ENCE ENERGÍA & CELULOSA

Earnings Report 4Q23

29 February 2024

Global ESG score: 90/100

CONTENTS

1. EXECUTIVE SUMMARY

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

Source: Bloomberg

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

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

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

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

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

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

2. PULP BUSINESS

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

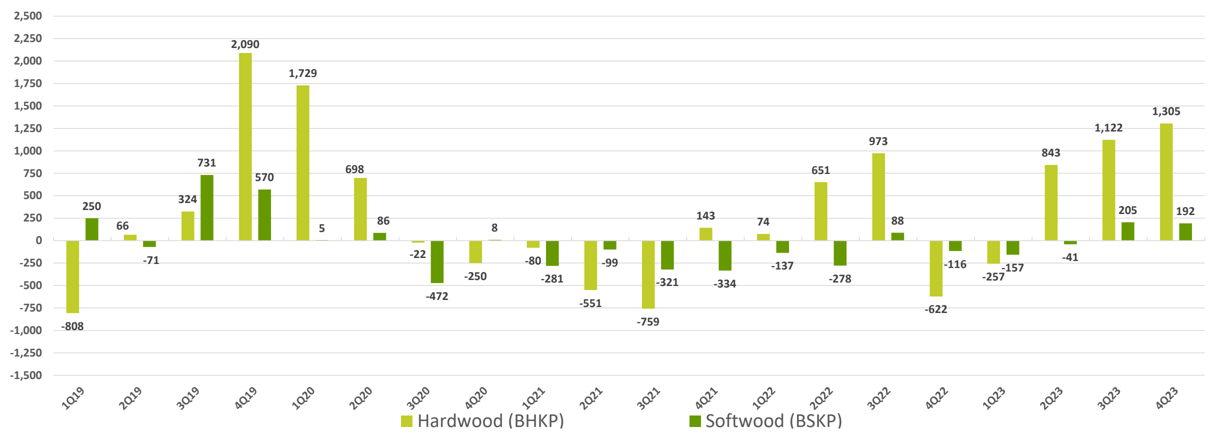
On 7 February 2023, Spain's Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073.

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

2.1. Pulp market trends

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products, particularly in developing countries, where per-capita consumption of these products is well below the average observed in developed economies. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material that is a good substitute for less environmentally-friendly materials such as plastics and synthetic fibres. These demand dynamics are very solid in the long term and contrast with the movements observed in inventories in the paper industry.

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

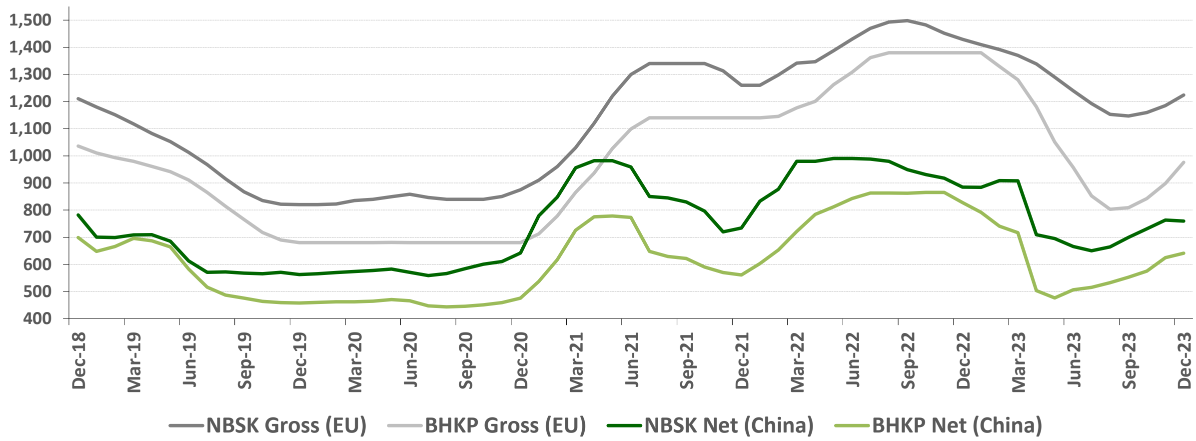


Source: PPPC–G100

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

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

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



Source: FOEX

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

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

Source: Bloomberg

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

2.2. Revenue from pulp sales

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

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

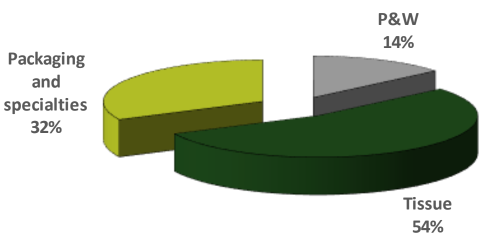
	4Q23	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Pulp sales (t)	**273,082**	**150,345**	*81.6%*	**243,926**	*12.0%*	**978,501**	**826,617**	*18.4%*
Average sales price (€/t)	522.2	864.5	*(39.6%)*	477.0	*9.5%*	578.0	756.7	*(23.6%)*
Pulp sales revenue (€ m)	**142.6**	**130.0**	*9.7%*	**116.4**	*22.6%*	**565.6**	**625.5**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

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

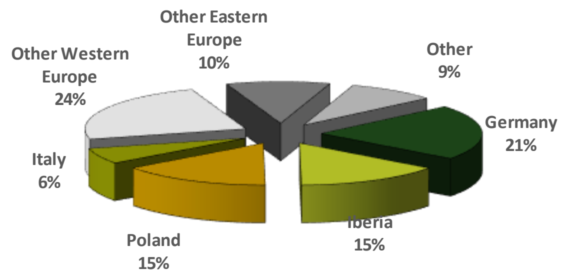
Sales of Ence's Advanced pulp products, such as Powercell and Naturcell, which are more sustainable and better suited for replacing softwood pulp, continued to gain market share, accounting for 28% of the Group’s pulp sales in 4Q23 and 22% in all of 2023, compared to 16% in 2022.

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

Breakdown of revenue by end product



Breakdown of revenue by geographic market



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

2.3. Pulp production and cash cost

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

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

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

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

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

2.4. Other income

Ence's pulp production operations are self-sufficient electricity-wise. Ence uses the lignin and forest biomass derived from its manufacturing activities to generate renewable energy. Specifically, it operates a 34.6-MW lignin-fired CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP lignin-fired plant and a 36.7-MW biomass generation plant, both of which are integrated within the Navia biomill. Surplus energy production is sold to the grid.

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

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

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

2.5. Statement of profit or loss

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

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

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

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

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

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

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

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

Other non-recurring operating items includes income of €9.3m in 4Q23 and €3.7m in 2023 related primarily with the reversal of inventory impairment allowances recognised in previous quarters. The net expense of €14.9m recognised in 2022 included a €21m provision recognised to cover commitments under Ence's Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts, following the above-mentioned Supreme Court ruling.

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

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

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

2.6. Cash flow analysis

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

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

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

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

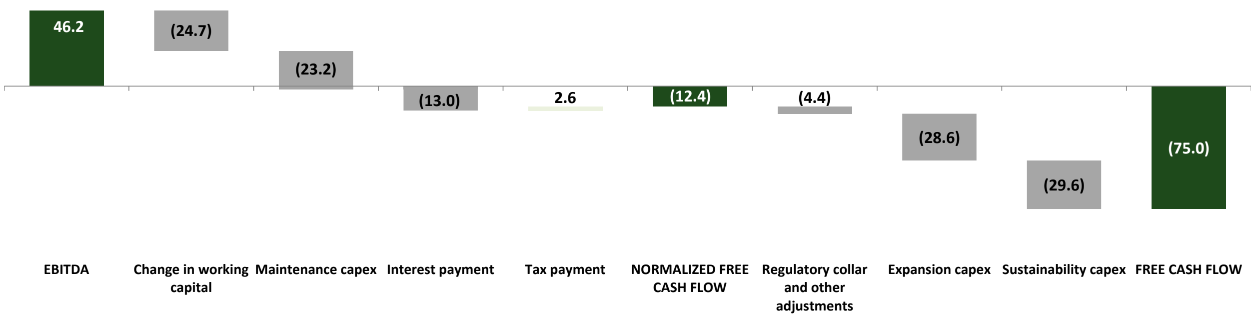
At 31 December 2023, the Pulp business had drawn down €83.9m under its non-recourse receivable discounting facilities, compared to €45.2m at year-end 2022.

Ence has also arranged several reverse factoring facilities, which were drawn down by €58.9m at the December close, compared to €76.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

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

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

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



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

2.7. Change in net debt

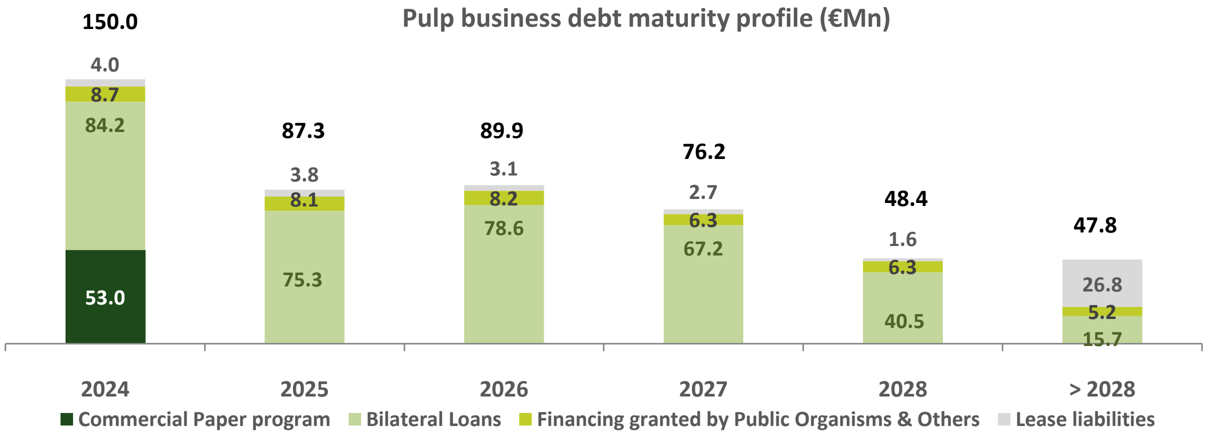
The Pulp business ended the year with net debt of €186.1m, compared to net cash of €36.1m at year-end 2022 (i.e., an increase of €222.2m). In addition to the business's negative free cash flow (75m), it paid €140.6m of dividends against 2022 profits in the first half of the year, while other changes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

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

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

Due to the cyclical nature of the Pulp business, it is financed with covenant-free debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €313.7m.

The gross debt of €457.8m at year-end corresponds to the outstanding balance of €361.9m of bilateral loans, a series of loans totalling €42.9m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work, with maturities ranging to 2030, and €53m of notes outstanding under the above-mentioned sustainable promissory notes programme. Finance lease liabilities stood at €42m at the December close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



2.8. Growth and diversification opportunities

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

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

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

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

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

3. RENEWABLES BUSINESS

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

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

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

3.1. Electricity market trends

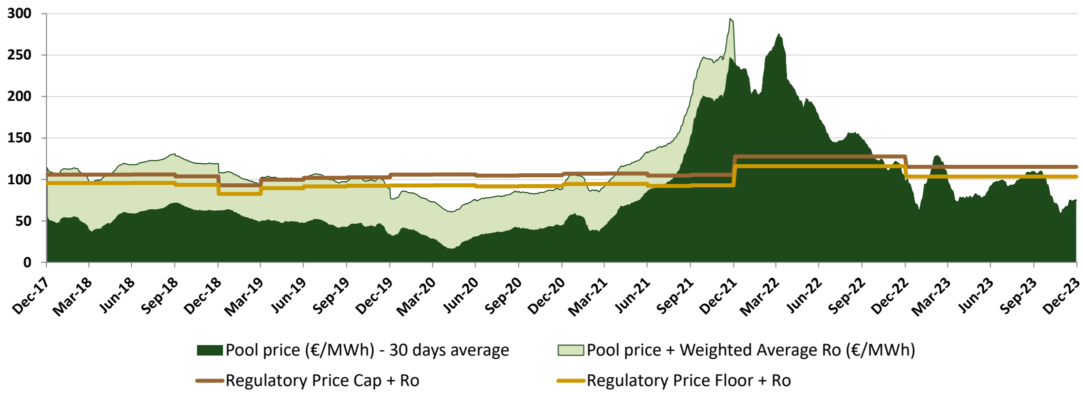
The average price on the day-ahead market (pool price) declined by 33.5% year-on-year to €75.3/MWh in 4Q23 and by 47.8% year-on-year to €87.4/MWh in 2023.

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

Source: OMIE

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

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



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

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

3.2. Revenue from energy sales

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

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

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

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

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

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

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

3.3. Statement of profit or loss

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

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

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

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

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

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

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

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

3.4. Cash flow analysis

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

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

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

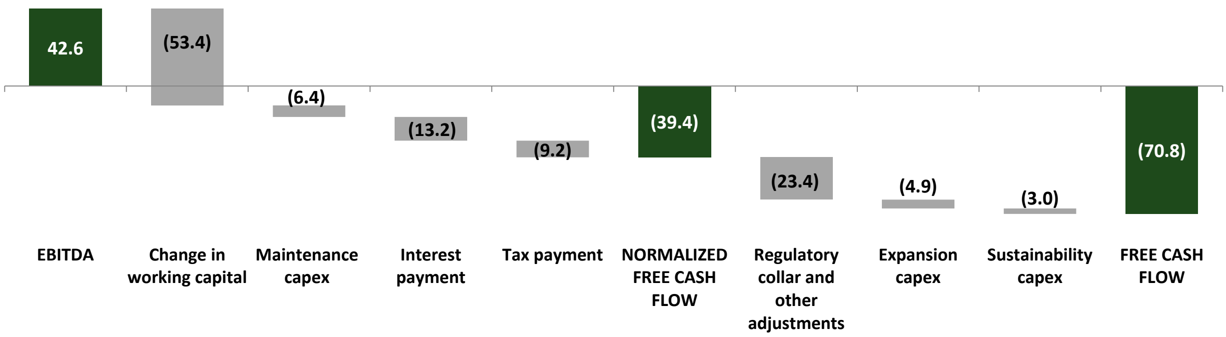
Figures in € m	**4Q23**	4Q22	Δ%	3Q23	Δ%	2023	2022	Δ%
Inventories	(2.4)	(8.9)	*(72.7%)*	8.1	*n.s.*	(0.4)	(10.3)	*(96.4%)*
Trade and other receivables	12.2	(5.4)	*n.s.*	7.9	*53.3%*	33.9	0.6	*n.s.*
Current financial and other assets	-	2.0	*(100.0%)*	-	*n.s.*	-	-	*n.s.*
Trade and other payables	7.6	15.6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

At 31 December 2023, the Renewables business had drawn down €4.4m under its non-recourse receivable discounting facilities. Magnon has also arranged several non-recourse reverse factoring facilities, which were drawn down by €19.8m at year-end 2023, compared to €23m at year-end 2022. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

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

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

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



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

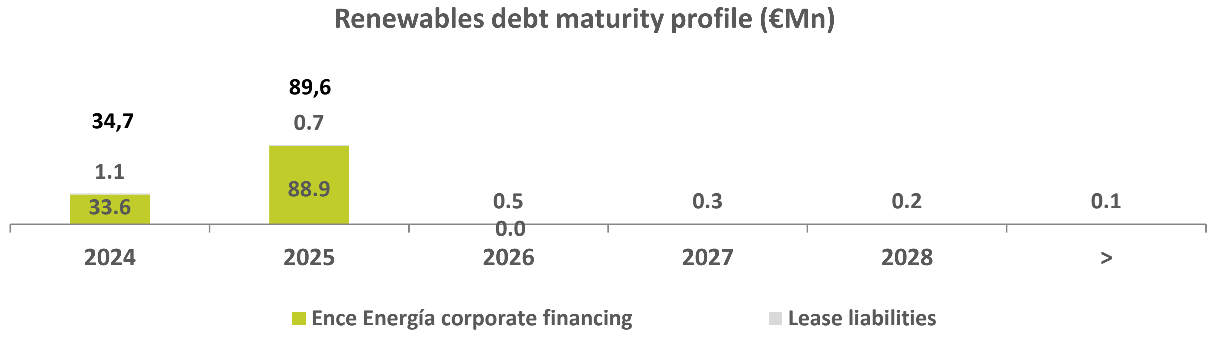
3.5. Change in net debt

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

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

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

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



3.6. Growth and diversification opportunities

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

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

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

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Summarised statement of profit or loss

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

4.2. Summarised statement of financial position

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

4.3. Statement of cash flows

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

5. KEY DEVELOPMENTS

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

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

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

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

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

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

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

Dividend payments

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

Update of the regulatory energy prices applicable in 2023 – 2025

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

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

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

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

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

Sale of photovoltaic projects

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

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

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

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

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

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

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

Issuance of a sustainable commercial paper programme

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

2023 Annual General Meeting

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

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

APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Business Plan. The Plan constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. Ence has updated that plan, designing a new 2024-2028 Master Sustainability Plan, formulating its sustainability roadmap for the coming years. Preparation of the new plan included a double-materiality assessment in order to identify the material matters on which to focus and help pin down the next universe of targets.

The current master plan (2019-2023) is articulated around seven priority lines of initiative. An account is provided on the progress made on each in the following sections.

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2023, Sustainalytics gave Ence an overall ESG score of 90 points out of 100, ranking it as a global leader in the pulp and paper sector for the third year running. The Company has been part of the prestigious FTSE4Good Index Series since 2021. In addition, in June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance. Ence has also been included in the IBEX ESG, a sustainability index recently launched by BME. To be eligible for this index, in addition to being traded as part of the main IBEX 35 or IBEX Medium Cap indices, candidates must have an ESG rating of C+ or higher (out of 12 possible ratings which run from A+ to D-). Moreover, they must uphold the principles enshrined in the United Nations Global Compact and revenue from certain critical activities may not exceed specific thresholds.

1. People and values

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

In terms of the generation of **quality work**, note that as of year-end 2023, 94% of Ence employees had indefinite employment contracts and 98% were working full time. Moreover, the headcount increased by 10% in the first nine months of 2023.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, in 2023 the Company secured Great Place to Work certification for the fourth year in a row.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and motivates the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. In 2023, it promoted 54 professionals internally, 19 of whom are women.

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

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

- ✓ Environmental Awareness
- ✓ Compliance
- ✓ Leadership Skills

- ✓ Health and Safety
- ✓ Sustainability
- ✓ Operations and Maintenance Services
- ✓ Digital Transformation

In 2023, the Group imparted 20,983 hours of training, i.e., 17.2 hours per employee, adapting the formats to make them compatible with remote working arrangements. The training effort focused particularly on technical operations matters, health and safety and compliance.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by over 15% in 2023 to account for 27% of the workforce at year-end.

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

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. In 2023 it successfully negotiated a new collective bargaining agreement at the Pontevedra biomill and an Equality Plan is currently under negotiation.

2. Climate action

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

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp business by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised decarbonisation plans based on continuous improvement and the substitution of fossil fuels at the biomills. Since 2021, it has been implementing the measures set down in those plans, starting with the substitution of fossil fuels (coke) at the Pontevedra biomill. In 2023, under the scope of the new 2024-2028 Sustainability Master Plan, the Group established a new decarbonisation plan which will reduce its Scope 1 and 2 emissions by 70% by 2035 compared to the base year (2018). To achieve this target, it is working on projects for replacing fossil fuels at its biomills with biomass. The first step in that direction was already taken in 2023 when the use of natural gas at the Navia lime furnace was replaced by biomethane produced internally. Thanks to these efforts, the Navia biomill ended the year with its lowest ever fossil fuel emissions per tonne of pulp produced.

Ence also updates its inventory of greenhouse gas emissions annually, most recently including, for the first time, an analysis of the net carbon balance of the forests owned by the Company. That analysis, which was performed in keeping with the IPCC guidelines, showed that in 2023 the forests managed by Ence sequestered over 200,000 tonnes of CO_2, net of that withdrawn in the form of wood and biomass.

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

This year, Ence has also analysed the financial impacts of the main climate risks that could affect the Company and revised the mitigation measures in place for each risk factor so as to avoid material impacts.

3. Safe and eco-friendly operations

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

In terms of occupational **health and safety**, it is worth highlighting the performance of Magnon, where there were no lost-time injuries in the first nine months of the year. Indeed, Magnon reported a 83% reduction in its injury frequency ratio in 2023. The pulp biomills, meanwhile, continue to report accident metrics that are 3.5 times below the sector average, despite an uptick in their ratios in 2023. There is room for improvement in forestry business which also reported higher injury frequency numbers in 2023 than in 2022.

As for Ence's **environmental performance**, the pulp biomills made further progress in 2023, cutting monthly odour emissions by 43% year-on-year in Navia and by 34% in Pontevedra, with both biomills continuing to mark new records in that respect. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 6% in both cases, similarly recording new lows.

In the Renewables business, in 2023, the Group continued to execute and monitor its plans for delivering its unit water consumption, noise and air quality targets across its plants.

As for its circular economy transition, Ence continues to present high waste recovery and recycling readings (above 95% of all waste at year-end 2023), enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). As of 2023, all of the Group's facilities boast that certification.

At Magnon, it is worth highlighting the improved management of fine materials returned to the soil, at the sites from which the biomass was originally sourced whenever possible. That initiative returns a natural material of value in combatting desertification and soil degradation. In 2023, the large majority of the fine materials produced at the plants in Puertollano and Merida were processed so as to enable their return to the original farming land. In parallel, Ence is working on several research projects for the recovery of slag and ash waste in order to give them a second life, including use as organic compost or to produce artificial aggregates, to cite a couple of examples.

In terms of environmental performance, the pulp biomills successfully completed their ISO 14001, ISO 45001, ISO 50001 and Zero Waste certification renewal audits. They also verified their compliance with European Community eco-management and audit scheme (EMAS) and renewed SURE certification for their sustainable management of biomass. Ence is optimising its systems with a view to obtaining ISO 22000 food safety management certification in early 2024.

The Renewables business obtained approval for a pilot production test to research the reuse of wood crate waste at the Merida and Puertollano plants. Testing is underway at both plants. The Huelva plant is conducting the research, development and experimentation work for the project for drying wet, fatty olive pomace without generating emissions, which is expected to take one year to complete.

Lastly, Magnon has ISO 14001, ISO 45001 and Zero Waste certification at all its plants, as well as SURE certification, with the Huelva plants additionally boasting ISO 9001 and EMAS certification.

4. Rural and forest development

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

Indeed, Ence has cemented itself as a benchmark in **sustainable forest management** in Spain, applying internationally-recognised criteria and standards of excellence, such as the FSC® (Forest Stewardship Council®, with license numbers FSC®-C099970 and FSC®-C081854) and PEFC (Program for the Endorsement of Forest Certification, with licence numbers PEFC/14-22-00010 and PEFC/14-33-00001) schemes, to the forest assets it manages and encouraging their adoption by its supply chain. In 2023, nearly 80% of its forest assets were certified under one or other of those standards and over 73% of the wood that entered its biomills during the year from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2022, Ence conducted studies to analyse biodiversity encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. Further progress is being made in 2023 in the form of new fauna and flora biodiversity studies at more than 50 forest tracts owned by Ence.

In order to **create value** for land owners and suppliers, Ence lends particular support to smaller sized companies. In 2023 the Company bought wood from around 1,250 forest owners, 75% of which are small sized.

Ence also strives to **contribute to development** in the areas in which it operates. To that end, it encourages the purchase of local raw materials; indeed, most of the wood and biomass bought comes from Galicia, Asturias, Cantabria, the Basque region, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint.

In addition to generating value for its biomass suppliers, Ence is working to drive the **sustainability of the biomass** used in its plants to generate energy by means of complementary tools: the 10-Point Declaration on the Sustainability of Biomass (a voluntary self-regulation scheme) and plant certification under the SUstainable REsources Verification Scheme (SURE) to comply with the European Renewable Energy Directive (RED II).

Some 92% of the agricultural biomass used in 2023 was compliant with the 10-Point Plan criteria, ahead of the target for this year. In industrial biomass, compliance stands at 90%, which is likewise ahead of target.

As for implementation of the SURE scheme to comply with RED II, the energy plants and biomills have completed the audits for renewing their certifications in 2023. As well as renewing its own facilities' certifications, Ence is working to encourage its suppliers to get certified. As a result, by year-end 2023, over 90% of the biomass arriving at Ence's facilities was SURE-certified.

Elsewhere, Ence continues to apply its supply chain supervision procedures, an effort that extends to the **certification** of wood and agricultural biomass producers, with certification levels of over 99% as of September 2023.

5. Sustainable products

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

Within that effort, it is worth flagging the Company's unbleached pulp, Naturcell, which is not only more environmentally-friendly to make, but also the GHG emissions derived from its life cycle are offset by credits purchased on the voluntary market. All sales of Naturcell made in Pontevedra in 2022 involved the carbon-neutral product, Naturcell Zero, topping the related sustainability target set by the Company. The Company also delivered its sales target for its carbon-neutral product in 2023.

On the carbon footprint front, in 2023, the Company completed the work needed to enable its pulp customers obtain information about the GHG emissions derived from the products they purchase, from raw material supply through manufacture, transportation and final delivery. Customers can get this information directly from Ence's website.

In 2023 **Ecovadis** awarded Ence its platinum medal, this entity's highest accolade. The Ecovadis platform assesses organisations' non-financial performance at the global level. It has grown to become the world's largest and most trusted provider of business sustainability ratings, analysing more than 100,000 business worldwide around a wide range of non-financial criteria. In its assessment, Ecovadis highlighted Ence's performance in terms of environmental sustainability, labour practices & human rights, sustainable procurement and ethics, the areas where Ecovadis' analysts awarded Ence their highest scores. The score obtained by Ence puts it at the global forefront in sustainability matters. Specifically, Ence ranked in the 99th percentile, ahead of all of its peers, evidencing the work being done by the Company to lead the way and become the best possible partner for its customers.

Similarly in order to transparently evidence its products' sustainability attributes, Ence has worked together with Environdec to draft the Product Category Rule (PCR) needed to complete the standardised life cycle assessment (LVA) and Environmental Product Declaration (EPD) for pulp, so that the results are comparable with those of similar products. The EDPs for the pulp made in Pontevedra, Encell, TCF and Naturcell, were published on Environdec's website in 2021, making them the first pulp products in the market to obtain an Environmental Product Declaration. The new PCR(1) and the revised and updated EDPs(2) have been available for consultation since March and August 2022, respectively. The EDP for the unbleached pulp made in Navia, Encell ECF(3) was completed, audited and published in 2023.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set new and very ambitious sales targets for Naturcell, Powercell and Naturcell Zero for 2023. Sales of those special products accounted for 22% of total pulp sales in 2023.

In parallel, in 2023, Ence continued to work to have pulp manufacturing at both of its biomills certified for food safety purposes under ISO 22000 with the goal of obtaining that certification in early 2024.

(1) https://www.environdec.com/product-category-rules-pcr/get-involved-in-pcr-development#recentlypublishedpcrs.
(2) https://www.environdec.com/library/epd6638 y https://www.environdec.com/library/epd6639
(3) https://www.environdec.com/library/epd7965

6. Community commitment

As part of its community engagement effort, Ence has continued to invest in its business communities, framed by the agreements in place with local councils in the towns where it has its main facilities. Ence supports projects of a social, environmental and sporting nature, including work to prevent social exclusion, and fosters entrepreneurship. In 2023, Ence called a new tender for the Ence Pontevedra Community Plan, endowed with €3 million per call. More than 300 projects benefitted from this latest round of assistance.

In addition to the above community investments, in 2023 Ence continued to roll out specific community relations plans with the aim of educating local residents and other stakeholders about the Company's activities. In 2023, Ence welcomed over 1,000 visitors to its facilities in Navia, Pontevedra, Huelva and Puertollano and held over 50 meetings with representatives from a range of stakeholders. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects. It participated in the sixteenth edition of the International Bioenergy Congress, the "Energy in Galicia: Challenges and Opportunities of the Energy Transition" Workshop organised by the Energy Club and the event organised by AENOR at which the Company was distinguished for "20 years caring for the environment by Ence in Pontevedra".

In addition to the activities designed to improve community relations, it is worth highlighting the knock-on effects and impact on socioeconomic development Ence's activities have in Asturias, Galicia, Andalusia and its other business communities. It is estimated that the Group's activities generate over 19,000 jobs between direct, indirect and induced jobs. Ence's positive impact is particularly important in the agricultural (owners, harvesting firms and carriers) and forestry sectors (forest owners, forest service providers, wood harvesting firms and carriers, etc.), both of which with deep roots in the rural economy. As a result, Ence not only generates wealth for those stakeholders but also constitutes an important economic engine in those regions, contributing to the effort to stem depopulation and deindustrialisation in rural Spain.

7. Corporate governance

On the corporate governance front, Ence boasts a comprehensive and effective system which incorporates prevailing regulatory requirements and recommendations with respect to best practices in the field. Ence continuously assesses its stakeholders' legitimate expectations, engaging openly with shareholders, investors and proxy advisors and responding transparently to requests for information from research analysts, rating agencies and ESG consultants.

In sum, the objectives being pursued on the corporate governance front are aimed at upholding the interests of its shareholders and other stakeholders in the long term.

Notably in 2023, Ence approved its due diligence policy around sustainability, setting out its main commitments and principles to ensure there are no human rights violations or adverse environmental effects along its value chain; in parallel, it formulated a due diligence procedure which Ence will apply to its business dealings with suppliers, shareholders, customers and other third parties.

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

Facility	Type of facility	MW	2023 Remuneration for investment in P&L (Ri; €/MW) *	Type of fuel	Remuneration for operation 2S23 (Ro; €/MWh)	Sale hours limit under regulated price	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	-	6,500	2032
	Biomass generation		46,362	Agroforestry biomass	-	7,500	
Navia	Biomass co-generation	40.3	-	Lignin	-	6,500	2034
	Biomass generation	36.2	210,395	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	39,759	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	123,610	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	66,232	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	184,086	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	84.4	6,537	2030
Huelva 50MW	Biomass generation	50.0	242,587	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	267,374	Agroforestry biomass	-	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	-	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	-	7,500	2044

Power plants fuelled by renewable sources of energy, combined heat and power (CHP) systems or waste are regulated by Spanish Royal Decree 413/2014. These plants are remunerated via two concepts, one fixed and the other variable, in order to ensure a reasonable return:

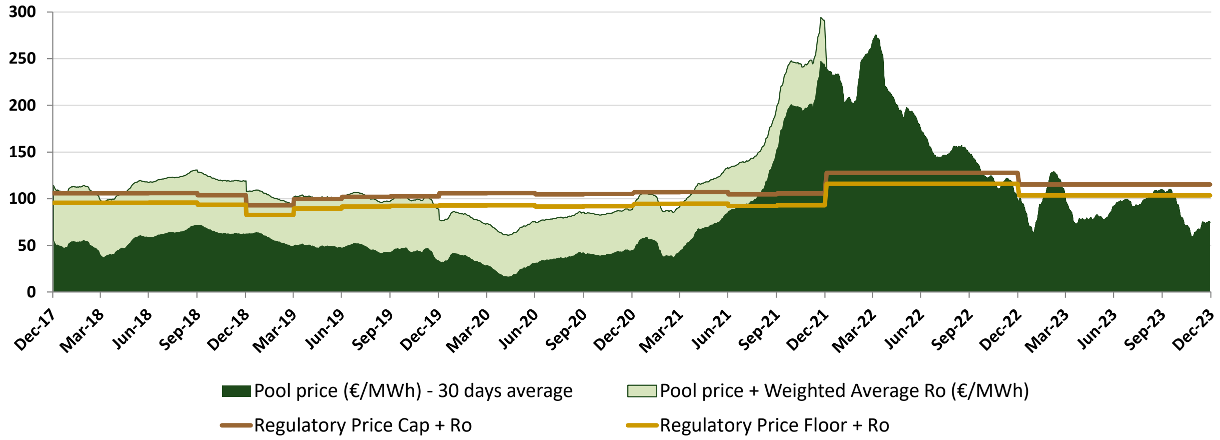
1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a minimum return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for 2020–2031 via Royal Decree-Law 17/2019 (22 November 2019).

2. The **regulated sales price (€/MWh)** enables plant owners to cover all the estimated costs of operating a 'standard' plant, including fuel costs. That price is made up of the regulatory price plus the supplementary remuneration for operations (Ro) earned by each plant, where applicable.

   The Ministry of Green Transition determines the supplementary remuneration for operation of each plant (Ro) as a function of the estimated costs of operating a 'standard' plant, which are updated annually, and the electricity prices estimated at the start of each 3-year regulatory stub period (regulatory price). Any deviations between the electricity market price and the price estimated by the Ministry at the start of each period (regulatory price) are settled by adjusting the remuneration for investment to be collected during the plants' remaining regulatory useful lives.

   When estimating electricity market prices, the Ministry will rely on the weighted average value of a basket of prices made up of day-ahead market prices and market prices gleaned from futures markets.

   If the price estimated by the Ministry (regulated price) is higher than the estimated cost of operating a 'standard' plant, that difference also triggers an adjustment to the remuneration for investment due to the plants over their remaining useful lives.



3. Both the remuneration for investment and the regulated sale price are subject to a **levy on the value of electric energy produced of 7%**. That tax has been suspended temporarily since July 2021 and the Ministry has accordingly reduced the Company's plants' remuneration for operations.

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

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

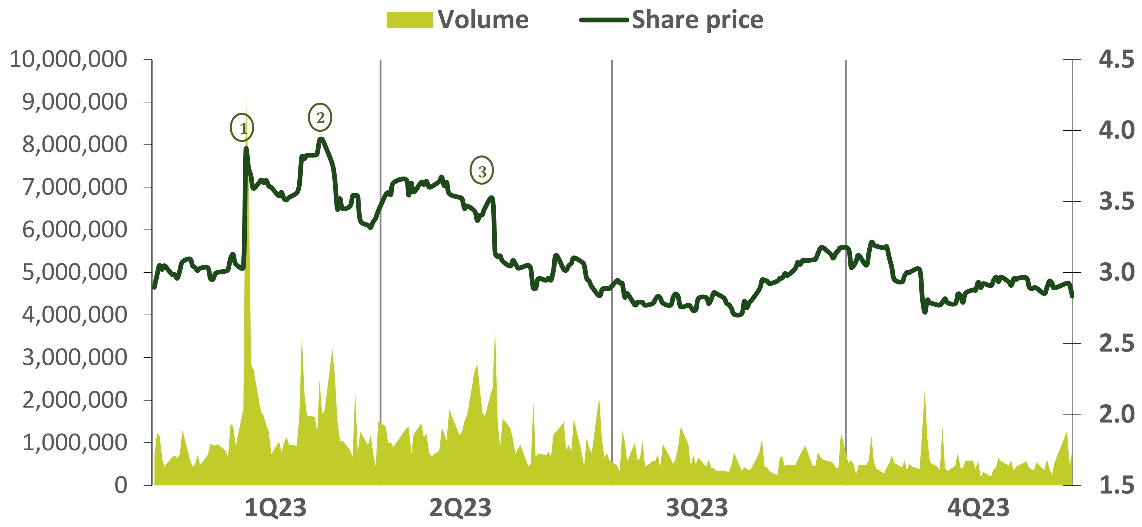
Below are the **pool prices estimated by the regulator for 2023-2025**, along with the corresponding annual ceilings and floors:

Eur / MWh	2023	2024	2025
LS2	117.1	116.7	97.2
LS1	113.2	112.8	93.3
Estimated price pool	109.3	108.9	89.4
LI1	105.4	105.0	85.5
LI2	101.5	101.1	81.6

APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence’s share price ended 2023 at €2.83, a gain of 0.8% from year-end 2022, or 21.4% adjusting for the two interim dividends of €0.29 per share paid out on each of 16 March and 18 May 2023.



1) On 7 February 2023, Spain’s Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. That day the Company’s share price jumped 27%.
2) Ence’s shares traded ex-dividend from 14 March 2023, i.e., excluding collection of an interim dividend against 2022 profits of €0.29/share (€70m).
3) Ence’s shares traded ex-dividend from 16 May 2023, i.e., excluding collection of a second interim dividend against 2022 profits of €0.29/share (€70m).

SHARES	4Q22	1Q23	2Q23	3Q23	4Q23
Share price at the end of the period	2.81	3.43	2.89	3.17	2.83
Market capitalization at the end of the period	692.0	844.7	710.7	781.7	697.4
Ence quarterly evolution	(8.5%)	22.1%	(15.9%)	10.0%	(10.8%)
Daily average volume (shares)	745,786	1,455,322	1,222,432	605,663	551,485
Peers quarterly evolution *	(4.0%)	(10.5%)	(4.4%)	7.0%	(0.3%)

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

Source: Bloomberg

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

Ence presents its results in accordance with generally accepted accounting principles, specifically IFRS. In addition, this report provides certain other complementary metrics that are not defined or specified in IFRS and are used by management to track the Company's performance. The alternative performance measures (APMs) used in this report are defined, reconciled and explained below:

EBITDA

EBITDA is a metric used in the statements of profit or loss presented in this report, in sections 1, 2.5, 2.6, 3.3, 3.4 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and other non-operating items that undermine the comparability of the numbers.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	(15.5)	11.9	1.6	(2.0)	248.3	28.3	1.6	278.2
Depreciation and amortisation charges	€ m	P&L	55.6	39.1	(1.6)	93.1	52.1	40.2	(0.9)	91.4
Depletion of forest reserve	€ m	P&L	8.8	-	-	8.8	7.0	0.0	-	7.0
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	1.0	(8.8)	-	(7.8)	(184.5)	41.3	-	(143.9)
Other non-operating items	€ m	APM	(3.7)	0.4	-	(3.3)	14.9	-	-	14.9
EBITDA	**€ m**		**46.2**	**42.6**	**-**	**88.8**	**137.7**	**109.8**	**-**	**247.6**

Other non-recurring items, presented in sections 1, 2.5 and 4.1 of this report, refers to ad-hoc income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable. The balance of €3.3m recognised in 2023 related mainly with inventory impairment losses in the Pulp business and the favourable outcome of the last tax inspection. In 2022, it included a €21m provision recognised to cover commitments under Ence's Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts in the wake of the Supreme Court's ruling upholding the validity of the Pontevedra concession until 2073.

CASH COST

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

The cash cost includes all of the costs directly related with the production and sale of pulp that impact cash flows, without considering asset depreciation and amortisation charges, impairment losses on non-current assets or gains or losses on their disposal, other non-operating items, finance income or costs or income tax.

The cash cost can be measured as the difference between revenue from the sale of pulp and EBITDA in the Pulp business, adjusted for the settlement of hedges, the effect of adjustments for deviations in electricity market prices (the regulatory collar), forest depletion charges and the change in inventories. To calculate the cash cost, the related production costs are divided by the volume of tonnes produced, while overhead and sales and logistics costs are divided by the volume of tonnes sold.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2022 Pulp
Revenue from pulp sales	€ m	P&L	565.6	625.5
EBITDA	€ m	APM	(46.2)	(137.7)
Total costs (Revenue - EBITDA)	€ m		519.4	487.7
Gains/(losses) on hedging transactions	€ m	APM	(0.4)	(20.3)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		8.0	(14.5)
Depletion of forest reserve	€ m	P&L	8.8	7.0
Change in inventories	€ m	P&L	(10.2)	3.6
Other income and expenses	€ m		(12.8)	(11.3)
ADJUSTED CASH COST	€ m		512.8	452.2
Pulp production costs	€ m		434.4	373.8
No. of tonnes produced	Unit		975,345	816,311
	€/tonne		**445.4**	**457.9**
PRODUCTION-RELATED COSTS PER TONNE				
Overhead, sales and logistics costs			78.4	78.4
No. of tonnes sold	Unit		978,501	826,617
	€/tonne		**80.1**	**94.8**
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE				
CASH COST	**€/tonne**		**525.5**	**552.7**

"Other income and expenses" includes the gain/(loss) on the sale of wood to third parties (-€1.2m in 2023 and -€0.8m in 2022), nursery costs (-€1.1m in 2023 and -€1.1m in 2022), long-term remuneration and termination benefits (-€1.3m in 2023 and -€1.2m in 2022), receivables impairment allowances (-€2.0m in 2023 and -€1.3m in 2022) and bank charges (-€2.3m in 2023 and -€1.1m in 2022). The remaining items implied expenses totalling €4.9m in 2023 and €5.8m in 2022, related primarily with the implementation of a new solution for recovering wastewater in Pontevedra.

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.3 of this report is a yardstick for the operating profit generated by the Pulp business without taking into account asset depreciation and amortisation charges, impairment losses on non-current assets or gains or losses on their disposal or other non-operating items, adjusted for the settlement of hedges, the effect of the regulatory collar on energy sales and forest depletion charges.

It provides a comparable measure of the business's profitability and is measured as the difference between the average sales price per tonne, calculated by dividing revenue from the sale of pulp by the number of tonnes sold, and the cash cost.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2022 Pulp
Revenue from pulp sales	€ m	P&L	565.6	625.5
No. of tonnes sold	Unit		978,501	826,617
Average sales price per tonne (Revenue / # tonnes)	€/tonne		578.0	756.7
Cash cost (€)	€/tonne	APM	525.5	552.7
TOTAL OPERATING PROFIT PER TONNE OF PULP	**€/tonne**		**52.5**	**204.0**

NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.5, 3.3 and 4.1. They aggregate statement of profit or loss headings in order to facilitate their comparison.

Net finance cost encompasses the various items of finance income and finance costs, while other financial items encompasses exchange differences, the change in the fair value of financial instruments and impairment losses on financial instruments and gains or losses on their disposal.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	6.4	1.0	(0.8)	6.6	1.9	0.2	(1.0)	1.1
Finance costs	€ m	P&L	(23.8)	(13.8)	0.8	(36.8)	(11.8)	(16.5)	1.0	(27.3)
NET FINANCE COST	**€ m**		**(17.4)**	**(12.8)**	**-**	**(30.2)**	**(9.9)**	**(16.3)**	**(0.0)**	**(26.3)**
Change in fair value of financial instruments	€ m	P&L	-	-	-	-	-	0.3	-	0.3
Exchange differences	€ m	P&L	(0.9)	0.0	-	(0.9)	1.4	(0.0)	-	1.3
OTHER FINANCIAL ITEMS	**€ m**		**(0.9)**	**0.0**	**-**	**(0.9)**	**1.4**	**0.3**	**-**	**1.6**
NET FINANCE INCOME/(COST)	€ m	P&L	(18.3)	(12.8)	-	(31.2)	(8.5)	(16.1)	-	(24.6)

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of the capital expenditure included in its statement of cash flows for each of its business units in sections 1, 2.6 and 3.4, classifying its investments into the following categories: maintenance capex, efficiency and growth capex, sustainability capex and financial investments.

Ence's technical experts classify its capital expenditure using the following criteria: Maintenance capex are recurring investments designed to maintain the capacity and productivity of the Group's assets. Efficiency and growth capex, meanwhile, are investments designed to increase those assets' capacity and productivity. Lastly, sustainability capex covers investments made to enhance quality standards and raise occupational health and safety and environmental performance. Financial investments correspond to payments for investments in financial assets.

Ence's 2019-2023 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency, growth and sustainability in order to attain the strategic targets set. Capex-related cash flows are broken down by area of investment to make it easier to track execution of the published Business Plan.

Below is a reconciliation between these headings and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both reporting periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(23,3)	(6,4)	-	(29,7)	(16,9)	(2,7)	-	(19,6)
Efficiency and growth capex	€ m		(29,6)	(3,0)	-	(32,6)	(11,8)	(2,3)	-	(14,1)
Sustainability capex	€ m		(28,6)	(4,9)	-	(33,4)	(15,8)	(5,4)	-	(21,2)
Financial investments	€ m	EFE	(4,3)	0,5	3,1	(0,8)	0,2	-	-	0,2
TOTAL CAPITAL EXPENDITURE	**€ m**	**EFE**	**(85,8)**	**(13,8)**	**3,1**	**(96,5)**	**(44,3)**	**(10,4)**	**-**	**(54,7)**

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.6 and 3.4 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.3. However, operating cash flow is arrived at by starting from EBITDA, whereas net cash from operating activities is arrived at by starting from profit before tax. As a result, the adjustments to profit do not coincide in the two calculations. This APM is provided to reconcile EBITDA and operating cash flow.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2023 Renewable Energy	2023 Adjustments & Eliminations	2023 CONSOLIDATED TOTAL	2022 Pulp	2022 Renewable Energy	2022 Adjustments & Eliminations	2022 CONSOLIDATED TOTAL
EBITDA	€ m	APM	46.2	42.6	-	88.8	137.7	109.8	-	247.6
Other non-recurring items	€ m	APM	3.7	-	(0.4)	3.3	(14.9)	-	-	(14.9)
Adjustments to reconcile profit before tax to net cash flows:					-				-	
Changes in provisions and other deferred expense (net)	€ m	CF	5.6	2.6	-	8.2	23.4	2.1	-	25.5
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	(8.0)	(26.0)	-	(34.0)	14.5	10.4	-	25.0
Grants taken to profit and loss	€ m	CF	(0.9)	(0.1)	-	(1.0)	(0.5)	(0.1)	-	(0.7)
Exchange differences with an impact on cash	€ m		(0.5)	(0.4)	0.4	(0.5)	0.0	(0.2)	-	(0.1)
Change in working capital	€ m		(24.7)	(53.4)	-	(78.1)	(3.0)	70.6	-	67.6
Interest paid, net (including right-of-use assets)	€ m	CF	(13.0)	(13.2)	-	(26.2)	(6.3)	(17.0)	-	(23.3)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	2.6	(9.2)	-	(6.6)	(13.9)	(8.6)	-	(22.6)
Other collections/(payments)	€ m	CF	-	-	-	-	(0.4)	-	-	(0.4)
OPERATING CASH FLOW			**10.9**	**(57.0)**	**-**	**(46.1)**	**136.7**	**167.0**	**-**	**303.7**

FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 1, 2.6, 3.4 and 4.3 of this report.

Free cash flow provides information about the cash generated by the Group's operating activities that is left over after its investing activities for the remuneration of shareholders and repayment of debt.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2023 Renewable Energy	2023 Adjustments & Eliminations	2023 CONSOLIDATED TOTAL	2022 Pulp	2022 Renewable Energy	2022 Adjustments & Eliminations	2022 CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	10.9	(57.0)	-	(46.1)	136.7	167.0	-	303.7
Net cash flows from/(used in) investing activities	€ m	CF	(85.8)	(13.8)	-	(96.0)	(43.9)	(10.0)	-	(53.9)
FREE CASH FLOW	**€ m**		**(75.0)**	**(70.8)**	**-**	**(142.2)**	**92.8**	**157.0**	**-**	**249.8**

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow metrics for each of its two business units in sections 1, 2.6 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Group's operating activities before collection of proceeds from asset sales, the adjustments related with electricity sector regulations and other adjustments to profit. It represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2023 Pulp	2023 Renewable Energy	2023 Adjustments & Eliminations	2023 CONSOLIDATED TOTAL	2022 Pulp	2022 Renewable Energy	2022 Adjustments & Eliminations	2022 CONSOLIDATED TOTAL
EBITDA	€ m	APM	46.2	42.6	-	88.8	137.7	109.8	-	247.6
Changes in working capital:					-				-	
Inventories	€ m	CF	25.7	(0.4)	-	25.3	(24.3)	(10.3)	-	(34.6)
Trade and other receivables	€ m	CF	13.9	33.9	(27.3)	20.4	8.2	0.6	11.7	20.5
Short-term investments	€ m	CF	1.8	0.0	-	1.8	2.4	(0.0)	-	2.3
Trade payables, other payables and other liabilities	€ m	CF	(66.1)	(86.9)	27.3	(125.6)	10.7	80.3	-	79.3
Maintenance capex	€ m	APM	(23.3)	(6.4)	-	(29.7)	(16.9)	(2.7)	-	(19.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(13.0)	(13.2)	-	(26.2)	(6.3)	(17.0)	-	(23.3)
Income tax paid	€ m	CF	2.6	(9.2)	-	(6.6)	(13.9)	(8.6)	-	(22.6)
NORMALISED FREE CASH FLOW	**€ m**		**(12.4)**	**(39.4)**	**-**	**(51.8)**	**97.6**	**152.1**	**-**	**249.7**

NET DEBT/(CASH)

The borrowings recognised on the statement of financial position, as detailed in section 4.2 of this report, include bonds and other marketable securities, bank borrowings and other financial liabilities. They do not include, however, the measurement of derivatives or borrowings from Group companies and associates.

Net debt/(cash) is calculated as the difference between current and non-current borrowings on the liability side of the statement of financial position and unrestricted cash on the asset side, which includes cash and cash equivalents, the debt service cash reserve (included with non-current financial assets) and other financial investments (within current assets), as outlined in sections 2.7 and 3.5 of this report.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			Dic. 2023				Dic. 2022			
		Source Financial Statement (*)	Negocio Celulosa	Negocio de Renovables	Ajustes y Eliminaciones	TOTAL CONSOLIDADO	Negocio Celulosa	Negocio de Renovables	Ajustes y Eliminaciones	TOTAL CONSOLIDADO
Non-current borrowings:										
Bonds and other maketable securities	€ m	BS	-	78.7		78.7	-	78.4		78.4
Bank borrowings	€ m	BS	277.4	10.2		287.7	96.9	43.7		140.6
Other financial liabilities	€ m	BS	72.1	1.7		73.9	66.3	0.8		67.0
Current borrowings:	€ m									
Bonds and other maketable securities	€ m	BS	53.0	0.0		53.1	64.1	0.0		64.1
Bank borrowings	€ m	BS	84.5	33.6		118.0	13.0	27.2		40.1
Other financial liabilities	€ m	BS	12.7	1.1		13.8	6.3	0.6		6.9
Cash and cash equivalents	€ m	BS	311.2	21.8		333.0	278.4	134.5		412.9
Current financial assets - Other financial investments	€ m	BS	2.5	0.0		2.5	4.2	0.0		4.3
Cash reserve for debt service	€ m	BS	-	10.0		10.0	-	10.0		10.0
NET DEBT/(CASH)	€ m		**186.1**	**93.5**		**279.6**	**(36.1)**	**6.1**		**(30.0)**

ROCE

ROCE stands for the return on capital employed and is used by management as a key profitability performance indicator. It is provided in section 1 of this report. ROCE is widely used in the capital markets to measure and compare the earnings performance of different companies.

It is calculated by dividing EBIT for the last 12 months by average capital employed during the period, capital employed being the sum of equity and net debt. For the Pulp business, equity is calculated as the difference between consolidated equity and the equity recognised by the Renewables business.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2023 and the comparison with the 2022 figures. The criteria used were the same in both periods:

			2023				2022			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBIT, last 12 months	€ m	P&L	(15.5)	12.4	1.1	(2.0)	84.3	28.3	1.6	114.2
Average capital employed, last 12 months					-					
Average equity	€ m	BS	481.5	236.6	-	718.2	615.5	224.8	-	840.3
Average net debt	€ m	BS	107.3	66.9	-	174.1	(33.4)	40.6	-	7.2
ROCE	**%**		**-2.6%**	**4.1%**	**n.s.**	**-0.2%**	**14.5%**	**10.6%**	**n.s.**	**13.5%**

To calculate the ROCE in 2022, adjustments were made for the impact of the reversal of the impairment losses and provisions associated with the Pontevedra biomill in the wake of the Supreme Court rulings upholding the validity of the concession term in Pontevedra until 2073, with a net impact on EBIT and equity of €164m and €169m, respectively.

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Earnings Report
4Q23

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