



# Second-Quarter 2022 Earnings Report

26 July 2022



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## 1. EXECUTIVE SUMMARY

Market figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
BHKP (USD/t) average price	1,241.3	998.7	24.3%	1,150.4	7.9%	1,199.8	880.2	36.3%
Average exchange rate (USD/€)	1.07	1.20	(11.2%)	1.12	(4.8%)	1.10	1.21	(9.0%)
BHKP (€/t) average price	1,160.6	829.0	40.0%	1,023.6	13.4%	1,092.7	729.7	49.7%
Average pool price (€/MWh)	182.8	71.8	154.5%	228.4	(20.0%)	205.6	58.3	n.s.

Source: Bloomberg & OMIÉ

Operating Metrics	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
<b>Pulp production (t)</b>	<b>266,954</b>	<b>269,496</b>	<b>(0.9%)</b>	<b>198,934</b>	<b>34.2%</b>	<b>465,888</b>	<b>493,907</b>	<b>(5.7%)</b>
<b>Pulp sales (t)</b>	<b>287,600</b>	<b>251,610</b>	<b>14.3%</b>	<b>199,459</b>	<b>44.2%</b>	<b>487,059</b>	<b>497,767</b>	<b>(2.2%)</b>
Average sales pulp price (€/t)	723.9	525.5	37.8%	650.6	11.3%	693.9	465.3	49.1%
Cash cost (€/t)	489.5	367.7	33.1%	513.8	(4.7%)	499.7	375.9	32.9%
Operating margin per ton (€/t)	234.4	157.8	48.5%	136.9	71.3%	194.2	89.4	117.2%
<b>Renewable Energy sales volume (MWh)</b>	<b>382,440</b>	<b>331,697</b>	<b>15.3%</b>	<b>440,684</b>	<b>(13.2%)</b>	<b>823,124</b>	<b>657,455</b>	<b>25.2%</b>
Average sales price (€/MWh)	128.3	95.6	34.2%	149.0	(13.9%)	139.4	99.1	40.6%
Remuneration for investment (€ m)	10.2	10.2	-	10.2	-	20.5	20.5	-

P&L € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenue from Pulp business	221.5	164.1	35.0%	158.5	39.8%	380.0	287.9	32.0%
Revenue from Renewable Energy business	59.4	42.2	41.0%	76.2	(22.0%)	135.6	86.0	57.6%
Regulatory collar provision reversal	39.6	-	n.s.	-	n.s.	39.6	-	n.s.
Consolidation adjustments	(1.0)	(0.9)		(0.6)		(1.5)	(1.5)	
<b>Total revenue</b>	<b>319.6</b>	<b>205.4</b>	<b>55.6%</b>	<b>234.1</b>	<b>36.5%</b>	<b>553.7</b>	<b>372.4</b>	<b>48.7%</b>
Pulp business EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Renewable business EBITDA before de collar reversion	13.3	9.4	40.5%	25.6	(48.2%)	38.9	18.0	116.6%
<b>EBITDA before de regulatory collar reversion</b>	<b>62.3</b>	<b>42.2</b>	<b>47.6%</b>	<b>46.5</b>	<b>34.0%</b>	<b>108.7</b>	<b>58.9</b>	<b>84.5%</b>
Pulp business EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Renewable Energy business EBITDA	52.9	9.4	n.s.	25.6	106.4%	78.6	18.0	n.s.
<b>EBITDA</b>	<b>101.9</b>	<b>42.2</b>	<b>141.6%</b>	<b>46.5</b>	<b>119.4%</b>	<b>148.4</b>	<b>58.9</b>	<b>151.8%</b>
Depreciation, amortisation and forestry depletion	(22.9)	(25.5)	(10.4%)	(21.0)	8.9%	(43.9)	(50.8)	(13.6%)
Other gains/(losses)	(36.6)	(182.9)	(80.0%)	(0.8)	n.s.	(37.4)	(184.6)	(79.7%)
<b>EBIT</b>	<b>42.4</b>	<b>(166.2)</b>	<b>n.s.</b>	<b>24.7</b>	<b>71.9%</b>	<b>67.1</b>	<b>(176.5)</b>	<b>n.s.</b>
Net finance cost	(8.2)	(4.9)	66.5%	(5.5)	49.2%	(13.7)	(10.5)	30.5%
Other finance income/(cost) results	1.6	(0.1)	n.s.	0.7	134.6%	2.3	1.7	35.3%
<b>Profit before tax</b>	<b>35.8</b>	<b>(171.3)</b>	<b>n.s.</b>	<b>19.8</b>	<b>80.4%</b>	<b>55.7</b>	<b>(185.3)</b>	<b>n.s.</b>
Income tax	(5.1)	(12.9)	(60.5%)	(3.6)	40.5%	(8.7)	(9.6)	(8.7%)
<b>Consolidated Net income</b>	<b>30.7</b>	<b>(184.2)</b>	<b>n.s.</b>	<b>16.2</b>	<b>89.3%</b>	<b>46.9</b>	<b>(194.9)</b>	<b>n.s.</b>
Non-controlling interests	0.9	(1.4)	n.s.	(3.1)	n.s.	(2.2)	(0.4)	n.s.
<b>Attributable Net Income</b>	<b>31.6</b>	<b>(185.6)</b>	<b>n.s.</b>	<b>13.1</b>	<b>140.2%</b>	<b>44.7</b>	<b>(195.2)</b>	<b>n.s.</b>
Earnings per share (Basic EPS)	0.13	(0.76)	n.s.	0.05	140.2%	0.18	(0.80)	n.s.

Cash flow € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
<b>EBITDA</b>	<b>101.9</b>	<b>42.2</b>	<b>141.6%</b>	<b>46.5</b>	<b>119.4%</b>	<b>148.4</b>	<b>58.9</b>	<b>151.8%</b>
Change in working capital	4.9	7.3	(32.6%)	(1.5)	n.s.	3.4	(23.8)	n.s.
Maintenance capex	(0.3)	(3.8)	(93.1%)	(5.2)	(95.0%)	(5.5)	(7.5)	(27.5%)
Net interest Payment	(7.6)	(7.2)	5.0%	(5.5)	38.2%	(13.1)	(10.2)	28.4%
Income tax received/(paid)	(4.4)	(0.1)	n.s.	0.1	n.s.	(4.3)	0.3	n.s.
Normalised free cash flow	94.5	38.3	146.6%	34.3	175.5%	128.9	17.6	n.s.
<b>Energy regulation adjustment (regulatory collar)</b>	<b>(13.8)</b>	<b>1.8</b>	<b>40.3</b>	<b>40.3</b>	<b>n.s.</b>	<b>26.5</b>	<b>1.2</b>	<b>n.s.</b>
Other collection (payments) and non cash adjustments	3.7	0.2	n.s.	(5.7)	n.s.	(2.0)	(0.1)	n.s.
Efficiency and expansion capex	(11.3)	(8.1)	39.1%	(8.9)	27.6%	(20.2)	(29.0)	(30.5%)
Sustainability capex and other	(2.2)	(4.3)	(47.3%)	(2.4)	(4.8%)	(4.6)	(11.0)	(58.0%)
Disposals	0.0	0.2	(98.8%)	0.4	(99.2%)	0.4	0.4	(6.4%)
<b>Free cash flow</b>	<b>71.0</b>	<b>28.2</b>	<b>151.4%</b>	<b>58.0</b>	<b>22.3%</b>	<b>129.0</b>	<b>(20.9)</b>	<b>n.s.</b>
Dividends from the parent	(13.1)	-	n.s.	-	-	(13.1)	-	n.s.

Net debt € m	Jun-22	Dec-21	Δ%
Net financial debt Pulp business	(22.5)	(19.5)	15.3%
Net financial debt Renewable Energy business	12.4	121.2	(89.8%)
<b>Net financial debt</b>	<b>(10.2)</b>	<b>101.7</b>	<b>n.s.</b>

- ✓ Ence generated a net profit of €32m in the second quarter, lifting its first-half profit to €45m.
- ✓ Second-quarter free cash flow amounted to €71m (1H22: €129m) to leave the Group with net cash of €10m at the June close, compared to net debt of €102m at year-end 2021. The Company's financial strength gives it maximum flexibility to take advantage of any growth opportunities that may arise in either business.
- ✓ In line with the new dividend policy, the Board has agreed to pay out a second interim dividend totalling €32m, or €0.13 per share (before tax withholdings), to be paid on 12 August, in addition to the €13m already distributed in May.
- ✓ Pulp prices topped \$1,350 per tonne (gross) in July and the main producers have already announced additional increases to \$1,380. The improvement in the average sales price continued to drive growth in operating profit in the Pulp business, easily offsetting the impact of widespread commodity and logistics price inflation.
- ✓ Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 19% of 1H22 sales, compared to 14% in 1H21.
- ✓ EBITDA in the Pulp business amounted to €49m in 2Q22 and €70m in 1H22, which is 70% more than in 1H21.
- ✓ Meanwhile, like-for-life EBITDA in the Renewable Energy business amounted to €13m in 2Q22 and €39m in 1H22, before factoring in the reversal of €40m of the accumulated provision for the regulatory collar, offset by impairment losses of €36m on certain facilities, none of which had any impact on cash flow generation during the period. Factoring in those items, reported EBITDA amounted to €53m and €79m in 2Q22 and 1H22, respectively.
- ✓ These results already include the estimated impact of the change in regulatory parameters applicable to the remuneration of energy generated from renewable sources in 2022 and top the guidance provided at the Capital Markets Day, which, out of precaution, had anticipated a broadly similar scenario.
- ✓ Back in the Pulp business, Ence continues to execute the "Navia Excellence" project to boost the sales of differentiated products, diversify production into pulp for absorbent hygienic products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.
- ✓ In addition, at the end of June, Ence and the regional government of Galicia announced it has started to analyse a new project in As Pontes, Coruña for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made by Ence.
- ✓ The Supreme Court has announced it will rule on the first appeal lodged against the National Court sentences annulling the extension of the Pontevedra biomill concession until 2073 this October.
- ✓ Growth in the Renewable Energy business, through Ence's subsidiary Magnon Green Energy, continues to be articulated around development of the existing pipeline of biomass and photovoltaic projects, along with other new opportunities currently under analysis. The Ministry of Ecological Transition has called a first biomass auction of 140 MW on 25 October 2022.
- ✓ Ence remains the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 91/100 in 2022.
- ✓ In view of the data on the ecological flow of the Lérez river, from which the Pontevedra biomill is supplied, last Wednesday July 20, the Company decided to begin the temporary suspension of the biomill's activity. With the information currently available, it is not possible to determine the duration of this situation and the effect it will have on the production of the biomill. However, it should be noted that the Company estimates that the situation would have to continue for more than one month before it could have a material impact on the annual results.

## 2. PULP BUSINESS

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

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

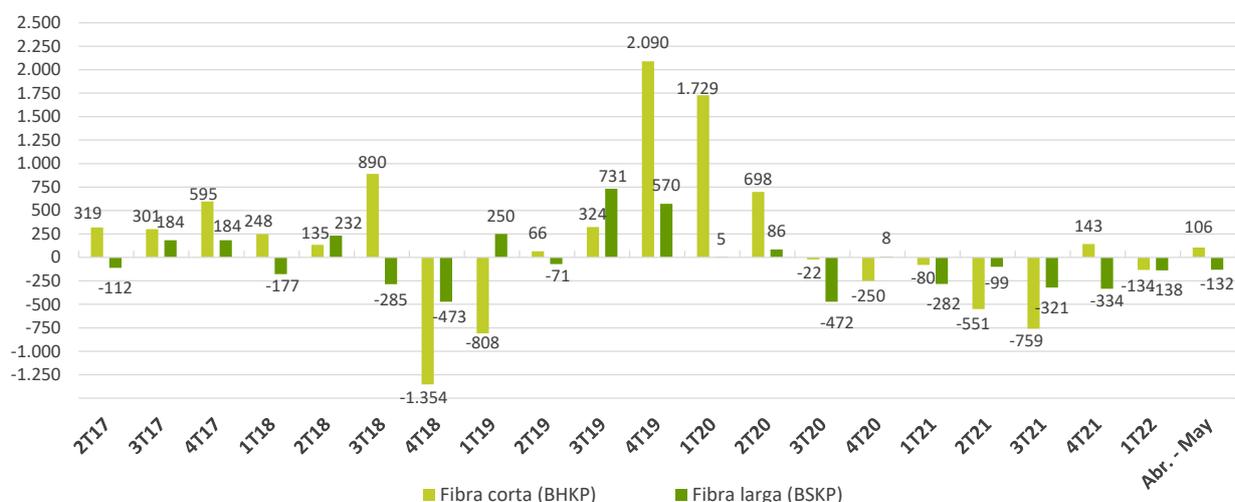
### 2.1. Legal status of the Pontevedra concession

Three sentences issued by Spain's National Court in July and October 2021 annulled the extension of the concession over the public-domain land on which ENCE's biomill in Pontevedra is located until 2073. Ence lodged appeals against all three sentences before the Supreme Court, which agreed to hear two of those appeals in February and March 2022 and suspended the third case until after it rules on the first two appeals which is expected to happen in October. The ruling is expected to be made public during the last quarter of 2022.

As a result of those sentences, Ence recognised net asset impairment losses and provisions for expenses of €200m in its 2021 financial statements.

### 2.2. Pulp market trends

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



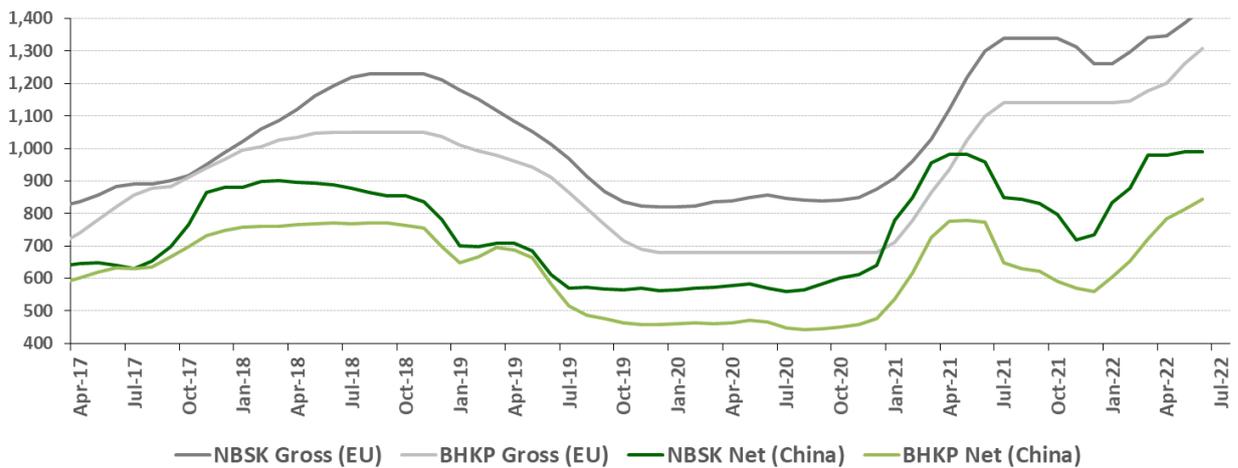
Source: FOEX

During the first five months of 2022, demand for pulp strengthened in all markets except for China, affected by logistics and COVID-related restrictions. The net result was a year-on-year reduction in global demand of 0.8%.

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

Supply-side friction and widespread increases in production and transportation costs continued to drive hardwood pulp (BHKP) prices higher, to over \$1,350 per tonne (gross) Europe in July and above \$860 (net) in China.

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



Source: FOEX

Against that backdrop, the main producers have announced additional hardwood pulp price increases in Europe to \$1,380 per tonne (gross) from July.

### 2.3. Revenue from pulp sales

Pulp sales volumes increased by 14.3% in 2Q22 to 287,600 tonnes, making up for some of the volume not sold during the national transport strike, which lasted for 20 days in March. In the first half, therefore, pulp sales decreased by 2.2% year-on-year, on account of the strike, to 487,059 tonnes.

Average sales prices improved by 37.8% year-on-year, to €723.9 per tonne, thanks to the increase in average benchmark prices in Europe and favourable euro-dollar exchange rate trends. In 1H22, average sales prices improved by 49.1% year-on-year, to €693.9 per tonne (net).

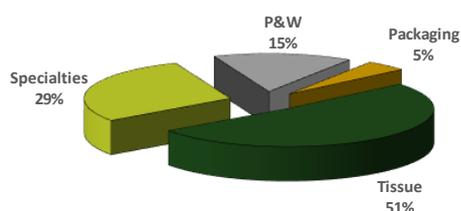
	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
<b>Pulp sales (t)</b>	<b>287,600</b>	<b>251,610</b>	<b>14.3%</b>	<b>199,459</b>	<b>44.2%</b>	<b>487,059</b>	<b>497,767</b>	<b>(2.2%)</b>
Average sales price (€/t)	723.9	525.5	37.8%	650.6	11.3%	693.9	465.3	49.1%
<b>Pulp sales revenue (€ m)</b>	<b>208.2</b>	<b>132.2</b>	<b>57.5%</b>	<b>129.8</b>	<b>60.4%</b>	<b>338.0</b>	<b>231.6</b>	<b>45.9%</b>

The combination of the two factors drove year-on-year growth in revenue from pulp sales of 57.5% to €208.2m in 2Q22 and of 45.9% to €338m in 1H22.

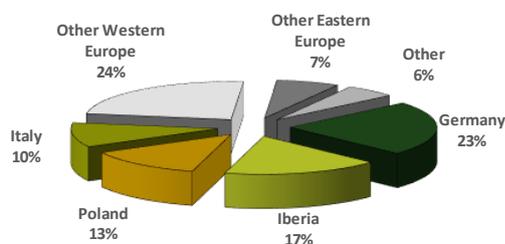
Sales of Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, continued to grow, accounting for 19% of the total in 1H22, compared to 14% in 1H21.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 51% of revenue from pulp sales in 1H22, followed by the specialty paper segment, at 29%. The printing and writing paper segment accounted for 15% of sales and packaging, the remaining 5%.

#### Breakdown of revenue by end product



#### Breakdown of revenue by geographic market



By geography, most of the pulp produced by Ence is sold in Europe, namely 94% of revenue from pulp sales in 1H22. Germany and Iberia accounted for 23% and 17% of total revenue, respectively, followed by Poland (13%), and Italy (10%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 7%.

## 2.4. Pulp production and cash cost

Second-quarter production amounted to 266,954 tonnes, which is virtually flat (-0.9%) compared to 2Q21. First-half production, however, decreased by 5.7% year-on-year to 465,888 tonnes as a result of the 20-day national transportation strike in March.

	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Navia pulp production	154,786	152,937	1.2%	114,715	34.9%	269,501	282,592	(4.6%)
Pontevedra pulp production	112,168	116,559	(3.8%)	84,219	33.2%	196,387	211,315	(7.1%)
<b>Pulp production (t)</b>	<b>266,954</b>	<b>269,496</b>	<b>(0.9%)</b>	<b>198,934</b>	<b>34.2%</b>	<b>465,888</b>	<b>493,907</b>	<b>(5.7%)</b>

The Pontevedra and Navia biomills were stopped for annual maintenance work in January and February, respectively. Both stoppages took place in the month of March in 2021.

Figures in €/t	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Total cash cost	489.5	367.7	33.1%	513.8	(4.7%)	499.7	375.9	32.9%
<b>Operating margin</b>	<b>234.4</b>	<b>157.8</b>	<b>48.5%</b>	<b>136.9</b>	<b>71.3%</b>	<b>194.2</b>	<b>89.4</b>	<b>117.2%</b>

The 2Q22 cash cost was €489.5/tonne, year-on-year growth of 33.1% due to widespread inflation in raw material and transportation costs, coupled with the change in renewable energy remuneration parameters applicable in 2022. Compared to 1Q22, however, the cash cost decreased by 4.7% thanks to greater economies of scale on the back of higher production and sales volumes, to leave the 1H22 cash cost at €499.7/tonne.

The change in renewable energy remuneration parameters applicable in 2022 imply an estimated increase in the cash cost for the first half of €36/tonne due to the reduction in remuneration for operations (Ro) income, largely offset at the EBITDA level by a lower provision for the regulatory collar. Note that the remuneration changes do not affect the estimates underpinning the guidance provided at the Capital Markets Day held on 17 March 2022, which were based, out of precaution, on a similar remuneration scenario.

The growth in pulp prices continued to lift operating profit in the Pulp business to €234.4/tonne in 2Q22 and to €194.2/tonne in 1H22, compared to €157.8/tonne and €89.4/tonne in the same periods of 2021, respectively, and an average of €149/tonne during the last five years.

## 2.5. Other income

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

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	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenues from energy sales linked to pulp (€ m)	10.2	26.2	(61.3%)	25.7	(60.5%)	35.8	43.2	(17.1%)
Forestry and other revenue (€ m)	3.2	5.6	(43.6%)	3.0	5.5%	6.2	13.1	(52.7%)
<b>Other income</b>	<b>13.3</b>	<b>31.9</b>	<b>(58.2%)</b>	<b>28.7</b>	<b>(53.5%)</b>	<b>42.0</b>	<b>56.3</b>	<b>(25.4%)</b>

Until this year, Ence sold all of the energy it produced to the grid and then bought back the power it needed for its production processes; starting this year, it only sells the surplus to the grid. As a result of that change, revenue from energy sales in the Pulp business decreased by 61.3% year-on-year in 2Q22 and by 17.1% in 1H22.

The year-on-year reduction in revenue from the sale of wood to third parties is attributable to internal consumption of some of that wood in order to mitigate temporary felling restrictions in Galicia.

## 2.6. Statement of profit or loss

The growth in pulp prices lifted EBITDA in the Pulp business to €49m in 2Q22 and €69.8m in 1H22m, year-on-year growth of 49.7% and 70.4%, respectively.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Pulp sales revenue	208.2	132.2	57.5%	129.8	60.4%	338.0	231.6	45.9%
Other income	13.3	31.9	(58.2%)	28.7	(53.5%)	42.0	56.3	(25.4%)
<b>Total net revenue</b>	<b>221.5</b>	<b>164.1</b>	<b>35.0%</b>	<b>158.5</b>	<b>39.8%</b>	<b>380.0</b>	<b>287.9</b>	<b>32.0%</b>
<b>EBITDA</b>	<b>49.0</b>	<b>32.7</b>	<b>49.7%</b>	<b>20.8</b>	<b>135.3%</b>	<b>69.8</b>	<b>41.0</b>	<b>70.4%</b>
Depreciation and amortisation	(10.9)	(13.2)	(17.5%)	(9.5)	14.5%	(20.4)	(27.1)	(24.6%)
Depletion of forestry reserves	(2.3)	(3.4)	(33.4%)	(1.7)	30.9%	(4.0)	(6.4)	(38.2%)
Impairment of and gains/(losses) on fixed-asset disp	(0.3)	(189.1)	(99.8%)	(0.8)	(60.2%)	(1.1)	(189.4)	(99.4%)
Other non-recurring gains/(losses)	(0.1)	6.3	n.s.	(0.1)	12.3%	(0.1)	5.0	n.s.
<b>EBIT</b>	<b>35.5</b>	<b>(166.7)</b>	<b>n.s.</b>	<b>8.8</b>	<b>n.s.</b>	<b>44.2</b>	<b>(176.9)</b>	<b>n.s.</b>
Net finance cost	(3.5)	(2.8)	24.3%	(1.0)	238.1%	(4.5)	(4.7)	(3.2%)
Other financial results	1.5	0.1	n.s.	0.6	163.9%	2.0	1.4	40.4%
<b>Profit before tax</b>	<b>33.5</b>	<b>(169.4)</b>	<b>n.s.</b>	<b>8.3</b>	<b>n.s.</b>	<b>41.7</b>	<b>(180.1)</b>	<b>n.s.</b>
Income tax	(1.4)	(16.0)	(91.1%)	0.1	n.s.	(1.4)	(13.6)	(90.0%)
<b>Net Income</b>	<b>32.0</b>	<b>(185.5)</b>	<b>n.s.</b>	<b>8.4</b>	<b>n.s.</b>	<b>40.4</b>	<b>(193.7)</b>	<b>n.s.</b>

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a cash outflow of €7.6m in 2Q22 and of €11.3m in 1H22, compared to inflows €1.1m and €3m in the same periods of 2021, respectively. For the remainder of 2022, Ence has arranged hedges over a notional amount of \$77m with a weighted average ceiling of \$/€1.18 and a weighted average floor of \$/€1.15.

The first half of 2021 was also affected by pulp price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €10.5m and €10.1m in 2Q21 and 1H21, respectively.

Lastly, EBITDA includes other income and expenses not included in the cash cost with a net negative impact of €10.8m in 2Q22 and of €13.5m in 1H22. Those other items mainly comprise the effect of the regulatory collar on revenue from energy sales and the forest depletion charge, in addition to other smaller amounts.

Below the EBITDA line, depreciation and amortisation charges declined by 24.6% year-on-year to €20.4m in 1H22, due mainly to the impairment losses recognised against assets associated with the Pontevedra biomill in 2Q21; forest reserve depletion charges decreased by 38.2% to €4.0m.

“Impairment of and gains/(losses) on fixed asset disposals”, in the amount of €189.4m in 1H21, included the impairment charges and provisions recognised in the wake of the Spanish National Court sentences annulling the extension of the Pontevedra biomill concession until 2073.

Elsewhere, the net finance cost in the Pulp business decreased by 3.2% to €4.5m in 1H22, while other financial items include the impact of exchange rate movements on working capital during the period, specifically a net gain of €2m (compared to a gain of €1.4m in 1H21).

Lastly, tax expense amounted to just €1.4m in 1H22, compared to €13.6m in 1H21, thanks to the utilisation of tax credits related with the impairment losses recognised in the Pontevedra biomill in 2021.

As a result, the Pulp business reported a net profit of €32m in 2Q22 and of €40.4m in 1H22, compared to net losses of €185.5m and €193.7m in the same periods of 2021, respectively, as a result of the impairment losses and provision recognised last year in connection with the biomill in Pontevedra.

## 2.7. Cash flow analysis

Operating cash flow totalled €35.3m in 2Q22 and €45.5m in 1H22, compared to €22m in 1Q21 and €13.4m in 1H21. The sharp growth in EBITDA and positive adjustment for the regulatory collar provision were partially offset by working capital movements.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
<b>EBITDA</b>	<b>49.0</b>	<b>32.7</b>	<b>49.7%</b>	<b>20.8</b>	<b>135.3%</b>	<b>69.8</b>	<b>41.0</b>	<b>70.4%</b>
Energy regulation adjustment (regulatory collar)	7.8	0.6	n.s.	6.6	17.6%	14.4	(0.0)	
Other adjustments	4.2	(1.1)	n.s.	(6.6)	n.s.	(2.4)	(3.2)	(23.8%)
Change in working capital	(22.7)	(8.8)	158.7%	(7.3)	210.7%	(31.2)	(20.5)	52.2%
Income tax received / (paid)	(1.9)	-	n.s.	0.0	n.s.	(1.9)	-	n.s.
Net interest received / (paid)	(1.1)	(1.5)	(29.4%)	(2.3)	(52.6%)	(3.3)	(3.9)	(14.4%)
<b>Net cash flow from operating activities</b>	<b>35.3</b>	<b>22.0</b>	<b>60.5%</b>	<b>11.3</b>	<b>212.6%</b>	<b>45.4</b>	<b>13.4</b>	<b>239.3%</b>

Specifically, movements in working capital implied a cash outflow of €22.7m in 2Q22 and of €31.2m in 1H22, due mainly to the increase in trade receivables as a result of higher pulp prices and sales volumes in the second quarter.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Inventories	8.3	(0.0)	n.s.	0.2	n.s.	8.6	6.3	35.0%
Trade and other receivables	(39.2)	(10.3)	n.s.	16.9	n.s.	(23.2)	(30.9)	(25.1%)
Financial and other current assets	0.6	1.8	(64.9%)	0.0	n.s.	0.6	0.1	n.s.
Trade and other payables	7.5	(0.3)	n.s.	(24.5)	n.s.	(17.3)	3.9	n.s.
<b>Change in working capital</b>	<b>(22.7)</b>	<b>(8.8)</b>	<b>158.7%</b>	<b>(7.3)</b>	<b>210.7%</b>	<b>(31.2)</b>	<b>(20.5)</b>	<b>52.2%</b>

At 30 June 2022, the Pulp business had drawn down €50m under its non-recourse receivable discounting facilities, down from €53.7m at year-end 2021.

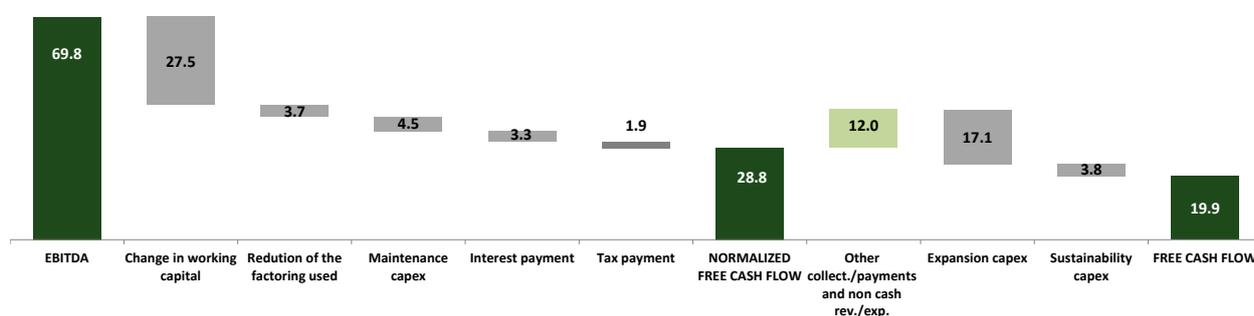
Ence has also arranged several reverse factoring facilities, which were drawn down by €78.6m at the June close, compared to €79.5m at year-end.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Maintenance capex	-	(3.1)	(100.0%)	(4.5)	(100.0%)	(4.5)	(5.3)	(13.8%)
Sustainability capex and other	(1.9)	(3.9)	(52.4%)	(2.0)	(7.0%)	(3.8)	(9.7)	(60.4%)
Efficiency and expansion capex	(9.3)	(5.6)	67.4%	(7.7)	21.2%	(17.1)	(22.4)	(23.9%)
Financial investments	(0.0)	(0.0)	114.3%	0.0	n.s.	(0.0)	(0.0)	(9.7%)
<b>Investments</b>	<b>(11.2)</b>	<b>(12.6)</b>	<b>(10.7%)</b>	<b>(14.2)</b>	<b>(21.2%)</b>	<b>(25.5)</b>	<b>(37.4)</b>	<b>(31.9%)</b>
Disposals	0.0	0.2	(98.8%)	-	n.s.	0.0	0.4	(99.3%)
<b>Net cash flow used in investing activities</b>	<b>(11.2)</b>	<b>(12.3)</b>	<b>(8.9%)</b>	<b>(14.2)</b>	<b>(21.2%)</b>	<b>(25.5)</b>	<b>(37.0)</b>	<b>(31.2%)</b>

Maintenance capex amounted to €4.5m in 1H22, while sustainability capex totalled €1.9m in 2Q22 and €3.8m in 1H22. The latter were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term.

Investments in efficiency and growth amounted to €9.3m in 2Q22 and €17.1m in 1H22. Those investments are mainly related to the final payments for the capacity added in 2019 and the purchase of new equipment to increase wood-cutting capacity in Galicia.

As a result, normalised free cash flow in the Pulp business amounted to €28.8m in 1H22, while free cash flow net of efficiency, growth and sustainability capex came in at €19.9m.



## 2.8. Change in net debt

The Pulp business ended the first half with net cash of €22.5m, up from net cash of €19.5m at year-end, despite having paid out an interim dividend of €13.1m in May.

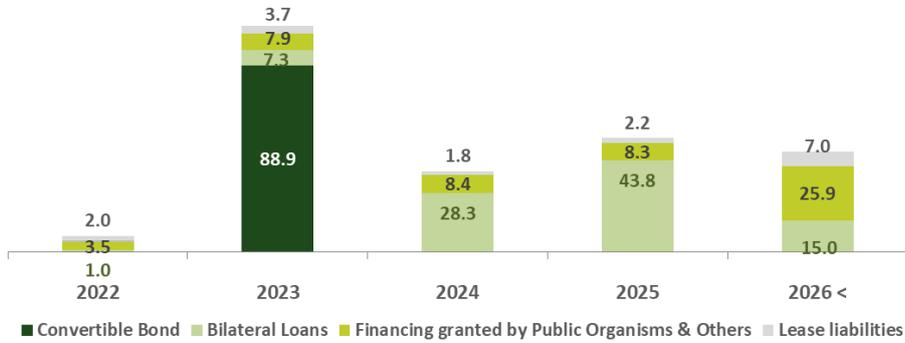
Figures in € m	Jun-22	Dec-21	Δ%
Non-current financial debt	142.7	276.5	(48.4%)
Current financial debt	95.6	12.6	n.s.
<b>Gross financial debt</b>	<b>238.4</b>	<b>289.1</b>	<b>(17.6%)</b>
Non-current lease contracts	12.8	12.8	(0.3%)
Current lease contracts	3.9	3.6	8.7%
<b>Financial liabilities related to lease contracts</b>	<b>16.7</b>	<b>16.4</b>	<b>1.7%</b>
Cash and cash equivalents	271.7	318.5	(14.7%)
Short-term financial investments	6.0	6.6	(9.8%)
<b>Net financial debt Pulp business</b>	<b>(22.5)</b>	<b>(19.5)</b>	<b>15.3%</b>

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 €277.7m.

Ence prepaid €10m of bilateral loans, bought back €39.5m of convertible bonds and reduced its use of receivable discounting lines by €3.7m during the first half.

The gross debt of €238.4m at 30 June 2022 corresponds mainly to the €88.9m of convertible bonds (adjusted for the value of the equity component and the bonds bought back) due March 2023, the outstanding balance of €95.5m on bilateral loans and a series of loans totalling €54.0m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Finance lease liabilities stood at €16.7m at the June close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



### 3. RENEWABLE ENERGY BUSINESS (MAGNON GREEN ENERGY)

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants that have no relation to the pulp production process and is carried on through its 51% ownership interest in Magnon Green Energy ("Magnon"). Magnon currently has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

In December 2021, Magnon agreed the sale of five photovoltaic solar power developments with aggregate capacity of 373 MW for up to €62m. The sale of those assets is expected to close one by one between the last quarter of 2022 and the fourth quarter of 2024.

Magnon has a pipeline of three biomass plants with aggregate capacity of 140 MW with which it will be able to participate in upcoming auctions, framed by its plans to continue to pursue new developments, in biomass, photovoltaic and other power generation technology.

#### 3.1. Electricity market trends

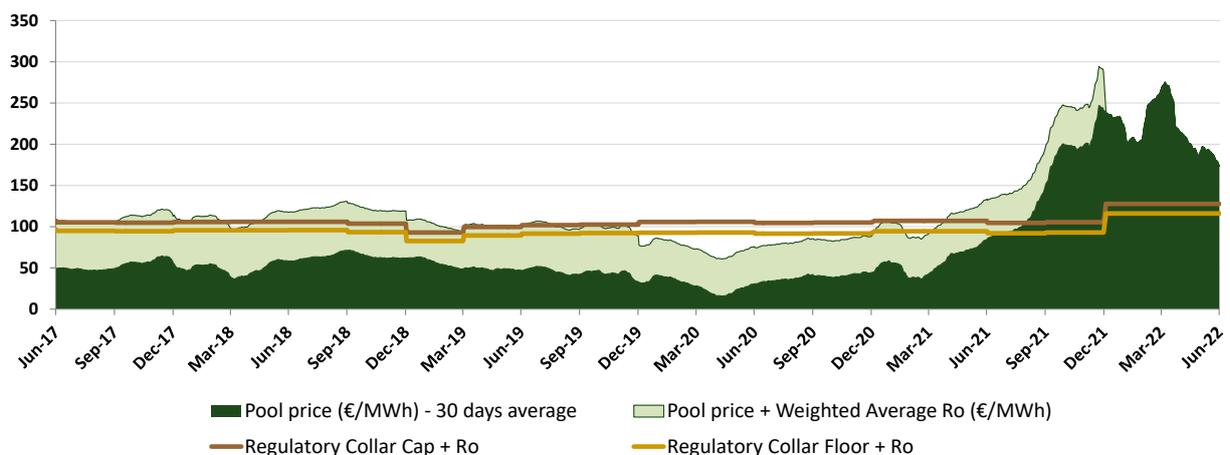
Electricity pool prices averaged €182.8/MWh in 2Q22 and €205.6/MWh in 1H22, which is 2.5 and 3.5 times the 2Q21 and 1H21 levels, respectively, due mainly to the impact of the surge in gas prices on the electricity market.

Market figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Average pool price (€/MWh)	182.8	71.8	154.5%	228.4	(20.0%)	205.6	58.3	n.s.

Source: OMIE

The price per MWh recognised by Ence in its statement of profit or loss is determined by the market price (pool price), within the ceiling and floor set by the regulator (regulatory collar), plus the remuneration for the operation of each facility (Ro), with the exception of the plants that do not avail of or have depleted their remuneration for investment and are therefore not subject to the regulatory collar.

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



Elsewhere, the remuneration for investment (Ri) for the universe of power plants comprising Ence's Renewable Energy business was set at 7.4% for 2020-2031 by Spanish Royal Decree-Law 17/2019 and currently implies annual income of €40.9m.

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

### 3.2. Key changes derived from Royal Decree-Law 6/202

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

The new measures consist primarily of bringing forward to 2022 the adjustment for the deviation between actual electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022. That adjustment will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

Ence's first-half 2022 results already factor in the estimated impact of those measures, specifically management's current estimate that the pool price estimated by the regulator for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh; since that price is higher than the cost of operating a standard facility, the remuneration for operations parameter will not apply.

Note that these measures do not negatively affect the estimates underpinning the guidance provided at the Capital Markets Day held on 17 March 2022, which were based, out of precaution, on a similar remuneration scenario.

### 3.3. Revenue from energy sales

Energy sales volumes amounted to 382,440 MWh in 2Q22 and 823,124 MWh in 1H22, year-on-year growth of 15.3% and 25.2%, respectively, thanks to higher capacity utilisation across virtually all of the plants, coupled with a favourable comparison due to the breakdown of the 50-MW turbine in Huelva in 2021.

Operating figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Huelva 41 MW - Biomass	44,786	48,531	(7.7%)	52,164	(14.1%)	96,950	85,841	12.9%
Jaén 16 MW - Biomass	21,302	21,779	(2.2%)	26,152	(18.5%)	47,453	43,631	8.8%
Ciudad Real 16 MW - Biomass	23,484	24,158	(2.8%)	25,239	(7.0%)	48,723	49,483	(1.5%)
Córdoba 27 MW - Biomass	37,223	50,571	(26.4%)	48,341	(23.0%)	85,564	94,609	(9.6%)
Huelva 50 MW - Biomass	88,684	-	n.s.	95,171	(6.8%)	183,855	39,336	n.s.
Mérida 20 MW - Biomass	30,273	35,902	(15.7%)	41,546	(27.1%)	71,819	71,252	0.8%
Huelva 46 MW - Biomass	67,194	79,805	(15.8%)	75,387	(10.9%)	142,581	136,424	4.5%
Ciudad Real 50 MW - Biomass	69,494	70,951	(2.1%)	76,685	(9.4%)	146,179	136,880	6.8%
<b>Energy sales (MWh)</b>	<b>382,440</b>	<b>331,697</b>	<b>15.3%</b>	<b>440,684</b>	<b>(13.2%)</b>	<b>823,124</b>	<b>657,455</b>	<b>25.2%</b>
Average sales price - Pool + Collar + Ro (€/MWh)	128.3	95.6	34.2%	149.0	(13.9%)	139.4	99.1	40.6%
Remuneration for investment (€m)	10.2	10.2	-	10.2	-	20.5	20.5	-
<b>Revenue (€ m)</b>	<b>59.4</b>	<b>42.2</b>	<b>41.0%</b>	<b>76.2</b>	<b>(22.0%)</b>	<b>135.6</b>	<b>86.0</b>	<b>57.6%</b>

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

Average sales prices increased by 34.2% year-on-year to €128.3/MWh in 2Q22 and by 40.6% to €139.4/MWh in 1H22 as a result of the adjustment of the remuneration parameters applicable in 2022 and the impact of higher pool prices on the plants which are not subject to the regulatory collar ceiling.

As a result, revenue from energy sales, factoring in remuneration for investment, increased by 41% year-on-year to €59.4m in 2Q22 and by 57.6% to €135.6m in 1H22.

### 3.4. Statement of profit or loss

At the June close the Group tested the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount as a result of recovering most of their regulatory value via existing and estimated pool prices in 2022. As a result, the Group reversed €39.6m of the regulatory collar provided for, offset by impairment charges of €35.5m recognised against the plants' carrying amount, none of which had any impact on cash flow generation during the period. That assessment indicates that, if the Company's current electricity price estimates materialise, the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants will virtually cease to be limited by the regulatory collar going forward.

Like-for-like EBITDA in the Renewable Energy business, stripping out the impact of the reversal of the regulatory collar provision, amounted to €13.3m in 2Q22 and €38.9m in 1H22, as the increase in average sales price was partially offset by higher biomass and gas costs, as well as the fact that the annual maintenance stoppages are concentrated in the second half. The €9.4m generated in 2Q21 included a €4.4m settlement related with electricity price hedges arranged exceptionally during the pandemic, in 2020.

Adding in the effect of the reversal of the regulatory collar provision, EBITDA increases to €52.9m in 2Q22 and to €78.6m in 1H22.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenues from energy sales	59.4	42.2	41.0%	76.2	(22.0%)	135.6	86.0	57.6%
Reversal of the regulatory collar provision	39.6	-	n.s.	-	n.s.	39.6	-	n.s.
<b>Total revenue</b>	<b>99.1</b>	<b>42.2</b>	<b>135.0%</b>	<b>76.2</b>	<b>30.1%</b>	<b>175.2</b>	<b>86.0</b>	<b>103.7%</b>
EBITDA before the regulatory collar provision reversal	13.3	9.4	40.5%	25.6	(48.2%)	38.9	18.0	116.6%
<b>EBITDA</b>	<b>52.9</b>	<b>9.4</b>	<b>n.s.</b>	<b>25.6</b>	<b>106.4%</b>	<b>78.6</b>	<b>18.0</b>	<b>n.s.</b>
Depreciation and amortisation	(10.0)	(9.5)	5.2%	(10.0)	(0.4%)	(20.0)	(18.9)	6.0%
Impairment of and gains/(losses) on fixed-asset disposals	(37.0)	(0.1)	n.s.	0.0	n.s.	(37.0)	(0.3)	n.s.
<b>EBIT</b>	<b>5.9</b>	<b>-0.1</b>	<b>n.s.</b>	<b>15.6</b>	<b>(62.0%)</b>	<b>21.6</b>	<b>(1.2)</b>	<b>n.s.</b>
Net finance cost	(4.7)	(2.5)	86.3%	(4.5)	5.6%	(9.2)	(5.8)	58.5%
Other finance income/(cost)	0.2	0.2	(34.9%)	0.1	11.9%	0.3	0.2	27.1%
<b>Profit before tax</b>	<b>1.4</b>	<b>(2.4)</b>	<b>n.s.</b>	<b>11.3</b>	<b>(87.9%)</b>	<b>12.7</b>	<b>(6.7)</b>	<b>n.s.</b>
Income tax	(3.6)	(0.3)	n.s.	(3.7)	(1.0%)	(7.3)	0.6	n.s.
<b>Net Income</b>	<b>(2.3)</b>	<b>(2.7)</b>	<b>(16.3%)</b>	<b>7.6</b>	<b>n.s.</b>	<b>5.4</b>	<b>(6.2)</b>	<b>n.s.</b>
Non-controlling interests	0.2	(0.3)	n.s.	0.8		1.0	(0.6)	n.s.
<b>Attributable Net Income</b>	<b>(2.1)</b>	<b>(3.0)</b>	<b>(31.4%)</b>	<b>8.4</b>	<b>n.s.</b>	<b>6.4</b>	<b>(6.8)</b>	<b>n.s.</b>

Below the EBITDA line, it is worth highlighting the €37m recognised under impairment losses and gains/(losses) on the disposal of non-current assets, which includes the impairment of the renewable energy plants no longer expected to receive remuneration for investment from 1 January 2023, having recovered their regulatory value via current and estimated electricity pool prices in 2022, in light of forecast pool prices.

The 58.5% year-on-year increase in net finance costs to €9.2m is mainly attributable to the unwind of the regulatory collar provision.

Income tax of €7.3m in 1H22 includes the tax effect of the above-mentioned impairment losses.

As a result, the Renewable Energy business posted a net profit of €6.4m in 1H22, compared to a loss of €6.8m in 1H21.

### 3.5. Cash flow analysis

Operating cash flow totalled €49.5m in 2Q22 and €113.5m in 1H22, compared to €22.3m in 2Q21 and €13m in 1H21. In addition to the sharp growth in EBITDA, cash generation was influenced by the inflow related with the regulatory collar and a lower working capital requirement.

<b>EBITDA</b>	<b>52.9</b>	<b>9.4</b>	<i>n.s.</i>	<b>25.6</b>	<i>106.4%</i>	<b>78.6</b>	<b>18.0</b>	<i>n.s.</i>
Energy regulation adjustment (regulatory collar)	(21.6)	1.2	<i>n.s.</i>	33.6	<i>n.s.</i>	12.1	1.2	<i>n.s.</i>
Other adjustments	(0.4)	1.4	<i>n.s.</i>	0.9	<i>n.s.</i>	0.5	3.2	<i>(84.9%)</i>
Change in working capital	27.6	16.1	<i>72.1%</i>	5.8	<i>n.s.</i>	34.6	(3.3)	<i>n.s.</i>
Income tax received / (paid)	(2.5)	(0.1)	<i>n.s.</i>	0.1	<i>n.s.</i>	(2.5)	0.3	<i>n.s.</i>
Net interest received / (paid)	(6.5)	(5.7)	<i>14.5%</i>	(3.2)	<i>101.5%</i>	(9.8)	(6.3)	<i>54.7%</i>
<b>Net cash flow from operating activities</b>	<b>49.5</b>	<b>22.3</b>	<i>122.2%</i>	<b>62.8</b>	<i>(21.1%)</i>	<b>113.5</b>	<b>13.0</b>	<i>n.s.</i>

The difference between pool and regulated electricity prices (the regulatory collar), which does not impact the statement of profit or loss but does affect the statement of cash flows, had a positive impact of €12.1m in 1H22. The negative adjustment of 21.6m in 2Q22 includes the €39.6m reversal of the regulatory collar provision outlined above.

Working capital movements implied a cash inflow of €27.6m in 2Q22 and of €34.6m in 1H22, mainly related with balances pending settlement by the regulator which are included under trade payables.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Inventories	(2.3)	(5.7)	<i>(59.7%)</i>	1.1	<i>n.s.</i>	(1.2)	(6.5)	<i>(81.5%)</i>
Trade and other receivables	(5.8)	12.2	<i>n.s.</i>	3.5	<i>n.s.</i>	(1.3)	5.4	<i>n.s.</i>
Trade and other payables	35.7	9.6	<i>n.s.</i>	1.2	<i>n.s.</i>	37.2	(2.3)	<i>n.s.</i>
<b>Change in working capital</b>	<b>27.6</b>	<b>16.1</b>	<i>72.1%</i>	<b>5.8</b>	<i>n.s.</i>	<b>34.6</b>	<b>(3.3)</b>	<i>n.s.</i>

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

Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €20.4m at the June close, compared to €18.1m at year-end 2021.

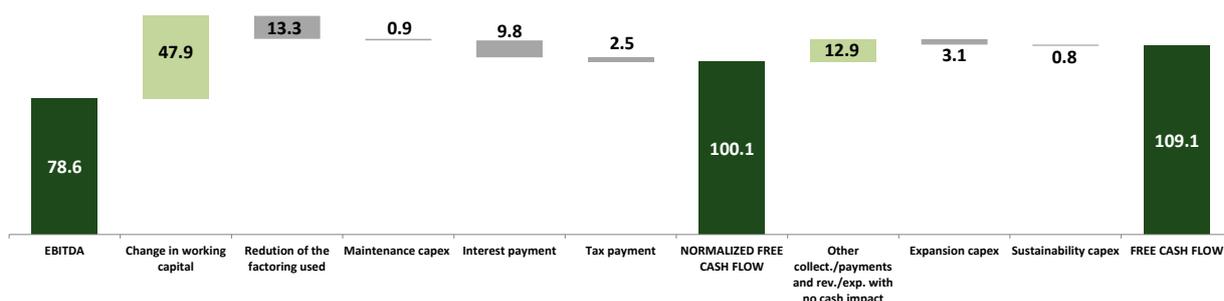
Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Maintenance capex	(0.3)	(0.7)	<i>(62.7%)</i>	(0.7)	<i>(61.4%)</i>	(0.9)	(2.3)	<i>(59.2%)</i>
Sustainability capex and other	(0.4)	(0.4)	<i>5.8%</i>	(0.4)	<i>8.4%</i>	(0.8)	(1.3)	<i>(39.0%)</i>
Efficiency and expansion capex	(2.0)	(2.5)	<i>(22.9%)</i>	(1.2)	<i>70.1%</i>	(3.1)	(6.6)	<i>(53.0%)</i>
Financial investments	0.0	(0.1)	<i>n.s.</i>	(0.0)	<i>n.s.</i>	-	(0.1)	<i>(100.0%)</i>
<b>Investments</b>	<b>(2.6)</b>	<b>(3.711)</b>	<i>(29.5%)</i>	<b>(2.2)</b>	<i>19.2%</i>	<b>(4.809)</b>	<b>(10.3)</b>	<i>(53.1%)</i>
Disposals	-	-	<i>n.s.</i>	0.4	<i>(100.0%)</i>	0.4	-	<i>n.s.</i>
<b>Net cash flow from investing activities</b>	<b>(2.6)</b>	<b>(3.7)</b>	<i>(29.5%)</i>	<b>(1.8)</b>	<i>44.2%</i>	<b>(4.4)</b>	<b>(10.3)</b>	<i>(56.8%)</i>

Maintenance capex amounted to €0.3m in 2Q22 and €0.9m in 1H22, while sustainability capex was flat at €0.4m in 2Q22 and narrowed to €0.8m in 1H22.

Lastly, efficiency and growth capex - €2m in 2Q22 and €3.1m in 1H22 - was earmarked to minor investments to improve efficiency at a number of plants and to projects under development.

Proceeds from disposals in 1Q22 included the collection of €0.4m related with progress on the permitting of the photovoltaic projects under development.

As a result, normalised free cash flow in the Renewable Energy business amounted to €100.1m in 1H22, while free cash flow, after the regulatory collar and efficiency, growth and sustainability capex, came in at €109.1m.



### 3.6. Change in net debt

Net debt in the Renewable Energy business decreased by €108.8m from year-end 2021 to €12.4m as at 30 June 2022.

Figures in € m	Jun-22	Dec-21	Δ%
Non-current financial debt	133.9	162.2	(17.4%)
Current financial debt	29.4	29.4	(0.0%)
<b>Gross financial debt</b>	<b>163.3</b>	<b>191.6</b>	<b>(14.8%)</b>
Non-current lease contracts	0.6	0.7	(22.4%)
Current lease contracts	0.5	0.4	39.6%
<b>Financial liabilities related to lease contracts</b>	<b>1.1</b>	<b>1.1</b>	<b>(1.4%)</b>
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	142.0	61.5	131.0%
<b>Net financial debt Renewable Energy business</b>	<b>12.4</b>	<b>121.2</b>	<b>(89.8%)</b>

Gross - long-term - debt stood at €163.3m at the June close, while cash amounted to €152m.

Energy debt maturity profile (€Mn)



## 4. CONSOLIDATED FINANCIAL STATEMENTS

### 4.1. Statement of profit or loss

Figures in € m	1H22				1H21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Total revenue</b>	<b>380.0</b>	<b>175.2</b>	<b>(1.5)</b>	<b>553.7</b>	<b>287.9</b>	<b>86.0</b>	<b>(1.5)</b>	<b>372.4</b>
Other income	8.2	3.8	(0.5)	11.4	5.9	6.4	(0.9)	11.3
Foreign exchange hedging operations results	(11.3)	-	-	(11.3)	(11.0)	-	-	(11.0)
Cost of sales and change in inventories of finished produ	(178.8)	(55.3)	1.5	(232.5)	(138.8)	(32.6)	1.5	(169.8)
Personnel expenses	(36.7)	(8.6)	-	(45.3)	(34.2)	(6.4)	-	(40.6)
Other operating expenses	(91.6)	(36.6)	0.5	(127.6)	(68.9)	(35.4)	0.9	(103.4)
<b>EBITDA</b>	<b>69.8</b>	<b>78.6</b>	<b>(1.5)</b>	<b>148.4</b>	<b>41.0</b>	<b>18.0</b>	<b>(1.5)</b>	<b>58.9</b>
Depreciation and amortisation	(20.4)	(20.0)	0.5	(39.9)	(27.1)	(18.7)	1.6	(44.3)
Depletion of forestry reserves	(4.0)	(0.0)	-	(4.0)	(6.4)	(0.1)	-	(6.5)
Impairment of and gains/(losses) on fixed-asset disposal:	(1.1)	(37.0)	-	(37.3)	(189.4)	(0.3)	-	(189.7)
Other non-ordinary operating gains/(losses)	(0.1)	-	-	(0.1)	5.0	-	-	5.0
<b>EBIT</b>	<b>44.2</b>	<b>21.6</b>	<b>1.2</b>	<b>67.1</b>	<b>(176.9)</b>	<b>(1.2)</b>	<b>1.6</b>	<b>(176.5)</b>
Net finance cost	(4.5)	(9.2)	-	(13.7)	(4.7)	(5.8)	-	(10.5)
Other finance income/(costs)	2.1	0.3	-	2.4	1.4	0.2	-	1.7
<b>Profit before tax</b>	<b>41.7</b>	<b>12.7</b>	<b>1.2</b>	<b>55.7</b>	<b>(180.1)</b>	<b>(6.7)</b>	<b>1.6</b>	<b>(185.3)</b>
Income tax	(1.4)	(7.3)	-	(8.7)	(13.6)	0.6	3.4	(9.6)
<b>Net Income</b>	<b>40.4</b>	<b>5.4</b>	<b>1.2</b>	<b>46.9</b>	<b>(193.7)</b>	<b>(6.2)</b>	<b>5.0</b>	<b>(194.9)</b>
Non-controlling interests	-	1.0	-3.2	(2.2)	-	(0.6)	0.2	(0.4)
<b>Attributable Net Income</b>	<b>40.4</b>	<b>6.4</b>	<b>(2.0)</b>	<b>44.7</b>	<b>(193.7)</b>	<b>(6.8)</b>	<b>5.2</b>	<b>(195.2)</b>
Earnings per Share (EPS)	0.17	0.03	(0.01)	0.18	(0.80)	(0.03)	0.02	(0.80)

### 4.2. Statement of financial position

Figures in € m	Jun - 22				Dec - 21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	13.4	35.8	(13.0)	36.1	13.2	38.1	(13.3)	37.9
Property, plant and equipment	434.3	406.9	(8.6)	832.6	436.9	456.3	(9.6)	883.6
Biological assets	58.3	0.2	-	58.5	59.6	0.1	-	59.7
Non-current investments in Group companies	112.5	0.0	(112.5)	-	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	38.3	-	(38.3)	-	38.3	-	(38.3)	-
Non-current financial assets	15.0	4.0	-	19.0	14.6	1.9	-	16.5
Deferred tax assets	19.7	23.8	3.3	46.8	20.1	22.1	3.3	45.6
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
<b>Total non-current assets</b>	<b>691.6</b>	<b>480.6</b>	<b>(169.3)</b>	<b>1,003.0</b>	<b>695.2</b>	<b>528.5</b>	<b>(170.4)</b>	<b>1,053.3</b>
Inventories	47.0	12.6	-	59.6	53.6	12.1	-	65.7
Trade and other accounts receivable	98.5	32.5	(12.1)	118.9	70.2	42.2	(17.5)	94.9
Income tax	1.5	0.2	-	1.8	1.5	0.3	-	1.8
Other current assets	19.1	1.8	-	20.9	10.7	(0.0)	-	10.7
Current financial investments in Group companies	0.7	0.0	(0.7)	0.0	-	0.0	-	0.0
Current financial investments	6.0	0.0	-	6.0	6.6	0.0	-	6.6
Cash and cash equivalents	271.7	142.0	-	413.7	318.5	61.5	-	380.0
<b>Total current assets</b>	<b>444.5</b>	<b>189.1</b>	<b>(12.7)</b>	<b>620.9</b>	<b>461.1</b>	<b>116.1</b>	<b>(17.5)</b>	<b>559.7</b>
<b>TOTAL ASSETS</b>	<b>1,136.1</b>	<b>669.8</b>	<b>(182.0)</b>	<b>1,623.9</b>	<b>1,156.2</b>	<b>644.6</b>	<b>(187.9)</b>	<b>1,613.0</b>
<b>Equity</b>	<b>564.6</b>	<b>228.2</b>	<b>(130.9)</b>	<b>661.9</b>	<b>539.0</b>	<b>218.6</b>	<b>(132.1)</b>	<b>625.5</b>
Non-current borrowings	155.5	134.5	-	290.0	289.4	162.9	-	452.3
Non-current loans with Group companies and associates	-	75.2	(38.3)	36.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	-	-	2.2	-	2.2
Deferred tax liabilities	0.1	0.3	-	0.4	-	-	-	-
Non-current provisions	51.3	0.1	-	51.4	51.1	0.1	-	51.2
Other non-current liabilities	41.7	73.8	-	115.5	23.7	68.0	-	91.8
<b>Total non-current liabilities</b>	<b>248.6</b>	<b>283.9</b>	<b>(38.3)</b>	<b>494.2</b>	<b>364.2</b>	<b>308.4</b>	<b>(38.3)</b>	<b>634.2</b>
Current borrowings	99.6	29.9	-	129.5	16.2	29.8	-	46.0
Current derivatives	8.2	0.5	-	8.7	7.0	2.6	-	9.6
Trade and other account payable	198.7	114.0	(12.0)	300.6	213.7	81.3	(17.5)	277.5
Short-term debts with group companies	0.0	1.3	(0.7)	0.6	0.0	1.3	-	1.3
Income tax	1.1	10.2	-	11.3	0.0	0.1	-	0.1
Current provisions	15.3	1.8	-	17.1	16.1	2.7	-	18.8
<b>Total current liabilities</b>	<b>322.8</b>	<b>157.7</b>	<b>(12.7)</b>	<b>467.8</b>	<b>253.0</b>	<b>117.7</b>	<b>(17.5)</b>	<b>353.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,136.1</b>	<b>669.8</b>	<b>(182.0)</b>	<b>1,623.9</b>	<b>1,156.2</b>	<b>644.6</b>	<b>(187.9)</b>	<b>1,613.0</b>

### 4.3. Statement of cash flows

Figures in € m	1H22				1H21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Consolidated profit/(loss) for the period before tax</b>	<b>41.7</b>	<b>12.7</b>	<b>1.2</b>	<b>55.7</b>	<b>(180.1)</b>	<b>(6.7)</b>	<b>1.6</b>	<b>(185.3)</b>
Depreciation and amortisation	24.4	20.0	(0.5)	43.9	33.5	18.9	(1.6)	50.8
Changes in provisions and other deferred expense	(2.4)	0.6		(1.8)	(7.9)	3.4		(4.5)
Impairment of gains/(losses) on disposals intangible asset	1.1	37.0	(0.7)	37.3	189.4	0.3		189.7
Net finance result	2.9	8.9		11.7	3.3	5.6		8.9
Energy regulation adjustment (regulatory collar)	14.4	12.1		26.5	(0.0)	1.2		1.2
Government grants taken to income	(0.3)	(0.1)		(0.3)	(0.4)	(0.2)		(0.6)
<b>Adjustments to profit</b>	<b>40.1</b>	<b>78.5</b>	<b>(1.2)</b>	<b>117.3</b>	<b>217.9</b>	<b>29.1</b>	<b>(1.6)</b>	<b>245.4</b>
Inventories	8.6	(1.2)		7.4	6.3	(6.5)		(0.1)
Trade and other receivables	(23.2)	(1.3)		(24.5)	(30.9)	5.4		(25.5)
Current financial and other assets	0.6	(0.0)		0.6	0.1	-		0.1
Trade and other payables	(17.3)	37.2		19.9	3.9	(2.3)		1.7
<b>Changes in working capital</b>	<b>(31.2)</b>	<b>34.6</b>		<b>3.4</b>	<b>(20.5)</b>	<b>(3.3)</b>		<b>(23.8)</b>
Interest paid	(3.3)	(9.8)		(13.1)	(3.9)	(6.3)		(10.2)
Dividends received	-	-		-	0.0	-		0.0
Income tax received/(paid)	(1.9)	(2.5)		(4.3)	-	0.3		0.3
<b>Other cash flows from operating activities</b>	<b>(5.2)</b>	<b>(12.2)</b>		<b>(17.4)</b>	<b>(3.9)</b>	<b>(6.1)</b>		<b>(9.9)</b>
<b>Net cash flow from operating activities</b>	<b>45.4</b>	<b>113.5</b>		<b>158.9</b>	<b>13.4</b>	<b>13.0</b>		<b>26.3</b>
Property, plant and equipment	(23.8)	(4.7)		(28.5)	(36.5)	(10.1)		(46.6)
Intangible assets	(1.6)	(0.1)		(1.7)	(0.9)	(0.1)		(0.9)
Other financial assets	(0.0)	-		(0.0)	(0.0)	(0.1)		(0.1)
Disposals	0.0	0.4		0.4	0.4	-		0.4
<b>Net cash flow used in investing activities</b>	<b>(25.5)</b>	<b>(4.4)</b>		<b>(29.9)</b>	<b>(37.0)</b>	<b>(10.3)</b>		<b>(47.2)</b>
<b>Free cash flow</b>	<b>19.9</b>	<b>109.1</b>		<b>129.0</b>	<b>(23.6)</b>	<b>2.7</b>		<b>(20.9)</b>
Buyback/(disposal) of own equity instruments	1.4	-		1.4	(1.3)	-		(1.3)
Proceeds from and repayments of financial liabilities	(55.0)	(28.6)		(83.6)	(125.0)	(13.0)		(138.0)
Dividends payments	(13.1)	-		(13.1)	-	-		-
<b>Net cash flow from/ (used in) financing activities</b>	<b>(66.7)</b>	<b>(28.6)</b>		<b>(95.3)</b>	<b>(126.3)</b>	<b>(13.0)</b>		<b>(139.3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(46.8)</b>	<b>80.5</b>		<b>33.7</b>	<b>(149.9)</b>	<b>(10.3)</b>		<b>(160.2)</b>

## 5. KEY DEVELOPMENTS

### **Spain's Supreme Court to rule on the first appeal lodged against the National Court rulings annulling the extension of the concession in Pontevedra until 2073 on 4 October 2022**

On 23 February and 23 March 2022, the Supreme Court agreed to hear two of the appeals lodged by the Company and other entities against the National Court rulings annulling the extension of the concession over the use of the public-domain coastal land on which the Pontevedra biomill sits, in the wake of proceedings brought by Greenpeace Spain and the town council of Pontevedra, respectively.

On 30 March 2022, the Supreme Court decided to delay its decision on whether to hear the third appeal filed by the Company and other entities against the National Court ruling on the case brought by a local Pontevedra association, the ADPR, until it issues its ruling on the first two appeals.

On 12 July 2022, the Supreme Court notified the various parties that it plans to vote and rule on the first appeal on 4 October 2022. That ruling is expected to be made public during the last quarter of 2022.

### **Second interim dividend against 2022 profit**

On 26 April, the Board agreed to pay out a second interim dividend from 2022 profits totalling €32m, or €0.13 per share (before tax withholdings), on 12 August 2022, in addition to the €13m (equivalent to €0.054 per share) already distributed in May.

The Company's dividend policy contemplates a third interim policy to be determined after the third-quarter close, in October.

### **Temporary suspension of Pontevedra's biomill activity**

In view of the data on the ecological flow of the Lérez river, from where Pontevedra's biomill sources its water, last Wednesday July 20, the Company decided to begin the temporary suspension of the biomill's activity.

With the information currently available, it is not possible to determine the duration of this situation and the effect it will have on the production of the biomill.

However, it should be noted that the Company estimates that the situation would have to continue for more than one month before it could have a material impact on the results for the year. A total suspension of Pontevedra's activity during 30 days would have an estimated impact of €10m in 2022 EBITDA. Each additional month of total suspension of the biomill activity, would have an impact of 12 Mn€ in the annual EBITDA. These figures would be partially mitigated in 2023 through a lower consumption of imported wood.

### **First biomass tender called for 25 October 2022**

The Spanish Ministry of Ecological Transition has called a first biomass auction of 140 MW on 25 October 2022.

### **Project for the production of recycled fibre in As Pontes**

At the end of June, Ence announced it was analysing a new project in the town of As Pontes, Coruña, for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made in Pontevedra.

The project embodies the fair transition and circular bioeconomy thrusts as it would transform land that used to be part of a fossil fuel power plant into an innovative facility that would recover and reuse natural resources, all of which framed by an ecoefficient and environmentally-friendly carbon-free process that would be self-sufficient for energy purposes.

The project consists of a bleached recycled fiber line with annual capacity of 100,000 tonnes, a certified biomass co-generation facility that would cover the factory's heat and electricity requirements and a line for the manufacture of 30,000 tonnes of paper products. The idea would be to build the three components in phases. The project would entail total investment of €355m.

### **Capital Markets Day 2022**

On 17 March 2022, Ence presented the market with its growth, diversification and cash generation guidance for the next five years.

In the Pulp business, Ence's strategy entails executing the "Navia Excellence" plan, while continuing to defend the extension of its concession in Pontevedra in the courts. That project contemplates the investment of €105m in the next two years to boost the sale of differentiated products, diversify production in Navia into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.

In the Renewable Energy business, carried on through Ence's subsidiary Magnon Green Energy, the Group will continue to develop its pipeline of biomass and photovoltaic projects, while pursuing new and related growth opportunities

### **Key changes derived from Royal Decree-Law 6/2022**

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

The new measures consist primarily of bringing forward to 2022 the adjustment for the deviation between market electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022. That update will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

It is now estimated that the regulated price for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operations parameter will not apply.

It is important to stress that the first-half results already include the estimated impact of these measures, which, moreover, do not have a negative impact on the forecasts provided at the Capital Markets Day held on 17 March 2022, which, out of precaution, had factored in a similar scenario, specifically assuming electricity prices of €48/MWh from April and no cash inflow as a result of tariff adjustments for deviations in the pool price (the regulatory collar).

### **2022 Annual General Meeting**

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

- ✓ Approval of the 2021 financial statements, management report and sustainability report and of the motion for the appropriation of profit for 2021
- ✓ Approval of the Board of Directors' performance and the Director Remuneration Policy for 2022, 2023 and 2024
- ✓ Re-election of Irene Hernández Álvarez as independent director

- ✓ Re-election of Fernando Abril-Martorell as external director
- ✓ Re-election of José Guillermo Zubía Guinea as external director
- ✓ Appointment of Ángel Agudo Valenciano as proprietary director, in representation of Asua Inversiones S.L.
- ✓ Appointment of Carmen Aquerreta Ferraz as independent director
- ✓ Appointment of Rosalía Gil- Albarellos Marcos as independent director
- ✓ Amendment of the Bylaws and General Meeting Regulations
- ✓ Authorisation of the Board of Directors to buy back own shares and debt instruments

## APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

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

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

### 1. People and values

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

In terms of the generation of **quality work**, note that as of June 2022, 92.2% of Ence employees had indefinite employment contracts and 98.3% were working full time.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, in 2021 the Company secured Great Place to Work certification for the second year in a row.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. In 1H22, it promoted 35 professionals, 12 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 the first half of 2022, the Company imparted 9,517.5 hours of training, adapting the formats to make them compatible with remote working arrangements. Against the backdrop of the Group's digitalisation thrust, it is worth highlighting the 500 hours of training sessions provided on the subject of Machine Learning.

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 3% in 2021 to account for 25%. In the first half of 2022, 50% of the new university graduate hires under the age of 30 were women, while female representation in the overall headcount increased a further 5.7%.

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

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. During the first half of 2022 it negotiated and executed the new collective bargaining agreement for office workers in Navia and in Pontevedra and initiated negotiations for the new collective bargaining agreements at the Navia biomill and for the office workers based in Madrid.

## 2. Climate action

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

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills. In 2021, the Company implemented the measures established in those plans, beginning with the replacement of fossil fuel (coke) with biomass at the Pontevedra biomill and consolidation of operation of the photovoltaic facilities put in place to enable self-generation at the Merida and Huelva plants. As a result, the Group managed to lower its scope 1 GHG emissions by 9% year-on-year in 2021. In the first half of 2022, Ence continued to work on the established roadmap, advancing on the engineering work for the plans to decarbonise the Navia biomill.

Ence updates its inventory of greenhouse gas emissions annually, most recently including, for the first time, an analysis of the net carbon balance of the forests owned by the Company. That analysis, which was performed in keeping with the IPCC guidelines, showed that in 2021 the forests managed by Ence sequestered over 92,000 tonnes of carbon, net of that withdrawn in the form of wood and biomass.

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

## 3. Safe and eco-friendly operations

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

On the **health and safety** front, in 1H22 the different businesses registered contrasting performances: the Pulp and Forest Asset businesses have recorded no accidents so far this year, so that their metrics stand at zero. However, the metrics in the independent energy plants and the biomass supply unit deteriorated slightly year-on-year and initiatives have been rolled out to revert that trend. As a result, in the first half of 2022, Ence's overall injury frequency rate deteriorated slightly by comparison with 2021; however, the injury severity rate improved by 43% from year-end to a level that is in line with the Group's long-run record. Those trends reflect the fact that there was a small increase in lost-time injuries but that they were less serious on average.

The Pulp business unit therefore ended June nearly a year free from accidents (11 months in Pontevedra and 15 months in Navia), during which time the number of hours worked was nearly 2 million and there were two maintenance stoppages at Navia (2021 and 2022) and one in Pontevedra (2022). That performance makes Ence a benchmark player among the companies comprising the European Pulp Industry Sector (EPIS) Association in the first half of 2022.

At the June close, the rest of the Company's businesses units also ranked below the key benchmark accident indicators in Spain (general industry and the pulp and paper and wood industries). Nevertheless, the Company plans to continue to work to further improve its safety performance, which is a top priority for Ence.

As for its **environmental performance**, it is worth highlighting the trend in the key performance indicators in Navia, which reduced its odour emissions by 55% year-on-year in 1H22, which is remarkable considering the fact that 2021 was already a record year for the Pulp business in this respect. It is also worth highlighting the fact that both biomills manages to lower their water consumption ratios year-on-year and successfully completed part three of their ISO 14001 and EMAS audits.

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

As for its **circular economy** transition, Ence continues to present high waste recovery and recycling readings - above 90% of all waste -, enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). By the end of the first half, six of the Group's eight industrial facilities had obtained that certificate and the idea is for all facilities to be Zero Waste certified by the end of 2022. Also within the circular economy thrust, the Company has set up a specific waste recovery unit focused on recovering flying ash and the ash that settles at the bottom of the furnace to make fertilisers and repair degraded soil.

As for the implementation of environmental management systems in the Renewable Energy business, progress is being made on the planned roadmap, with implementation completed at the La Loma, Enemansa and Lucena plants, with a view to achieving certification over the course of 2022.

#### **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 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. As of June 2022, over 83% of its forest assets were certified under one or other of those standards and nearly 72% of the wood that entered its biomills during the period from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted biodiversity analyses encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. So far in 2022, the Group has continued that effort, completing new fauna and flora biodiversity studies. Twenty-three areas of owned forest last were monitored in 1H22.

As for the **generation of value for forest owners and suppliers**, Ence goes to lengths to support smaller-sized firms: in 1H22, 93% of wood suppliers and 81% of forest owners were small players. In 1H22, the Company purchased almost €11 million worth of wood from nearly 500 forest owners. As for biomass, Ence mobilised over 870,000 million tonnes through its plants in 1H22, generating over €39m of value for its biomass supply chain.

Ence also strives to **contribute to development** in the areas in which it operates. To that end it encourages the purchase of local raw materials; in 1H22, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint.

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

Over 77% of the agricultural biomass used in 1H22 was compliant with the 10-Point Plan criteria, close to the target of 80% for all of 2022.

As for implementation of the SURE certification scheme in order to comply with its requirements under Directive (EU) 2018/2001 (RED II), having successfully renewed certification at the independent plants and biomills during the first half of 2022, work has begun on the certification of the Group's suppliers: 14 suppliers are already SURE certified and a further 85 are in the process of obtaining certification.

Elsewhere, Ence continued to apply its supply chain supervision procedures, an effort that extends to the **certification** of wood and agricultural biomass producers, with certification levels of over 98% as of June 2022.

## 5. Sustainable products

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

Within that effort, it is worth flagging the Company's unbleached pulp, Naturcell, which is not only more environmentally-friendly to make, the GHG emissions derived from its life cycle are offset with credits purchased on the voluntary market to make some of its production a Zero Carbon product.

In order to transparently demonstrate the sustainability attributes of its products, Ence has developed, together with Environdec, the Product Category Rule (PCR) for pulp, which is was posted on its website<sup>(1)</sup> at the end of March 2022, and Environmental Product Declarations (EDP), framed by the International EDP System. The PCR establishes the rules for performing like-for-like analysis so as to yield comparable results, while the EPD contains verified information about a product's environmental performance. The EDPs for Ence's unbleached pulp, Naturcell, and for the standard bleached pulp made in Pontevedra were published on Environdec's website in 2021, making these Ence products the first pulp products in the market to obtain an **Environmental Product Declaration**. The audit to verify that the EDPs, revised and adapted in line with the PCR, comply with all the new requirements is scheduled to take place shortly.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set sales targets for Naturcell, Powercell and Naturcell Zero for 2022. In 1H22, sales of these products accounted for 18.5% of total pulp sales, extending the recent upward trend.

Elsewhere, Ence has set itself the target of carrying out the pre-assessment required to obtain biodegradability certification for its pulp in 2022 in order to shine the spotlight on this product sustainability attribute.

Another sustainability target for 2022 - the study analysing the viability of blending recycled pulp and Naturcell - was the embryo for a project presented to the regional government of Galicia and other vested parties during the last week of June. That project consists of a bioplant for the production of recycled fibre and biomaterials with which Ence aspires to enter the paper recovery segment, framed by its strategic commitment to the circular bioeconomy.

(1) <https://www.environdec.com/product-category-rules-pcr/get-involved-in-pcr-development#recentlypublishedpcrs>.

## 6. Community commitment

As part of its community engagement effort, Ence has continued to **invest** in its business communities, framed by the agreements in place with local councils in the towns where it has its main facilities. Ence supports projects of a social, environmental and sporting nature, including work to prevent social exclusion, and fosters entrepreneurship. In early 2022 it signed a new agreement with the town council of Puertollano, adding to the agreements already in place with the local authorities in Navia and San Juan del Puerto.

In addition to the above community investments, in 2022 Ence has continued to roll out **specific relations plans** for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted a total of 800 visits to the facilities in Navia, Pontevedra and Huelva in the first quarter of 2022. In parallel with those facility tours, the Company, with the help of its employees, carries out a number of training, education and volunteering projects and meets with representatives for its various stakeholders in order to foster open communication with all of them.

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

## 7. Corporate governance

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

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

The recent ratification of all the resolutions submitted to its shareholders at the last Annual General Meeting endorses Ence's unwavering commitment to meeting its objectives, notably including those related with the diversity and independence of its Board and Board committees. Here it is worth highlighting the fact that female boardroom representation at Ence has increased from 7% in 2017 to 38.5% in 2022. Moreover, one of the female directors has been acting as lead independent director since 2019. Ence's commitment to shaping a diverse and markedly independent boardroom is likewise evident in the make-up of its Board committees: independent directors are in the majority on all of those committees, with the exception of the executive committee. Moreover, on all of those committees, again with the exception of the executive committee, female directors are in the majority (female representation stands at 60%). The committee compositions approved by the Board of Directors implies full compliance with Code of Good Governance recommendations #52 and #53, with which Ence was only partially compliant in 2021.

During the first half of 2022, Ence imparted its Welcome Programme to the new directors named at the General Meeting. That programme includes a detailed explanation of the Company's governance system, the delivery of the internal rules and policies articulating the latter and initial training; it also includes individual briefing sessions with the secretary and vice-secretary and the company's top executives in order to give them greater insight into the main lines of business and strategic priorities.

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

Facility	Type of facility	MW	Original Remuneration for investment in P&L (Ri; €/MW) *	Annual Remuneration for investment in FCF (Ri; €/MW) *	Type of fuel	Remuneration for operation 2021 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	-	Lignin	-	-	2032
			55,314	36,363	Agroforestry biomass	-	-	
Navia	Biomass co-generation	40.3	-	-	Lignin	-	-	2034
	Biomass generation	36.2	230,629	160,824	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	246,292	124,762	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,033	149,173	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,033	149,173	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,601	149,173	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	-	Natural Gas	72.3	-	2030
Huelva 50MW	Biomass generation	50.0	266,467	203,307	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,594	232,189	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

\* Original Ri does not include subsequent adjustments by regulatory collar, which Ence adjusts monthly on its revenue figure. Difference between original and FCF Ri corresponds to the effect of the regulatory collar.

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

1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for the regulatory period elapsing between 2020 and 2031 by Royal Decree-Law 17/2019 and currently implies annual income of €10.2m for the Pulp business and €40.9m for the Renewable Energy business.

At present, 40% of installed capacity in the Pulp business, specifically the lignin co-generation plants, and 41% of installed capacity in the Renewable Energy business, namely that corresponding to the 46-MW Huelva, 50-MW Ciudad Real and 13-MW Cordoba plants, are not entitled to the remuneration for investment parameter.

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

The pool prices estimated by the regulator for the purpose of determining the 'Ro' supplement are reviewed every three years and deviations between actual pool prices and the prices estimated by the regulator at the start of each period are compensated as a function of certain annual ceilings and floors (regulatory collar) via the collection of the remuneration for investment parameter over the remaining regulatory useful lives of the plants, except for the plants not entitled to that remuneration, which are therefore not bound by those limits.

Regulated sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass (there is no cap in the case of CHP generation).

Spanish **Royal Decree-Law 6/2022** (of 29 March 2022) includes measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power generation plants regulated in Royal Decree 413/2014, in response to the prevailing electricity market price climate, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

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

2022. That update will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

It is now estimated that the regulated pool price for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation (Ro) parameter will not apply.

Below are the pool prices estimated by the regulator for 2020-2022, along with the corresponding ceilings and floors and the expected update for 2022 in the wake of Royal Decree-Law 6/2022 and the draft ministerial order:

Eur / MWh	2020	2021	2022 initial	Act. 2022 est.
LS2	63.1	60.5	56.6	129.7
LS1	58.8	56.3	52.7	125.8
Estimated price pool	54.4	52.1	48.8	121.9
LI1	50.1	48.0	44.9	118.0
LI2	45.7	43.8	41.0	114.1

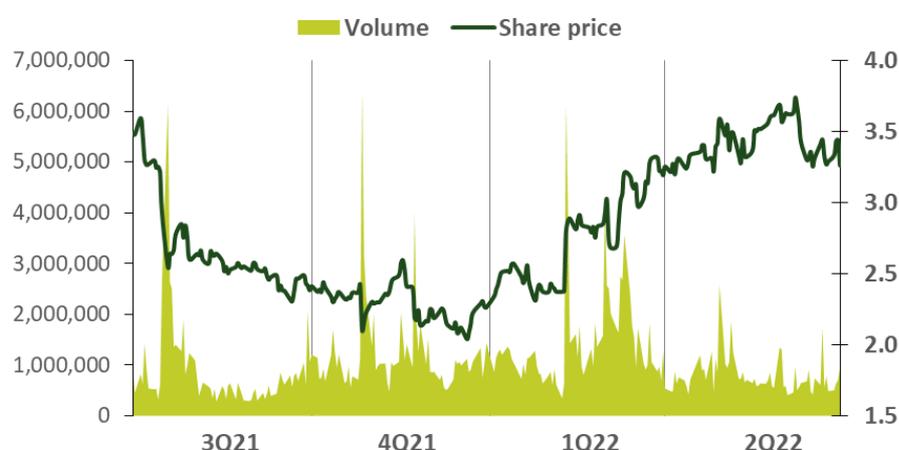
It is important to stress that these measures do not have a negative impact on the forecasts provided at the Capital Markets Day held on 17 March 2022, which, out of precaution, had factored in a similar scenario, specifically assuming electricity prices of €48/MWh from April and no cash inflow as a result of the regulatory collar.

- 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 Company has accordingly reduced its plants' remuneration for operation income.

### 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 privatized in 2001 and are part of the Ibex Medium Cap index.

Ence's share price ended June at €3.26, a gain of 44.1% from year-end 2021. Over the same timeframe, the Company's peers' share prices gained 2.0% on average.



Source: Bloomberg

SHARES	3Q21	4Q21	1Q22	2Q22
<b>Share price at the end of the period</b>	2.38	2.26	3.19	3.26
<b>Market capitalization at the end of the period</b>	587.1	557.6	786.6	803.3
<b>Ence quarterly evolution</b>	(30.4%)	(5.0%)	41.1%	2.1%
<b>Daily average volume (shares)</b>	862,883	1,220,887	1,457,945	793,780
<b>Peers quarterly evolution *</b>	(8.5%)	4.1%	3.3%	(1.0%)

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

On 5 March 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €8.0901 per share (adjusted on 1 July 2022). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	3Q21	4Q21	1Q22	2Q22
<b>Bond price at the end of the period (ask)</b>	97.96	99.15	100.28	100.20
<b>Yield to worst at the end of the period*</b>	2.208%	1.515%	0.945%	0.947%

\*Yield to maturity

## 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 2.6, 2.7, 3.4 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and other non-operating items that undermine the comparability of the numbers.

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

Below is a reconciliation between EBITDA and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
			OPERATING PROFIT/(LOSS)	€ m	P&L	44.2	21.6	1.2	67.1	(176.9)
Depreciation and amortisation charges	€ m	P&L	20.4	20.0	(0.5)	39.9	27.1	18.7	(1.6)	44.3
Depletion of forest reserve	€ m	P&L	4.0	0.0	-	4.0	6.4	0.1	-	6.5
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	1.1	37.0	(0.7)	37.3	189.4	0.3	-	189.7
Other non-recurring items	€ m		0.1	-	-	0.1	(5.0)	-	-	(5.0)
<b>EBITDA</b>	€ m		<b>69.8</b>	<b>78.6</b>	<b>0.0</b>	<b>148.4</b>	<b>41.0</b>	<b>18.0</b>	<b>-</b>	<b>58.9</b>

(\*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

### OTHER NON-OPERATING ITEMS

Other non-operating items, a metric included in the statements of profit or loss presented in this report, specifically in sections 2.6, 2.7, 3.4 and 4.1, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable.

In the first half of 2022, this heading includes legal expenses related to the Company's defence of its concession in Pontevedra in the amount of €0.1m. In the first half of 2021, it included changes in the provisions derived from the National Court rulings annulling the concession in Pontevedra. More specifically, it included the reversal of the provision accumulated as of the June close to cover the Company's commitments under the Pontevedra Environmental Pact in the amount of €14m; a €2.9m provision to cover the potential devaluation of spare parts at the biomill; and a €6m provision to cover the termination of contracts outstanding following the potential discontinuation of operations at the biomill.

### CASH COST

The production cost per tonne of pulp, or cash cost, is the key measure used by management to measure and benchmark its efficiency as a pulp maker. Cash costs are analysed in section 2.4 of this report.

The cash cost includes all of the costs directly related with the production of pulp. It does not include asset depreciation and amortisation charges, impairment losses on non-current assets and gains or losses on their disposal, other non-operating items, finance income and costs or income tax.

It 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 the regulatory collar on energy sales and the forest depletion charge. The cash cost is also adjusted for other smaller items of income and expenses which mainly comprise the income from the sale of wood to third parties, provisions for the impairment of receivables, banking charges, long-term staff remuneration and termination benefits and advisory service costs that are not attributable to the biomills.

Below is a reconciliation between the cash cost and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>CASH COST</b>										
Revenue from pulp sales		P&L	338.0						231.6	
EBITDA	€ m	APM	(69.8)						(41.0)	
Total costs (Revenue - EBITDA)			268.1						190.6	
Gains/(losses) on hedging transactions	€ m	P&L	(11.3)						(11.0)	
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	(14.4)						0.0	
Depletion of forest reserve	€ m	P&L	4.0						6.4	
Other income and expenses	€ m		(3.0)						1.0	
			<b>243.4</b>						<b>187.1</b>	
No. of tonnes sold	Unit		487,059						497,767.0	
<b>TOTAL CASH COST</b>	€/tonne		<b>499.7</b>						<b>375.9</b>	

(\*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

## OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.4 of this report is a yardstick for the operating profit generated by the Pulp business without taking into account asset depreciation and amortisation charges, impairment losses on non-current assets and gains or losses on their disposal and 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 operating profit per tonne of pulp and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>OPERATING PROFIT PER TONNE OF PULP</b>										
Revenue from pulp sales	€ m	P&L	338.0	-	-	338.0	231.6	-	-	231.6
No. of tonnes sold	Unit		487,059	-	-	487,059	497,767	-	-	497,767
Average sales price per tonne (Revenue / # tonnes)	€/tonne		693.9	-	-	693.9	465.3	-	-	465.3
Cash cost (€)	€/tonne	APM	499.7	-	-	499.7	375.9	-	-	375.9
<b>TOTAL OPERATING PROFIT PER TONNE OF PULP</b>	€/tonne		<b>194.2</b>	-	-	<b>194.2</b>	<b>89.4</b>	-	-	<b>89.4</b>

(\*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

## NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.6, 2.7, 3.4 and 4.1. They aggregate the statement of profit or loss headings included in the interim and annual financial statements 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 both headings and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine these APMs were the same in both periods:

	Source Financial Statement	Unit	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
			(*)							
Finance income	€ m	P&L	2.2	0.1	(0.7)	1.6	2.7	1.1	(0.6)	3.3
Finance costs	€ m	P&L	(6.7)	(9.3)	0.7	(15.3)	(7.4)	(6.9)	0.6	(13.8)
<b>NET FINANCE COST</b>	€ m		<b>(4.5)</b>	<b>(9.2)</b>	-	<b>(13.7)</b>	<b>(4.7)</b>	<b>(5.8)</b>	-	<b>(10.5)</b>
Change in fair value of financial instruments	€ m	P&L	-	0.3	-	0.3	-	0.2	-	0.2
Exchange differences	€ m	P&L	2.1	(0.1)	-	2.0	1.5	-	-	1.5
Impairment of and gains/(losses) on disposal of financial instruments	€ m	P&L	-	-	-	-	-	-	-	-
<b>OTHER FINANCIAL ITEMS</b>	€ m		<b>2.1</b>	<b>0.2</b>	-	<b>2.3</b>	<b>1.5</b>	<b>0.2</b>	-	<b>1.7</b>
<b>TOTAL NET FINANCE INCOME/(COST)</b>	€ m	P&L	<b>(2.5)</b>	<b>(9.0)</b>	-	<b>(11.4)</b>	<b>(3.2)</b>	<b>(5.6)</b>	-	<b>(8.8)</b>

## MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

ENCE provides the breakdown of the capital expenditure included in its statement of cash flows for each of its business units in sections 1, 2.7 and 3.5, classifying its investments into the following categories: maintenance capex, efficiency and growth capex, sustainability capex and financial investments.

ENCE's technical experts classify its capital expenditure using the following criteria: Maintenance capex are recurring investments designed to maintain the capacity and productivity of the Company's assets. Efficiency and growth capex, meanwhile, are investments designed to increase those assets' capacity and productivity. Lastly, sustainability capex covers investments made to enhance quality standards, occupational health and safety and environmental performance and to prevent contamination. 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. The disclosure of capex cash flows broken down by area of investment facilitates oversight of execution of the published Business Plan.

	Source Financial Statement	Unit	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
			(*)							
Maintenance capex	€ m		(4.5)	(0.9)	-	(5.4)	(5.3)	(2.3)	-	(7.6)
Efficiency and growth capex	€ m		(17.1)	(3.1)	-	(20.2)	(22.4)	(6.6)	-	(29.0)
Sustainability capex	€ m		(3.8)	(0.8)	-	(4.6)	(9.7)	(1.3)	-	(11.0)
Financial assets	€ m	CF	(0.0)	-	-	(0.0)	(0.0)	(0.1)	-	(0.1)
<b>TOTAL PAYMENTS FOR INVESTMENTS</b>	€ m	CF	<b>(25.4)</b>	<b>(4.8)</b>	-	<b>(30.2)</b>	<b>(37.4)</b>	<b>(10.3)</b>	-	<b>(47.7)</b>

## OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.7 and 3.5 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.3 and also presented in the interim and annual financial statements. 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 operating cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	69.8	78.6	0.0	148.4	41.0	18.0	-	58.9
Other non-recurring items	€ m		(0.1)	-	-	(0.1)	5.0	-	-	5.0
Adjustments to reconcile profit before tax to net cash flows:										
Changes in provisions and other deferred expense (net)	€ m	CF	(2.4)	0.6	-	(1.8)	(7.9)	3.4	-	(4.5)
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	14.4	12.1	-	26.5	(0.0)	1.2	-	1.2
Grants taken to profit and loss	€ m	CF	(0.3)	(0.1)	-	(0.3)	(0.4)	(0.2)	-	(0.6)
Exchange differences with an impact on cash	€ m		0.4	-	-	0.4	0.1	-	-	0.1
Change in working capital	€ m	CF	(31.2)	34.6	-	3.4	(20.5)	(3.3)	-	(23.8)
Interest paid, net (including right-of-use assets)	€ m	CF	(3.3)	(9.8)	-	(13.1)	(3.9)	(6.3)	-	(10.2)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	(1.9)	(2.5)	-	(4.3)	-	0.3	-	0.3
<b>OPERATING CASH FLOW</b>			<b>45.4</b>	<b>113.6</b>	<b>0.0</b>	<b>158.9</b>	<b>13.4</b>	<b>13.0</b>	<b>-</b>	<b>26.3</b>

## FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 2.7, 3.5 and 4.3 of this report.

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

Below is a reconciliation between free cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from operating activities	€ m	CF	45.4	113.5	-	158.9	13.4	13.0	-	26.3
Net cash flows used in investing activities	€ m	CF	(25.5)	(4.4)	-	(29.9)	(37.0)	(10.3)	-	(47.2)
<b>FREE CASH FLOW</b>	€ m		<b>19.9</b>	<b>109.1</b>	<b>-</b>	<b>129.0</b>	<b>(23.6)</b>	<b>2.7</b>	<b>-</b>	<b>(20.9)</b>

## NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.5 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capex, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Company's operating activities before collection of proceeds from asset sales; this cash represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

Below is a reconciliation between normalised free cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	69.8	78.6	0.0	148.4	41.0	18.0	-	58.9
Changes in working capital:										
Inventories	€ m	CF	8.6	(1.2)	-	7.4	6.3	(6.5)	-	(0.1)
Trade and other receivables	€ m	CF	(23.2)	(1.3)	-	(24.5)	(30.9)	5.4	-	(25.5)
Short-term investments	€ m	CF	0.6	(0.0)	-	0.6	0.1	-	-	0.1
Trade payables, other payables and other liabilities	€ m	CF	(17.3)	37.2	-	19.9	3.9	(2.3)	-	1.7
Maintenance capex	€ m		(4.5)	(0.9)	-	(5.4)	(5.3)	(2.3)	-	(7.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(3.3)	(9.8)	-	(13.1)	(3.9)	(6.3)	-	(10.2)
Income tax paid	€ m	CF	(1.9)	(2.5)	-	(4.3)	-	0.3	-	0.3
<b>NORMALISED FREE CASH FLOW</b>	€ m		<b>28.9</b>	<b>100.1</b>	<b>0.0</b>	<b>128.9</b>	<b>11.3</b>	<b>6.3</b>	<b>-</b>	<b>17.6</b>

## 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 the sum of cash and cash equivalents, the debt service cash reserve (included with non-current financial assets) and other financial investments within current assets, as outlined in sections 2.8 and 3.6 of this report.

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

Below is a reconciliation between net debt/(cash) and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
			30 June 2022				31 December 2021			
<b>NET DEBT/(CASH)</b>										
Non-current borrowings:										
Notes and other marketable securities	€ m	FP	-	78.3	-	78.3	125.6	92.1	-	217.7
Bank borrowings	€ m	FP	95.0	55.6	-	150.6	99.3	70.0	-	169.4
Other financial liabilities	€ m	FP	60.5	0.6	-	61.1	64.5	0.7	-	65.2
Current borrowings:	€ m									
Notes and other marketable securities	€ m	FP	88.8	-	-	88.8	-	-	-	-
Bank borrowings	€ m	FP	0.5	29.4	-	29.9	6.2	29.4	-	35.6
Other financial liabilities	€ m	FP	10.2	0.5	-	10.7	10.0	0.4	-	10.4
Cash and cash equivalents	€ m	FP	271.7	142.0	-	413.7	318.5	61.5	-	380.0
Current financial assets - Other financial assets	€ m		6.0	-	-	6.0	6.6	-	-	6.6
Debt cash reserve	€ m		-	10.0	-	10.0	-	10.0	-	10.0
<b>NET DEBT/(CASH)</b>	€ m		<b>(22.6)</b>	<b>12.4</b>	<b>-</b>	<b>(10.2)</b>	<b>(19.5)</b>	<b>121.2</b>	<b>-</b>	<b>101.7</b>

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