 times 2H20 prices.

Market figures	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Average pool price (€/MWh)	76.3	23.3	*227.8%*	48.1	*58.6%*	62.2	29.0	*114.2%*

The price per MWh sold by Ence is determined by the market (pool) price plus the remuneration for operations (Ro) earned by each plant, within the ceiling and floor set by the regulator (regulatory collar). Those parameters were updated for the 2020-2022 regulatory stub period on 28 February 2020, as contemplated in applicable legislation.

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



In addition, the remuneration for investment (Ri) for the universe of power plants comprising Ence's Renewable Energy business was set at 7.4% for 2020-2031 by Spanish Royal Decree-Law 17/2019. That remuneration concept implies annual income of €40.9m (excluding the solar thermal plant sold in December 2020).

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

3.2. Energy sales

Rigorous and ongoing application of Ence's internal protocols for the prevention and minimisation of Covid-19 risks for the Group's people and operations have enabled it to operate without interruption throughout the initial outbreak and subsequent waves of the health crisis, with no jobs lost.

Energy sales volumes declined by 6.4% year-on-year in 2Q21 to 331,697 MWh, due mainly to the sale of the solar thermal power plant in Puertollano in December 2020.

On a like-for-like basis, i.e., excluding the plant sold, the volume of energy sold in the second quarter narrowed 1.1% year-on-year. Higher capacity utilisation at the Huelva 46-MW and Ciudad Real 50-MW plants, coupled with a higher contribution by the Huelva 41-MW plant, which was idled during 2Q20, partially offset the reduced contributed by the Huelva 50-MW plant, which was taken offline in 2Q21 due to an incident detected at the generator in the course of its annual review. The goal is to bring that plant back online in October.

In 1H21, energy sales volumes, in like-for-like terms, i.e., excluding the solar thermal plant, increased by 11.8%, driven by bigger contribution from the two new plants commissioned during the first quarter of 2020 and from the Huelva 41-MW plant.

The 50-MW Ciudad Real, 20-MW Merida, 16-MW Ciudad Real and 16-MW Jaen plants were stopped for their annual maintenance work during the second quarter. The 50-MW, 41-MW and 46-MW Huelva plants had been stopped for maintenance in 1Q21. The 27-MW Cordoba plant is slated for maintenance in the third quarter.

Operating figures	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Huelva 41 MW - Biomass	48,531	-	*n.s.*	37,310	*30.1%*	85,841	28,139	*205.1%*
Jaén 16 MW - Biomass	21,779	21,927	*(0.7%)*	21,852	*(0.3%)*	43,631	46,108	*(5.4%)*
Ciudad Real 16 MW - Biomass	24,158	25,910	*(6.8%)*	25,325	*(4.6%)*	49,483	33,270	*48.7%*
Córdoba 27 MW - Biomass	50,571	47,187	*7.2%*	44,038	*14.8%*	94,609	97,479	*(2.9%)*
Ciudad Real 50 MW - CSP plant	-	19,127	*(100.0%)*	-	*n.s.*	-	24,833	*(100.0%)*
Huelva 50 MW - Biomass	-	81,122	*(100.0%)*	39,336	*(100.0%)*	39,336	168,095	*(76.6%)*
Mérida 20 MW - Biomass	35,902	33,776	*6.3%*	35,350	*1.6%*	71,252	69,254	*2.9%*
Huelva 46 MW - Biomass	79,805	64,482	*23.8%*	56,655	*40.9%*	136,424	84,787	*60.9%*
Ciudad Real 50 MW - Biomass	70,951	60,979	*16.4%*	65,928	*7.6%*	136,880	60,979	*124.5%*
Energy sales (MWh)	**331,697**	**354,508**	*(6.4%)*	**325,795**	*1.8%*	**657,455**	**612,945**	*7.3%*
Energy sales excluding the CSP plant (MWh)	*331,697*	*335,382*	*(1.1%)*	*325,795*	*1.8%*	*657,455*	*588,111*	*11.8%*
Average sales price - Pool + Ro + Collar + Hedges (€/MWh)	95.6	97.6	*(2.0%)*	102.7	*(7.0%)*	99.1	97.1	*2.1%*
Remuneration for investment (€m)	10.2	15.9	*(35.5%)*	10.2	-	20.5	31.7	*(35.5%)*
Remuneration for investment excluding the CSP plant (€m)	*10.2*	*10.2*	-	*10.2*	-	*20.5*	*20.5*	-
Revenue (€ m)	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**91.8**	*(6.3%)*
Capitalized revenues (€ m)	-	-	-	-	-	-	4.1	-
Total revenue (€ m)	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**96.0**	*(10.4%)*

Despite the rise in pool prices, Ence's average sales price narrowed by 2% year-on-year in 2Q21 as a result of the sales arranged at a fixed price within the regulatory collar limits. In 1H21, the average sales price improved by 2.1%.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). The regulatory collar implied the recognition of a provision of €4m in 2Q21 and of €1.2m in 1H21, compared to income of €10.9m in 1Q20 and €15.0m in 1H20.

In addition, in 2020, Ence decided to lock in an average price of €44.5 MWh for the sale of 732,063 MWh of energy in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Those fixed-price agreements implied a cash outflow of €4.4m in 2Q21 (equivalent to €13/MWh) and of €4.6m in 1H21 (equivalent to €7/MWh) and were accounted for as a reduction in the average sales price.

Lastly, remuneration on investment decreased by €5.7m in 2Q21 and by €11.2m in 1H21 as a result of the sale of the solar thermal plant in December 2020.

As a result, revenue in the Renewable Energy business decreased by 17% year-on-year in 2Q21 to €42.2m and by 6.3% year-on-year in 1H21, to €86m.

3.3. Statement of profit or loss

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Total revenue	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**96.0**	*(10.4%)*
EBITDA	**13.8**	**15.5**	*(10.9%)*	**8.7**	*58.9%*	**22.6**	**26.9**	*(16.0%)*
EBITDA margin	*33%*	*31%*	*2.3 p.p.*	*20%*	*13.0 p.p.*	*26%*	*28%*	*(1.8) p.p.*
EBITDA before hedges and excluding the CSP plant	*13.8*	*10.6*	*31.0%*	*8.7*	*58.9%*	*22.6*	*18.1*	*24.4%*
EBITDA	**9.4**	**15.5**	*(39.2%)*	**8.5**	*10.9%*	**18.0**	**26.9**	*(33.1%)*
EBITDA margin	*22%*	*31%*	*(8.2) p.p.*	*19%*	*3.0 p.p.*	*21%*	*28%*	*(7.1) p.p.*
EBITDA excluding the CSP plant	*9.4*	*10.6*	*(10.7%)*	*8.5*	*10.9%*	*18.0*	*18.1*	*(0.9%)*
Depreciation and amortisation	(9.4)	(11.1)	*(14.6%)*	(9.3)	*1.7%*	(18.7)	(20.3)	*(7.9%)*
Depletion of forestry reserves	(0.0)	(0.0)	*7.9%*	(0.1)	*(48.8%)*	(0.1)	(0.2)	*(42.1%)*
Impairment of and gains/(losses) on fixed-asset disposals	(0.2)	(0.5)	*(67.8%)*	(0.1)	*35.6%*	(0.3)	(1.6)	*(82.5%)*
EBIT	**(0.2)**	**3.9**	*n.s.*	**(1.0)**	*(79.5%)*	**(1.2)**	**4.7**	*n.s.*
EBIT margin	*0%*	*8%*	*(8.2) p.p.*	*-2%*	*1.7 p.p.*	*-1%*	*5%*	*(6.3) p.p.*
Net finance cost	(2.5)	(4.1)	*(38.2%)*	(3.3)	*(22.4%)*	(5.8)	(7.7)	*(24.2%)*
Other finance income/(cost)	0.2	(0.0)	*n.s.*	(0.0)	*n.s.*	0.2	(0.0)	*n.s.*
Profit before tax	**(2.5)**	**(0.2)**	*n.s.*	**(4.2)**	*(41.1%)*	**(6.7)**	**(3.0)**	*127.3%*
Income tax	(0.3)	0.1	*n.s.*	0.9	*n.s.*	0.6	0.8	*(22.0%)*
Net Income	**(2.8)**	**(0.1)**	*n.s.*	**(3.4)**	*(17.1%)*	**(6.2)**	**(2.2)**	*179.0%*
Non-controlling interests	(0.3)	(0.5)	*(43.0%)*	(0.3)		(0.6)	(0.7)	*(19.0%)*
Atributable Net Income	**(3.1)**	**(0.6)**	*n.s.*	**(3.7)**	*(15.6%)*	**(6.8)**	**(2.9)**	*129.2%*

EBITDA before hedges in the Renewable Energy business amounted to €13.8m in 2Q21 and €22.6m in 1H21, down by 10.9% and 16% year-on-year from 1Q20 and 1H20, respectively, due to the sale of the solar thermal plant.

Like-for-like, i.e., excluding the solar thermal plant, EBITDA before hedges sustained year-on-year growth of 31% in 2Q21 and of 24.4% in 1H21, fuelled by the recovery in pool prices. The above-mentioned fixed-price hedges had a negative impact of €4.4m in 2Q21 and of €4.6m in 1H21.

Second-quarter EBITDA declined by 10.7% year-on-year even on a like-for-like basis due to the impact of the incident at the 50-MW Huelva plant. However, EBITDA was flat year-on-year on a like-for-like basis in 1H21 thanks to the higher contribution by the two new biomass plants commissioned in 1Q20 and the impact of the growth in average sales prices on the volume not covered by the fixed-price agreements, partially eroded by higher biomass costs.

Below the EBITDA line, it is worth highlighting the 7.9% decline in depreciation charges to €18.7m in 1H21, again as a result of the sale of the solar thermal plant in December 2020.

Net finance costs decreased by 24.2% to €5.8m in 1H21, due to the deconsolidation of the solar thermal power plant.

As a result, the net loss attributable to the Renewable Energy business amounted to €3.1m in 2Q21 and €6.8m in 1H21, compared to net losses of €0.6m and €2.9m in the same periods of 2020, respectively.

3.4. Cash flow analysis

Cash flow from operations totalled €19.3m in 2Q21 and €15.4m in 1H21, compared to €0.4m in 1Q20 and €7.8m in 1H20. The reduction in EBITDA was offset by the impact of the regulatory collar in 2020, which will be collected over the remaining useful lives of the plants, and an inflow of cash from changes in working capital.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**9.4**	**15.5**	*(39.2%)*	**8.5**	*10.9%*	**18.0**	**26.9**	*(33.1%)*
Non cash expenses / (incomes)	2.6	(7.4)	*n.s.*	1.8	*44.2%*	4.4	(10.3)	*n.s.*
Other collections / (payments)	0.0	(0.0)	*n.s.*	(0.0)	*n.s.*	(0.0)	(0.0)	*(73.9%)*
Change in working capital	13.0	(0.9)	*n.s.*	(14.0)	*n.s.*	(0.9)	(2.4)	*(62.0%)*
Income tax received / (paid)	(0.1)	(0.2)	*(50.3%)*	0.3	*n.s.*	0.3	1.0	*(75.1%)*
Net interest received / (paid)	(5.7)	(6.7)	*(14.4%)*	(0.6)	*n.s.*	(6.3)	(7.3)	*(14.0%)*
Net cash flow from operating activities	**19.3**	**0.4**	*n.s.*	**(3.9)**	*n.s.*	**15.4**	**7.8**	*96.4%*

Change in working capital represented a cash inflow of €13m in 2Q21. Trade receivables increased by €12m once Ence Energía assumed sole representation for the Group in the electricity market. By the same token, trade payables increased by €6.7m, partially offset by growth of €5.7m in inventories. The change in working capital in 1H21 generated a cash outflow of €0.9m, including a €6.8m reduction in the use of receivables factoring facilities.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Inventories	(5.7)	(0.9)	*n.s.*	(0.8)	*n.s.*	(6.5)	(4.5)	*42.6%*
Trade and other receivables	12.0	(9.7)	*n.s.*	(6.8)	*n.s.*	5.2	(7.4)	*n.s.*
Trade and other payables	6.7	9.6	*(30.2%)*	(6.4)	*n.s.*	0.3	9.5	*(96.8%)*
Change in working capital	**13.0**	**(0.9)**	*n.s.*	**(14.0)**	*n.s.*	**(0.9)**	**(2.4)**	*(62.0%)*

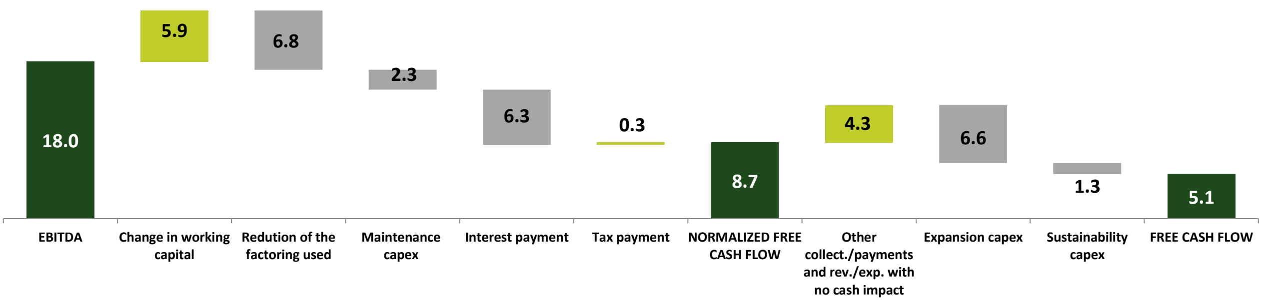
As of the June close, the Renewable Energy business had drawn down its factoring lines by €15.4m, compared to €22.2m at year-end 2020. In addition, Ence has a number of non-recourse reverse factoring agreements, which were drawn down by €28.3m at 30 June 2021, compared to €27.4m at year-end 2020.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Maintenance capex	(0.7)	(1.0)	*(30.1%)*	(1.6)	*(56.1%)*	(2.3)	(2.4)	*(5.6%)*
Sustainability capex and other	(0.4)	(0.3)	*37.3%*	(0.9)	*(57.1%)*	(1.3)	(2.2)	*(43.2%)*
Efficiency and expansion capex	(2.5)	(3.2)	*(21.3%)*	(4.1)	*(37.7%)*	(6.6)	(35.4)	*(81.3%)*
Financial investments	(0.1)	(0.0)	*n.s.*	-	*n.s.*	(0.1)	0.0	*n.s.*
Investments	**(3.7)**	**(4.5)**	*(17.6%)*	**(6.5)**	*(43.3%)*	**(10.3)**	**(40.0)**	*(74.4%)*
Disposals	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Net cash flow from investing activities	**(3.7)**	**(4.5)**	*(17.6%)*	**(6.5)**	*(43.3%)*	**(10.3)**	**(40.0)**	*(74.4%)*

Maintenance capex decreased to €0.7m in 2Q21 and €2.3m in 1H21, compared to €1m in 1Q20 and €2.4m in 1H20. Investments in sustainability initiatives, meanwhile, amounted to €0.4m in 2Q21 and €1.3m in 1H21, compared to €0.3m and €2.2m in the same periods of 2020, respectively,

Efficiency and growth capex amounted to €2.5m in 2Q21 and €6.6m in 1H21, mainly on account of construction payments outstanding on the two biomass plants commissioned in 1Q21, for which €8.4m remains outstanding. The €35.4m of efficiency and growth capex recognised in 1H20 included the contribution of the remaining assets in Huelva by the Pulp business at a value of €26.9m, so completing the separation of the two units' assets; that transfer did not have any impact on the Group's consolidated cash flows.

As a result, normalised free cash flow in the Renewable Energy business amounted to €11.2m in 1H21, while free cash flow net of efficiency, growth and sustainability capex came in at €5.1m.

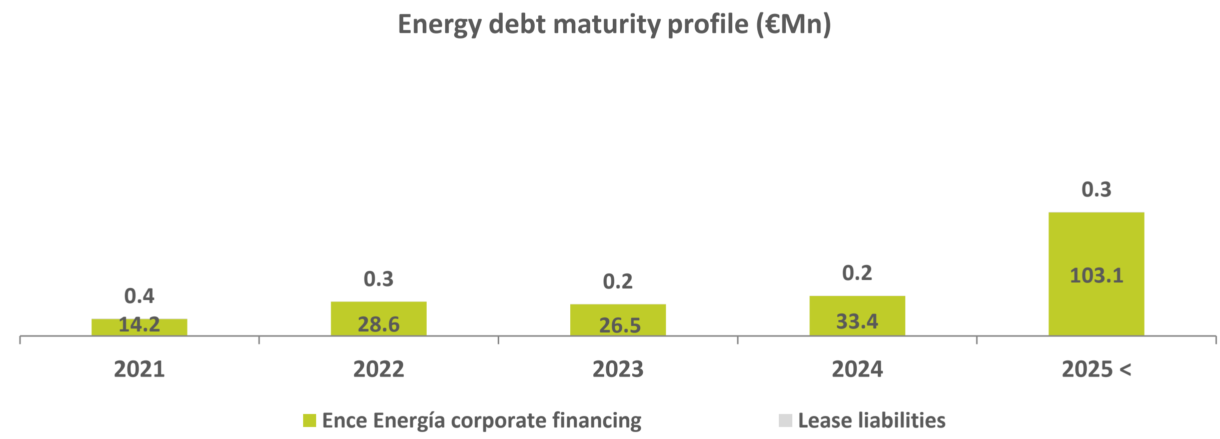


3.5. Change in net debt

Net debt in the Renewable Energy business decreased by €1.6m from year-end 2020 to €132.9m at 30 June 2021, €1.4m of which corresponds to lease liabilities.

Figures in € m	Jun-21	Dec-20	Δ%
Non-current financial debt	176.4	189.2	*(6.8%)*
Current financial debt	29.4	28.6	*2.8%*
Gross financial debt	**205.8**	**217.8**	*(5.5%)*
Non-current lease contracts	0.8	0.7	*9.0%*
Current lease contracts	0.6	0.4	*27.8%*
Financial liabilities related to lease contracts	**1.4**	**1.2**	*16.2%*
Cash and cash equivalents	74.2	84.5	*(12.2%)*
Short-term financial investments	0.0	0.0	-
Net financial debt Renewable Energy business	**132.9**	**134.5**	*(1.2%)*

Gross debt at the June close stood at €205.8m, while cash amounted to €74.2m.



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

	1H21						1H20			
Figures in € m	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**287.9**	**-**	**287.9**	**86.0**	**(1.5)**	**372.4**	**267.9**	**96.0**	**(1.9)**	**362.0**
Other income	5.9	-	5.9	6.4	(0.9)	11.3	4.2	1.5	(1.1)	4.6
Foreign exchange hedging operations results	(11.0)	-	(11.0)	-		(11.0)	(9.5)	-		(9.5)
Cost of sales and change in inventories of finished produ	(138.8)	-	(138.8)	(32.6)	1.5	(169.8)	(146.5)	(29.9)	1.9	(174.6)
Personnel expenses	(34.2)	-	(34.2)	(6.4)		(40.6)	(39.0)	(6.4)		(45.5)
Other operating expenses	(70.4)	1.5	(68.9)	(35.4)	0.9	(103.4)	(68.1)	(34.2)	1.1	(101.2)
EBITDA	**39.5**	**1.5**	**41.0**	**18.0**		**58.9**	**8.9**	**26.9**		**35.7**
EBITDA margin	*14%*		*14%*	*21%*		*16%*	*3%*	*28%*		*10%*
Depreciation and amortisation	(27.1)	-	(27.1)	(18.7)	1.6	(44.3)	(28.0)	(20.3)	0.8	(47.6)
Depletion of forestry reserves	(6.4)	-	(6.4)	(0.1)		(6.5)	(6.7)	(0.2)		(6.9)
Impairment of and gains/(losses) on fixed-asset disposals	(0.9)	(188.5)	(189.4)	(0.3)		(189.7)	0.8	(1.6)	1.2	0.4
Other non-ordinary operating gains/(losses)	(1.3)	6.3	5.0	-		5.0	(2.5)	-		(2.5)
EBIT	**3.9**	**(180.7)**	**(176.9)**	**(1.2)**	**1.6**	**(176.5)**	**(27.5)**	**4.7**	**1.9**	**(20.8)**
EBIT margin	*1%*		*-61%*	*-1%*		*-47%*	*-10%*	*5%*		*-6%*
Net finance cost	(4.7)	-	(4.7)	(5.8)	0.6	(9.9)	(5.4)	(7.7)		(13.0)
Other finance income/(costs)	1.5	-	1.5	0.2	(0.6)	1.1	0.5	(0.0)		0.5
Profit before tax	**0.6**	**(180.7)**	**(180.1)**	**(6.7)**	**1.6**	**(185.3)**	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**
Income tax	2.2	(15.7)	(13.6)	0.6	3.4	(9.6)	8.0	0.8	(0.1)	8.7
Net Income	**2.8**	**(196.5)**	**(193.7)**	**(6.2)**	**5.0**	**(194.9)**	**(24.3)**	**(2.2)**	**1.9**	**(24.6)**
Non-controlling interests	-	-	-	(0.6)	0.9	0.3	-	(0.7)		(0.7)
Atributable Net Income	**2.8**	**(196.5)**	**(193.7)**	**(6.8)**	**5.8**	**(194.6)**	**(24.3)**	**(2.9)**	**1.9**	**(25.4)**
Earnings per Share (EPS)	0.01	(0.81)	(0.80)	(0.03)	0.02	(0.80)	(0.10)	(0.01)		(0.10)

4.2. Balance sheet

	Jun - 21						Dec - 20			
Figures in € m	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.2	(2.2)	13.0	39.0	(13.6)	38.4	15.8	40.0	(13.9)	41.9
Property, plant and equipment	622.7	(175.7)	447.0	467.4	(10.4)	904.0	627.7	476.8	(11.7)	1,092.9
Biological assets	65.0	(2.5)	62.5	0.1		62.6	71.0	0.2		71.3
Non-current investments in Group companies	125.8	-	125.8	0.0	(125.8)	0.0	125.8	0.0	(125.8)	-
Non-current borrowings to Group companies	38.3	-	38.3	-	(38.3)	-	38.3	-	(38.3)	-
Non-current financial assets	18.9	-	18.9	4.7		23.6	17.6	6.6		24.2
Deferred tax assets	69.1	(26.0)	43.1	18.0	3.4	64.4	56.2	15.8		72.0
Total non-current assets	**955.0**	**(206.4)**	**748.5**	**529.2**	**(184.7)**	**1,093.0**	**952.4**	**539.5**	**(189.7)**	**1,302.2**
Inventories	36.1	(2.9)	33.2	14.0		47.1	43.3	9.5	(1.0)	51.8
Trade and other accounts receivable	55.8	-	55.8	27.5	(11.4)	71.9	61.7	23.2	(26.7)	58.2
Income tax	0.0	-	0.0	0.1		0.1	0.0	0.9		1.0
Other current assets	15.3	-	15.3	0.2		15.5	1.3	0.1		1.3
Hedging derivatives	0.0	-	0.0	-		-	6.8	-		6.8
Current financial investments	8.8	-	8.8	0.0		8.8	18.2	0.0		18.2
Cash and cash equivalents	298.2	-	298.2	74.2		372.4	448.1	84.5		532.6
Total current assets	**414.2**	**(2.9)**	**411.3**	**116.0**	**(11.4)**	**515.9**	**579.4**	**118.3**	**(27.7)**	**669.9**
TOTAL ASSETS	**1,369.1**	**(209.3)**	**1,159.8**	**645.2**	**(196.1)**	**1,608.9**	**1,531.8**	**657.8**	**(217.5)**	**1,972.1**
Equity	**697.3**	**(206.8)**	**490.5**	**262.5**	**(146.4)**	**606.7**	**733.0**	**268.5**	**(151.3)**	**850.1**
Non-current borrowings	358.1	(30.0)	328.1	177.2		505.2	444.0	190.0		634.0
Non-current loans with Group companies and associates	-	-	-	75.2	(38.3)	36.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	3.9		3.9	0.1	5.5		5.6
Deferred tax liabilities	18.2	-	18.2	1.7		19.8	19.9	1.8		21.7
Non-current provisions	7.4	43.0	50.5	0.1		50.6	2.7	0.1		2.8
Other non-current liabilities	3.5	-	3.5	7.4		10.9	4.5	8.8		13.3
Total non-current liabilities	**387.2**	**13.0**	**400.3**	**265.4**	**(38.4)**	**627.3**	**471.2**	**281.3**	**(38.3)**	**714.2**
Current borrowings	21.0	1.2	22.1	30.0		52.1	56.4	29.0		85.5
Current derivatives	47.4	-	47.4	2.9		50.4	4.9	3.2		8.1
Trade and other account payable	187.8	(1.5)	186.3	75.1	(11.4)	250.1	238.0	68.2	(26.8)	279.3
Short-term debts with group companies	0.0	-	0.0	0.6		0.6	0.0	(0.0)		-
Income tax	0.0	-	0.0	7.3		7.3	0.0	5.6		5.6
Current provisions	28.3	(15.3)	13.1	1.4		14.5	28.4	1.9	(1.0)	29.4
Total current liabilities	**284.6**	**(15.6)**	**269.0**	**117.3**	**(11.4)**	**374.9**	**327.8**	**108.0**	**(27.8)**	**407.9**
TOTAL EQUITY AND LIABILITIES	**1,369.1**	**(209.3)**	**1,159.8**	**645.2**	**(196.1)**	**1,608.9**	**1,531.9**	**657.8**	**(217.5)**	**1,972.2**

4.3. Statement of cash flows

Figures in € m	Pulp pre rullings	Rullings impact	1H21 Pulp	1H21 Energy	1H21 Adjustments	1H21 Consolidated	1H20 Pulp	1H20 Energy	1H20 Adjustments	1H20 Consolidated
Consolidated profit/(loss) for the period before tax	**0.6**	**(180.7)**	**(180.1)**	**(6.7)**	**1.6**	**(185.3)**	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**
Depreciation and amortisation	33.5		33.5	18.9	(1.6)	50.8	34.7	20.6	(0.8)	54.5
Changes in provisions and other deferred expense	(0.1)	(7.8)	(7.9)	3.4		(4.5)	11.7	4.8		16.5
Impairment of gains/(losses) on disposals intangible asset	0.9	188.5	189.4	0.3		189.7	(1.0)	1.6	(1.2)	(0.6)
Net finance result	3.3		3.3	5.6		8.9	5.2	7.7		12.9
Energy regulation adjustment (regulatory collar)	(0.0)		(0.0)	1.2		1.2	(7.1)	(15.0)		(22.1)
Government grants taken to income	(0.4)		(0.4)	(0.2)		(0.6)	(0.5)	(0.1)		(0.6)
Adjustments to profit	**37.1**	**180.7**	**217.9**	**29.1**	**(1.6)**	**245.4**	**43.0**	**19.5**	**(1.9)**	**60.6**
Inventories	6.3		6.3	(6.5)		(0.1)	(4.8)	(4.5)		(9.4)
Trade and other receivables	(30.8)		(30.8)	5.2		(25.5)	(8.8)	(7.4)		(16.2)
Current financial and other assets	0.1		0.1	-		0.1	(1.7)	-		(1.7)
Trade and other payables	1.4		1.4	0.3		1.7	28.6	9.5		38.1
Changes in working capital	**(22.9)**		**(22.9)**	**(0.9)**		**(23.8)**	**13.2**	**(2.4)**		**10.9**
Interest paid	(3.9)		(3.9)	(6.3)		(10.2)	(2.4)	(7.3)		(9.7)
Dividends received	0.0		0.0	-		0.0	-	-		-
Income tax received/(paid)	-		-	0.3		0.3	-	1.0		1.0
Other collections/(payments)	-		-	-		-	0.0	-		-
Other cash flows from operating activities	**(3.9)**		**(3.9)**	**(6.1)**		**(9.9)**	**(2.4)**	**(6.3)**		**(8.7)**
Net cash flow from operating activities	**11.0**		**11.0**	**15.4**		**26.3**	**21.5**	**7.8**		**29.3**
Property, plant and equipment	(36.5)		(36.5)	(10.1)		(46.6)	(35.3)	(39.7)	26.9	(48.1)
Intangible assets	(0.9)		(0.9)	(0.1)		(0.9)	(2.1)	(0.3)		(2.5)
Other financial assets	(0.0)		(0.0)	(0.1)		(0.1)	0.0	0.0		0.1
Disposals	0.4		0.4	-		0.4	0.4	-		0.4
Net cash flow used in investing activities	**(37.0)**		**(37.0)**	**(10.3)**		**(47.2)**	**(37.0)**	**(40.0)**	**26.9**	**(50.1)**
Free cash flow	**(26.0)**		**(26.0)**	**5.1**		**(20.9)**	**(15.5)**	**(32.2)**	**26.9**	**(20.8)**
Buyback/(disposal) of own equity instruments	(1.3)		(1.3)	-		(1.3)	(0.5)	26.9	(26.9)	(0.5)
Proceeds from and repayments of financial liabilities	(122.6)		(122.6)	(15.4)		(138.0)	142.5	(7.3)		135.2
Dividends payments	-		-	-		-	-	-		-
Net cash flow from/ (used in) financing activities	**(123.9)**		**(123.9)**	**(15.4)**		**(139.3)**	**142.0**	**19.7**	**(26.9)**	**134.7**
Net increase/(decrease) in cash and cash equivalents	**(149.9)**		**(149.9)**	**(10.3)**		**(160.2)**	**126.5**	**(12.6)**		**113.9**

5. KEY DEVELOPMENTS

National Court Sentences affecting the concession in Pontevedra

On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession over the public-domain land on which Ence's biomill in Pontevedra is located.

The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.

If the Supreme Court does not agree to hear, or dismisses, the appeal, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (in a decision endorsed by the National Court) the deadline for potentially discontinuing activities at the biomill.

In keeping with applicable accounting rules and assuming the potential discontinuation of activities in the biomill in 2023 or 2024, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148.2m, together with a provision of €42.3m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts.

The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.

If, having exhausted all appeal options, the annulment of the extension of the Pontevedra biomill concession extension is upheld, the Company will claim the patrimonial responsibility of the Spanish Administration and seek compensation for all damages caused by said annulment.

Improvement in ESG score

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices.

In May 2021, Sustainalytics increased Ence's overall ESG score to 91 points out of 100, which ranks it has the global leader in the pulp and paper sector.

In January 2021, Ence received an AA rating (on a scale from AAA to CCC) on MSCI's ESG Rating Assessment.

Lastly, the Company has been part of the prestigious FTSE4Good Index Series since January 2021.

Measures taken to prevent and minimise the spread of Covid-19

Maintenance of activity and jobs

Ence continues to apply and update its internal COVID-19 protocol rigorously. That protocol has proven effective at preventing transmission of the virus in our places of work, making it possible to continue our business activities and preserve jobs.

COVID-19 protocol

The protocol is applicable in all of Ence's places of work and to all of its employees, as well as its service providers. To ensure stringent compliance, daily audits are carried out in each work centre, with all activities reviewed every three days at most.

Among other things, the protocol stipulates the following:

- ✓ Limits on travel and factory visits.
- ✓ Preventive quarantines for anyone with symptoms and anyone who has had close contact with people who have or may have the virus.
- ✓ A periodic test regime and health and protocol quizzes for all staff, with a frequency that depends on a series of indicators, including the accumulated case incidence numbers in each region. That regime is managed by means of a mobile-friendly electronic COVID Passport application.
- ✓ Specific measures governing travel to work and temperature checks before entering.
- ✓ Mandatory use of face masks at all times (certified, washable hygienic masks, surgical masks or FFP2-grade masks, depending on risk levels and the level of protection required).
- ✓ Social distancing.
- ✓ 15-minute long ventilation intervals every hour.
- ✓ Preventive measures with respect to workplace and personal hygiene, and the provision of materials at all workplaces.
- ✓ Specific measures for the various classes of contractors and suppliers who need access to Ence's places of work.
- ✓ Promotion of the use of remote working arrangements such as video conference calls to facilitate social distancing; widespread use of walkie talkies with intercoms for field work to enable employee interaction without breaching the 2-metre distance rule.

COVID-19 related costs

In the first half of 2021, the costs induced by Covid-19 amounted to €1m. Those costs include extra staff costs to implement the new safety and hygiene measures put in place and the provision of disinfectants, face masks, tests and equipment to facilitate working from home.

2021 Annual General Meeting

Ence held its Annual General Meeting remotely on 26 March 2021. It was attended by shareholders representing 60% of its share capital who ratified all of the agenda items. The motions were carried with over 82% of votes in favour on average. The items ratified included:

- ✓ Approval of the 2020 financial statements, management report and sustainability report.
- ✓ Approval of the Board of Directors' performance and proposed appropriation of profit for 2020.
- ✓ Re-election of Ms. Rosa María García Piñeiro as independent director.
- ✓ Appointment of Mr. Javier Arregui Abendivar as proprietary director.
- ✓ Appointment of Mr. Oscar Arregui Abendivar as proprietary director.
- ✓ Appointment of Mr. Gorka Arregui Abendivar as proprietary director.
- ✓ Ratification of the appointment of Mr. José Ignacio Comenge Sánchez-Real as proprietary director.
- ✓ Appointment of Ms. María de la Paz Robina Rosat as independent director.
- ✓ Establishment of the number of members of the Board of Directors at 13.
- ✓ Appointment of the auditor of the Company and its consolidated group.

Moody's credit ratings

On 6 April 2021, Moody's affirmed Ence's Ba3 rating with a stable outlook. Moody's believes the recovery in pulp prices in 2021 will allow Ence to reduce its credit ratios to levels that are compatible with its current credit rating. It also highlighted the Company's liquidity position following the disposals completed in the Renewable Energy business towards the end of 2020.

APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

Ence’s noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2021, Sustainalytics increased Ence’s overall ESG score to 91 points out of 100, which ranks it has the global leader in the pulp and paper sector. Also in 2021, Ence received an AA rating (on a scale from AAA to CCC) on MSCI’s ESG Rating Assessment. Lastly, the Company joined the prestigious FTSE4Good Index Series in 2021.

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

1. People and values

Ence’s commitment to its people has guided the Company’s actions since the onset of the pandemic induced by COVID-19. During the first few months of 2021, the Company continued to revise and fine-tune its general protocols, as well as the protocols addressing stoppages and restriction easing, to adapt them for the circumstances prevailing at all times.

In addition to a swift response to the pandemic, the Company's human capital management priorities remain focused on the provision of quality work; improvement of the workplace climate; stimulation, management and development of talent; promotion of training and learning; fostering of diversity; and creation of a sustainability culture within the organisation.

In terms of the **generation of quality work**, note that, in addition to preserving all jobs throughout the pandemic, as of June 2021, 86.9% of Ence employees had indefinite employment contracts and 98.5% were working full time.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, the last annual workplace climate survey (2020) revealed an improvement in the aggregate workplace climate score of over 13% from 2019, topping the sector average. And for the first time, the Company secured Great Place to Work certification.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. During the first six months of the year, it promoted 35 professionals.

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:

- ✓ Occupational Health and Safety Policy
- ✓ Sustainability
- ✓ Digital Transformation
- ✓ Environmental Awareness
- ✓ Compliance
- ✓ Operations and Maintenance Services
- ✓ Development of Leadership Skills

In 1Q21, the Company imparted 9,179 hours of training, i.e., 7.96 hours per employee, adapting the formats for remote working arrangements and other safety protocols derived from the health crisis.

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 7.7% in 1H21. Moreover, 65.2% of new hires were female.

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

Elsewhere, as part of the drive to create **sustainability awareness**, Ence has launched equality and sustainability related training programmes addressed at the entire organisation. Some 8,197 people participated in the various online courses offered in the first half of 2021.

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. Ence updates its safety protocol regularly and meets periodically to monitor Covid-19 developments.

2. Climate action

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

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills. In the first half of the year, it implemented the measures set down in those plans, starting with the substitution of fossil fuels (coke) with biomass at the Pontevedra biomill.

In 1H21, Ence also updated its inventory of greenhouse gas emissions to include, for the first time, the 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 2020 the forests managed by Ence sequestered nearly 230,000 tonnes of carbon, net of that withdrawn in the form of wood and biomass.

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

3. Safe and eco-friendly operations

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

The first half of the year was marked by a robust performance in terms of **occupational health and safety**, which translated into healthy accident readings across all business units and considerable improvements in those metrics year-on-year. The accident frequency rate was 2.98 in 1H21, down substantially year-on-year (1H20: 7.40), creating a new benchmark in the long-run series.

Indeed, all of the business units (Pulp, Independent Power Plants, Forestry Purchases, Biomass Supplies and Forest Assets) improved their frequency readings in the first half and two of them (Independent Power Plans and Biomass Supplies) were accident-free (frequency rate = 0), a remarkable milestone considering the fact that the annual maintenance stoppages took place in Pontevedra, Navia and Huelva during the period. Moreover, all units outperformed the key benchmark accident indicators (for Spanish industry, the pulp and paper industry and the chemicals industry in Spain).

It is also worth highlighting the accolade received by the forestry purchases and strategy unit: the “Escolástico Zaldivar” prize awarded by the Fraternidad-Muprespa mutual society in the workplace safety category, given to organisations that exhibit a strong commitment to safety. The prize-winning project was the mathematical algorithm developed by the Northern Forestry area using artificial intelligence tools to analyse and correlate various forestry operation variables to evaluate the probability of people getting hurt in order to introduce preventative measures.

The Pontevedra biomill renewed the certification of its occupational health and safety system under ISO 45001:2018.

On the **health front**, the situation continued to be dominated by the global COVID-19 pandemic, in which the proactive stance taken by Ence early on became a benchmark for many other industrial firms, due to the speed of implementation and innovative nature of the strategies it rolled out to combat the virus. Indeed, the Company has prioritised the ongoing health and safety of the entire Ence family, meaning its own employees and those of the companies it subcontracts. Pandemic-related developments are monitored by a high-level committee, which, advised by a pandemic of scientific experts, continually updates and fine-tunes the existing protocols with a view to continue to prevent transmission. Those protocols encompass initiatives on different fronts, including: the organisation of work; ventilation and air renewal; the use of specific personal protection equipment; regular disinfection; screening tests; training, education and communication; the provision of health resources; and the preparation of emergency response plans.

As for Ence’s **environmental performance**, both biomills improved their odour emission readings compared to last year, with the Navia biomill standing out with a year-on-year reduction of 52%. Odour emissions at Pontevedra came down by 8%.

Particle emissions from prime sources also came down at both biomills: by 26% at the recovery furnace and by 47% at the causticising kilns in Pontevedra; and by 77% at the recovery furnace and by 16% at the causticising kilns in Navia.

In terms of Ence’s **circular economy** effort, both biomills continue to report high levels of waste recycling, recovery and reuse (96.7% in Navia and 99.9% in Pontevedra), earning them AENOR’s Zero Waste certificate, a seal only given to facilities that send less than 10% of their waste to landfill.

In 1H21, the two biomills also renewed their ISO 14001: 2015 and EMAS **certifications**, endorsing their robust environmental management systems. The Pontevedra facility additionally managed to certify the efficiency of its energy management system under ISO 50.001:2011 criteria.

In tandem, Ence made progress on the implementation of an environmental observations **preventive tool**, designed to deliver tighter control over the facilities’ environmental aspects and promote a culture of environmental awareness among its employees. Lastly, Ence continued to implement the ‘Works of Particular Environmental Risk’ tool, which ensures detailed analysis and planning of any environmentally-risk work to be undertaken by the Company.

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 on the area based on sustainable business models.

Indeed, Ence has cemented itself as a benchmark in **sustainable forest management** in Spain, applying internationally-recognised 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 1H21, around 85% of its forest assets were certified under one or other of those standards and a little over 74% of the wood that entered its biomills from its proprietary forests, suppliers and forest owners during the period came with one or both certifications.

Ence successfully completed FSC® and PEFCs' external chain of custody audits in March and June 2021, respectively. In the case of the FSC® audit, Ence's chain of custody certificate was renewed for five years with no incidents detected in terms of the system enabling the traceability of wood (purchase and sale of wood), the transfer or credits or the subsequent sale of pulp to customers. As for the PEFC audit, the meeting was a follow-up session and confirmed Ence's ability to ensure compliance with its voluntary undertakings (the PEFC chain of custody), mandatory rules and the effectiveness of the overall management system. The external FSC® Forest Management audit also took place in April, extending the certificate for five years. Elsewhere, Assurance Services International (ASI) undertook an extraordinary audit in January to assess the Company's auditing procedures by directly auditing Ence in accordance with its chain of custody certification requirements. That assessment endorsed the work performed by the Company's audit firm - SCS Global Services - as no incidents were detected with respect to the audits carried out at Ence; indeed the results of the audit were very positive, reinforcing and cementing Ence's chain of custody effort.

Lastly, in June, the FSC® chain of custody regime was audited internally with the goal of analysing and reviewing the control mechanisms established for the wood certification process with respect to the chain of custody, in keeping with the standards defined by FSC®.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. Indeed, the Company has set itself the target to studying biodiversity in its owned forests in 2021 in collaboration with Huelva University; during the first half, it conducted 43 flora biodiversity studies in its forests in southern Spain and a further six in northern Spain. During the second half of the year, the Company plans to document the potential fauna living in its owned forest tracts.

As regards its effort to **create value for forest owners and suppliers**, Ence lends particular support to small firms: in the case of wood supplies, 73.8% of the volume purchased came from small suppliers, while in the case of standing wood purchases, 78.8% corresponded to small-scale owners (including forest associations). In 1H21, the Company purchased over €14.5 million worth of wood from 808 forest owners. As for biomass, Ence mobilised over 900,000 tonnes, worth €35.5 million, through its independent plants. It supplied more than 147,000 tonnes of biomass worth over €9.9 million to its biomills.

Ence also strives to **contribute to development** in the areas in which it operates.. To that end it encourages the purchase of local wood: in 1H21, all of the wood bought came from Galicia, Asturias, Cantabria and the Basque region. Local wood purchases 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. All of the biomass procured by the Company is similarly sourced nearby (including from Portugal in the case of the plants in Huelva and Merida).

In addition to generating value for its biomass suppliers, Ence is working to drive the **sustainability of the biomass** used in its plants to generate energy, framed by two major projects: the voluntary 10-Point Declaration on the Sustainability of Biomass and plant certification under the European Renewable Energy Directive (RED II).

Compliance with the 10-Point Declaration in respect of agricultural biomass was 63% in 1H21, the target for all of 2021 being 71%. For industrial biomass, 1H21 compliance was running very close to the target for 2021 of 60%.

Certification of Ence's producers of wood and agricultural-forestry biomass stands at 100% and 95%, respectively. Certification of gardening and industrial biomass suppliers topped 57% for pruning waste and 79% for industrial biomass.

As for the implementation of RED II certification systems across its plants, the plan has gotten underway with the plant in Extremadura (Merida), followed by the biomill in Pontevedra, with the rest of the plants slated for incorporation over the course of 2021, in line with the agreed timetable.

5. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019, the result of years of R&D and industrial and product development work.

Under the umbrella of that platform, Ence is working to develop **products with a lower carbon footprint** as alternatives to hardwood pulp (which has a larger wood consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging apt for substituting materials such as plastic. The preliminary work needed to get Naturcell the Carbon Zero label was completed during the first half; during the second half, the steps will be taken to establish and certify this product’s carbon neutrality credentials.

In order to be transparently accountable for its products’ sustainability attributes, Ence is working to develop **Environmental Product Declarations**, framed by the International EPD System. The EDPs for the Company’s unbleached pulp, Naturcell, and for the standard beached pulp made in Pontevedra were published on Environdec’s website in 1Q21. In 2Q21, work progressed on drafting the product category rule (PCR) for the manufacture of pulp. The EDP contains verified information about a product’s environmental performance, while the PCR provides the guidelines for standard product analysis so as to yield comparable results. Ence’s products are the first pulp products to obtain this certification.

Increased sales of its greener products is one of Ence’s sustainability targets: in 1H21, sales of those sustainable products accounted for 14% of overall pulp sales. Ence backed the creation in 2021 of a cluster comprising 30 of its customers who produce products that are **good potential substitutes for plastic**. The target is for that cluster to account for 40% of the Company’s sales, a goal that was attained during the first half. Going forward, Ence plans to continue to work to increase the volumes sold to that cluster and to participate in other joint substitution projects.

In terms of its customer engagement effort, in 1H21 the Company achieved its goal of conducting six sustainability-related customer interviews in the whole year, which is not to say it won’t continue to set up additional interviews for the second half.

6. Community commitment

On the community work front, Ence remains committed to **investing in its local communities** under the umbrella of the third edition of its Pontevedra Community Plan, endowed with €3 million for social, environmental, sports and entrepreneurship projects, and initiatives aimed at addressing social exclusion, among others. Ence also has agreements with the town councils of Navia and San Juan del Puerto (the latter having been renewed in May), each endowed with €100,000 per annum, for the sponsorship and patronage of social and other community activities.

Ence has had to adapt the timeline for the execution of the Pontevedra Community Plan in response to the ongoing health crisis, having sought fit to grant the beneficiaries extra time to present their project credentials. It has also been flexible about changes in the use of proceeds so long as so doing did not modify the ultimate purpose. In this manner it has strived to demonstrate, once again, its support for society and its empathy with the beneficiaries affected by the health crisis.

In addition to the above community investments, Ence continues to roll out **specific relations plans** for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company’s activities. Under the umbrella of those plans, it organised a total of 550 visits to the facilities in Navia, Pontevedra and Huelva in the first half of 2021, reconfiguring them as online visits after the onset of the pandemic. In parallel to those facility tours, Ence carried out numerous training, education and volunteering activities with the help of its employees.

Institutional and community relations and proximity are one of the articulating thrusts of Ence's sustainability policy. Against that backdrop, in the second quarter of the year, it rolled out a number of initiatives in collaboration with a host of entities to promote local social, cultural, education, sports and economic development, as well as environmental care. 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 communities such as Asturias and Galicia. It is estimated that Ence's biomill in Navia generates more than 6,900 direct, indirect and induced jobs, of which more than 400 are at the facility itself. The Navia biomill also has a significant positive impact on local forestry, where it is responsible for an estimated 2,900 jobs, and on industries related with Ence's activities, such as wood harvesting, transportation and transformation. Ence's activities in Asturias also serve as a growth engine, creating wealth indirectly in other sectors such as the hospitality, food and independent retailing sectors.

Ence's biomill in Pontevedra is similarly an important source of job and wealth creation in the area. Over 5,100 families depend on the mill directly and indirectly, including 400 employees, around 2,700 contractor jobs in the industrial, logistics and transportation areas and over 2,100 jobs in the Galician forestry sector. In transport alone, the hundreds of trucks that enter the biomill daily paint a picture of the significance of the complex's activities for the local business landscape.

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.

The recent ratification of all the resolutions submitted to its shareholders at the last Annual General Meeting endorses Ence’s commitment to delivering on its objectives, with those related with **diversity on the Company’s governing bodies** standing out. Specifically, the Company has appointed a new independent director, so lifting female representation in its boardroom from 7% in 2017 to 38.5% in 2021. One of the Company's female directors was also appointed lead independent director. Following those appointments, Ence's commitment to diversity is similarly tangible in the composition of its board committees: 60% of the members of both the Audit and Compliance and Appointments and Remuneration Committees are women; and they are all independent directors. Moreover, those committees are chaired by women.

During the first half, the Company’s governing entities also analysed the changes emanating from publication of Law 5/2021, amending the consolidated text of the Corporate Enterprises Act (enacted by Legislative Royal Decree 1/2010) and other financial regulations as regards the encouragement of long-term shareholder engagement at listed companies, to ensure all the measures are duly implemented at Ence.

Lastly, the Company updated its **Director Training Programme** for 2021 to focus primarily on cybersecurity and sustainability.

APPENDIX 2: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S POWER PLANTS

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW) *	Type of fuel	Remuneration for operation 2021 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	28.6	-	2032
			55,319	Agroforestry biomass	52.4	-	
Navia	Biomass co-generation	40.3	-	Lignin	26.7	-	2034
	Biomass generation	36.2	230,425	Agroforestry biomass	53.6	7,500	
Huelva 41MW	Biomass generation	41.0	246,318	Agroforestry biomass	59.9	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,058	Olive Pulp	38.5	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,058	Olive Pulp	39.7	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,620	Olive Pulp	41.9	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	36.5	-	2030
Huelva 50MW	Biomass generation	50.0	266,483	Agroforestry biomass	51.9	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,608	Agroforestry biomass	50.8	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	47.9	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	47.9	7,500	2044

* Original Ri: Does not include subsequent adjustments by regulatory collar, which Ence adjusts monthly on its revenue figure.

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 return of 7.4% on the estimated cost of building a 'standard' plant. It takes the form of a sum per MW installed (gross), which in the case of Ence implies annual revenue of €41m in the Renewable Energy business (having excluded the solar thermal plant sold in December 2020) and €10m in the Pulp business.

   Royal Decree-Law 17/2019 has established that 'reasonable return' at 7.4% for the regulatory period elapsing between 2020 and 2031 for all Ence plants entitled to its receipt. Note that the two new biomass plants commissioned in 2020 do not receive that remuneration for investment.

2. The **regulated sales price (€/MWh)** enables plant owners to cover all the costs of operating a 'standard' plant, including fuel costs. It is made up of the electricity market (pool) price, subject to the ceiling and floor set by the regulator, plus the remuneration for operation (Ro) earned by each plant.

   The pool prices estimated by the regulator for the purpose of determining the 'Ro' complement are reviewed every three years. Any deviations between actual pool prices and the prices estimated by the regulator at the start of each period are compensated as a function of certain annual ceilings and floors (regulatory collar).

   Below are the pool prices estimated by the regulator for 2020-2022, along with the corresponding ceilings and floors:

Eur / MWh	2020	2021	2022
LS2	63.1	60.5	56.6
LS1	58.8	56.3	52.7
Estimated pool price	54.4	52.1	48.8
LI1	50.1	48.0	44.9
LI2	45.7	43.8	41.0

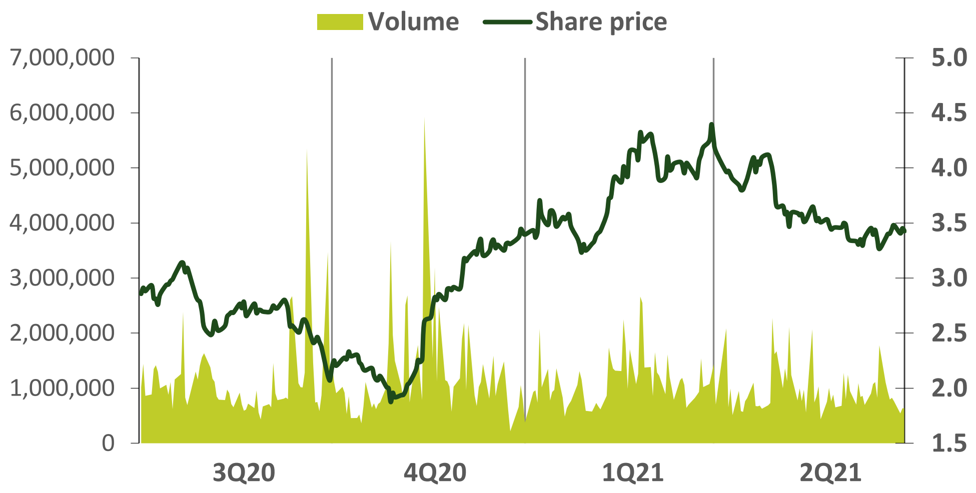
   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 2,016 hours for solar thermal electric power (there is no cap in the case of CHP). Output above this cap is sold at pool prices, with no entitlement to additional premiums.

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%.

APPENDIX 3: SHARE PRICE PERFORMANCE

Ence's share capital consists of 246,272,500 shares with a unit par value of €0.90. They are represented by book entries and all carry identical voting and dividend rights. The Company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex Medium Cap index.

Ence’s share price closed the first half at €3.43, a gain of 0.9% from year-end 2020. Over the same timeframe, the Company's peers' share prices gained 4.4% on average.



Source: Bloomberg

SHARES	2Q20	3Q20	4Q20	1Q21	2Q21
Share price at the end of the period	2.91	2.19	3.40	4.26	3.43
Market capitalization at the end of the period	717.6	539.8	836.1	1,047.9	843.7
Ence quarterly evolution	16.6%	(24.8%)	54.9%	25.3%	(19.5%)
Daily average volume (shares)	1,677,385	1,149,625	1,272,577	1,145,084	960,860
Peers quarterly evolution *	2.5%	(1.4%)	34.4%	18.5%	(11.3%)

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp – prices in euros

On 5 March 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €7.5517 per share (adjusted on 1 July 2020). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	2Q20	3Q20	4Q20	1Q21	2Q21
Bond price at the end of the period (ask)	93.26	87.73	94.49	97.60	98.14
Yield to worst at the end of the period*	3.927%	6.387%	3.553%	2.063%	2.075%

*Yield to maturity

The following table shows the current credit ratings awarded to the Ence Group by Moody's and S&P:

	RATING	OUTLOOK	DATE
Moody's	**Ba3**	**Stable**	**06/04/2021**
S&P	**BB-**	**Stable**	**24/11/2020**

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 its performance. The alternative performance measures (APMs) used in this report are defined, reconciled and explained below:

CASH COST

The production cost per tonne of pulp produced, or cash cost, is the key measure used by management to measure its efficiency as a pulp maker. Cash costs are analysed in section 2.3 of this report.

Cash cost includes all of the expenses incurred to produce pulp: wood, conversion costs, corporate overhead, sales and marketing expenses and logistics costs. It excludes fixed-asset depreciation and forest depletion charges, impairment charges and gains/losses on non-current assets, finance costs/income, income tax and certain operating expenses which management deems to be non-recurring, such as *ad-hoc* consultancy projects, Ence's long-term remuneration plan, the termination benefits agreed with staff and the cost of certain benefits.

As a result, the difference between the average sales price and the cash cost applied to the total sales volume in tonnes yields a figure that is a very close proxy for the EBITDA generated by the Pulp business before the impact of hedges, which are not included in the cash cost calculations either.

EBITDA

EBITDA is a measure used in the statements of profit or loss presented in this report, in sections 2.6, 3.3 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 one-off items of income and expense that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

EBITDA is an indicator used by management to track the Company's recurring profitability over time. This metric provides an initial approximation of the cash generated by the Company's ordinary operating activities, before interest and tax payments, and is a measure that is widely used in the capital markets to compare the earnings performances of different companies.

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of its capex-related cash outflows for each of its business units in sections 1, 2.7 and 3.4, distinguishing between maintenance, efficiency, growth and sustainability capex.

Maintenance capex are recurring investments designed to maintain the capacity and productivity of the Company's assets. Efficiency and growth capex, meanwhile, are investments designed to increase those assets' capacity and productivity. Lastly, sustainability capex covers investments made to enhance quality standards, occupational health and safety and environmental performance and to prevent contamination.

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. The disclosure of capex cash flows broken down by area of investment facilitates oversight of execution of the published Business Plan.

CASH FLOWS

The Cash Flow Analysis presented in sections 1, 2.7 and 3.4 of this report differs from the cash flow movements presented in the statement of cash flows included in section 4.3 and also presented in the annual financial statements.

The difference stems from the fact that the former analyses the movements in Free Cash Flow starting from EBITDA, whereas the Cash Flow Statement presents the movements in the Group's cash and cash equivalents starting from profit before tax, using the indirect method.

As a result, the headings, 'Other receipts/(payments)' and 'Expenses/(income) with no impact on cash' do not coincide exactly with 'Consolidated profit/(loss) for the period - Adjustments' and 'Other receipts/(payments)', albeit in both instances arriving at net cash from operating activities.

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 2.7, 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.

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.4 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 Company's operating activities before collection of proceeds from asset sales; this cash represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

NET DEBT

The borrowings recognised on the balance sheet, 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 is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet and the sum of cash and cash equivalents and other financial investments within current assets, as outlined in sections 2.8 and 3.5 of this report.

Net debt provides a proxy for the Group's indebtedness and is a metric that is widely used in the capital markets to compare the financial position of different companies.

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
2Q21

SUSTAINALYTICS
Global ESG score:
91/100