



# Fourth-quarter 2021 earnings report

28 February 2021



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## 1. EXECUTIVE SUMMARY

Market figures	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
BHKP (USD/t) average price	1,140.0	680.0	67.6%	1,136.2	0.3%	1,010.6	680.1	48.6%
Average exchange rate (USD/€)	1.15	1.19	(3.5%)	1.18	(2.9%)	1.18	1.12	5.3%
BHKP (€/t) average price	994.2	572.3	73.7%	962.1	3.3%	855.4	606.4	41.1%
Average pool price (€/MWh)	218.1	41.7	n.s.	121.9	78.9%	116.5	33.8	245.0%

Source: Bloomberg

Operating Metrics	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>Pulp production (t)</b>	<b>250,005</b>	<b>264,860</b>	<b>(5.6%)</b>	<b>264,780</b>	<b>(5.6%)</b>	<b>1,008,692</b>	<b>1,007,283</b>	<b>0.1%</b>
Navia pulp production	142,214	150,592	(5.6%)	152,629	(6.8%)	577,435	572,565	0.9%
Pontevedra pulp production	107,791	114,268	(5.7%)	112,151	(3.9%)	431,257	434,718	(0.8%)
<b>Pulp sales (t)</b>	<b>239,061</b>	<b>259,224</b>	<b>(7.8%)</b>	<b>259,230</b>	<b>(7.8%)</b>	<b>996,058</b>	<b>1,015,482</b>	<b>(1.9%)</b>
Average sales pulp price (€/t)	644.2	384.4	67.6%	613.3	5.0%	546.7	401.2	36.3%
Cash cost (€/t)	437.4	366.8	19.2%	380.2	15.1%	391.9	374.0	4.8%
Operating margin per ton (€/t)	206.8	17.6	n.s.	233.1	(11.3%)	154.8	27.2	n.s.
<b>Renewable Energy sales volume (MWh)</b>	<b>427,957</b>	<b>424,339</b>	<b>0.9%</b>	<b>344,787</b>	<b>24.1%</b>	<b>1,430,199</b>	<b>1,421,446</b>	<b>0.6%</b>
Average sales price - Pool + Ro (€/MWh)	63.7	94.0	(32.2%)	68.9	(7.5%)	81.3	97.0	(16.3%)
Remuneration for investment (€ m)	8.6	15.3	(44.1%)	8.8	(2.8%)	37.8	62.9	(39.9%)

P&L € m	4Q21	4Q20	Δ%	3Q21	Δ%	2021 pre rullings	Rullings impact	2021	2020	Δ%
Revenue from Pulp business	195.8	125.9	55.5%	183.9	6.5%	667.6	-	667.6	504.5	32.3%
Revenue from Renewable Energy business	36.1	55.4	(34.8%)	32.8	10.0%	154.9	-	154.9	206.0	(24.8%)
Consolidation adjustments	(0.8)	(0.5)	n.s.	(0.5)	n.s.	(2.8)	-	(2.8)	(2.7)	n.s.
<b>Total revenue</b>	<b>231.1</b>	<b>180.8</b>	<b>27.8%</b>	<b>216.1</b>	<b>6.9%</b>	<b>819.7</b>	<b>-</b>	<b>819.7</b>	<b>707.7</b>	<b>15.8%</b>
Pulp business EBITDA	42.0	6.3	n.s.	51.8	(18.9%)	140.3	1.5	141.8	23.2	n.s.
Renewable Energy business EBITDA	37.0	17.4	113.4%	11.5	222.2%	71.1	-	71.1	59.7	18.9%
<b>EBITDA before hedges</b>	<b>79.0</b>	<b>23.7</b>	<b>234.1%</b>	<b>63.3</b>	<b>24.9%</b>	<b>211.4</b>	<b>1.5</b>	<b>212.9</b>	<b>82.9</b>	<b>156.8%</b>
Pulp business EBITDA	17.6	6.8	158.6%	30.5	(42.2%)	87.5	1.5	89.0	13.9	n.s.
Renewable Energy business EBITDA	3.4	17.4	(80.2%)	(3.6)	n.s.	17.8	-	17.8	59.7	(70.2%)
<b>EBITDA</b>	<b>21.0</b>	<b>24.2</b>	<b>(12.9%)</b>	<b>26.9</b>	<b>(21.7%)</b>	<b>105.3</b>	<b>1.5</b>	<b>106.8</b>	<b>73.6</b>	<b>45.1%</b>
Depreciation, amortisation and forestry depletion	(21.2)	(27.2)	(22.1%)	(21.4)	(1.0%)	(93.5)	-	(93.5)	(107.1)	(12.8%)
Impairment of and gains/(losses) on fixed-asset disposals	(2.1)	(2.1)	2.6%	(1.7)	28.4%	(3.1)	(190.4)	(193.5)	(1.6)	n.s.
Other non-ordinary results of operations	(0.8)	31.6	n.s.	-	n.s.	(2.1)	6.3	4.2	27.9	(84.8%)
<b>EBIT</b>	<b>(3.1)</b>	<b>26.4</b>	<b>n.s.</b>	<b>3.8</b>	<b>n.s.</b>	<b>6.7</b>	<b>(182.6)</b>	<b>(175.9)</b>	<b>(7.3)</b>	<b>n.s.</b>
Net finance cost	(3.8)	(7.9)	(52.5%)	(7.2)	(48.0%)	(21.5)	-	(21.5)	(28.3)	(23.9%)
Other finance income/(cost) results	1.5	(0.4)	n.s.	1.7	(11.3%)	4.9	-	4.9	(1.1)	n.s.
<b>Profit before tax</b>	<b>(5.4)</b>	<b>18.1</b>	<b>n.s.</b>	<b>(1.8)</b>	<b>200.0%</b>	<b>(10.0)</b>	<b>(182.6)</b>	<b>(192.5)</b>	<b>(36.7)</b>	<b>n.s.</b>
Income tax	1.5	(2.2)	n.s.	(1.3)	n.s.	8.2	(17.6)	(9.4)	11.9	n.s.
<b>Net income</b>	<b>(3.9)</b>	<b>15.8</b>	<b>n.s.</b>	<b>(3.1)</b>	<b>25.5%</b>	<b>(1.8)</b>	<b>(200.2)</b>	<b>(202.0)</b>	<b>(24.7)</b>	<b>n.s.</b>
Non-controlling interests	6.0	(0.4)	n.s.	5.3	12.4%	11.6	-	11.6	(1.7)	n.s.
<b>Attributable Net Income</b>	<b>2.0</b>	<b>15.4</b>	<b>(86.9%)</b>	<b>2.2</b>	<b>(6.5%)</b>	<b>9.8</b>	<b>(200.2)</b>	<b>(190.4)</b>	<b>(26.4)</b>	<b>n.s.</b>
Earnings per share (Basic EPS)	0.01	0.06	(86.9%)	0.01	(5.3%)	0.04	(0.82)	(0.78)	(0.11)	n.s.

\* The €32.9m gain recognised in 4Q20 on the sale of the solar thermal plant in Puertollano has been reclassified from other finance income to non-recurring operating income

Cash flow € m	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>EBITDA</b>	<b>21.0</b>	<b>24.2</b>	<b>(12.9%)</b>	<b>26.9</b>	<b>(21.7%)</b>	<b>106.8</b>	<b>73.6</b>	<b>45.1%</b>
Change in working capital	12.6	15.5	(18.8%)	(22.3)	n.s.	(33.6)	42.5	n.s.
Maintenance capex	(4.4)	(3.0)	48.8%	(3.1)	43.4%	(15.1)	(16.2)	(7.1%)
Net interest Payment	(6.2)	(8.3)	(25.1%)	(2.8)	120.3%	(19.2)	(22.0)	(12.8%)
Income tax received/(paid)	(1.8)	5.1	n.s.	(6.6)	(73.2%)	(8.2)	5.9	n.s.
Normalised free cash flow	21.2	33.5	(36.6%)	(8.0)	n.s.	30.9	83.8	(63.2%)
<b>Energy regulation adjustment (regulatory collar)</b>	<b>60.2</b>	<b>(4.7)</b>	<b>n.s.</b>	<b>30.3</b>	<b>n.s.</b>	<b>89.1</b>	<b>(36.2)</b>	<b>n.s.</b>
Other collection (payments) and non cash adjustments	(2.7)	(18.8)	n.s.	6.2	n.s.	5.9	(4.7)	n.s.
Pending payments for expansion capex	(5.2)	(15.9)	(67.0%)	(4.8)	9.0%	(39.1)	(64.5)	(39.4%)
Sustainability capex and other	(1.8)	(2.8)	(34.8%)	(4.1)	(55.7%)	(16.9)	(16.3)	3.2%
Disposals	5.5	58.6	(90.5%)	-	n.s.	6.0	59.2	(89.9%)
<b>Free cash flow</b>	<b>77.2</b>	<b>49.9</b>	<b>54.9%</b>	<b>19.6</b>	<b>n.s.</b>	<b>75.9</b>	<b>21.4</b>	<b>n.s.</b>

Net debt € m	Dec-21	Dec-20	Δ%
Net financial debt Pulp business	(19.5)	43.4	n.s.
Net financial debt Renewable Energy business	121.2	134.5	(9.9%)
<b>Net financial debt</b>	<b>101.7</b>	<b>177.8</b>	<b>(42.8%)</b>

- ✓ The Group generated €76m of free cash flow in 2021, despite a €106m cash outflow on account of hedges, a €21m reduction in the use of the receivables discounting facilities and €56m of payments for investments made in prior years.
- ✓ In 2020, Ence contracted exceptional pulp and electricity price hedges at a time of record-low prices and heightened uncertainty on account of the COVID pandemic in order to lock in a minimum amount of cash flow. Those hedges were closed out in 2021 and no hedges have been written over pulp or electricity prices for the coming years, which means that the company stands to benefit in full from high prevailing pulp and power prices in 2022.
- ✓ The Group's net debt decreased by €76m in 2021, to end the year at €102m, comprising net debt of €122m in the Renewable Energy business and net cash of €19m in the Pulp business.
- ✓ Pulp prices staged a strong recovery in 2021, surging from \$680 per tonne (gross), where they traded for all of 2020, to \$1,140, where they have been trading since July 2021. The leading pulp producers have announced additional increases to \$1,200 from March 2022 and the main sector experts have raised their price forecasts for the years ahead.
- ✓ The strength of pulp prices more than offset the transitory inflation in the cost of raw materials and logistics services, driving operating profit in the business from €27 per tonne in 2020 to €207 by 4Q21 and €155 in 2021 on average. As a result, EBITDA in the Pulp business, before the impact of price hedges, amounted to €42m in 4Q21 and €142m in 2021, compared to €23m in 2020.
- ✓ Elsewhere, energy production increased 24% in 4Q21 driving EBITDA in the Renewable Energy business, before the impact of price hedges, to €37m in 4Q21 and €71m in 2021, compared to €42m in 2020.
- ✓ From the cash perspective, Group EBITDA (before hedge impacts) of €79m in 4Q21 and €213m in 2021 was bolstered by the differences between pool and regulated electricity prices (regulatory collar) of €60m in 4Q21 and €89m in 2021. Those differences are not included in EBITDA but are recognised in the statement of cash flows.
- ✓ Cash and cash equivalents amounted to €397m at 31 December 2021, of which €72m corresponded to the Renewable Energy business and the remaining €325m to the Pulp business, despite the prepayment of €115m of bilateral loans, the repurchase of €31m of convertible bonds and a €12m reduction in the use of receivables discounting facilities. Last year, Ence also refinanced the Pulp business's revolving credit facility (RCF), increasing the limit to €130m, and refinanced €80m of bilateral loans, extending their maturity to 2026.
- ✓ The 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. Ence has appealed the sentences before the Supreme Court and is awaiting an initial decision from the high court about the admissibility of the appeals lodged. As a result of those sentences, applicable accounting rules required Ence to recognise net asset impairment losses and provisions for expenses of €200m in its 2021 financial statements.
- ✓ Were it not for the accounting impact of the court rulings, the Group would have returned to profitability in 2021, recording profit attributable to owners of the parent of €10m, despite negative hedge settlements of €106m.
- ✓ In December 2021 Ence agreed to rotate five photovoltaic developments with aggregate capacity of 373 MW for up to €62m; it will receive the corresponding proceeds as developments' permitting processes attain the defined milestones, between 4Q22 and 1Q24.
- ✓ Ence has a pipeline of three biomass plants with aggregate capacity of 140 MW with which it can participate in upcoming auctions. The Company also plans to continue to pursue new developments, in biomass, photovoltaic and other power generation technology, in order to continue to grow in renewables.
- ✓ Ence is the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having lifted its overall ESG performance score to 91/100 in 2Q21.
- ✓ The company has approved a new remuneration policy for its shareholders based on cash generation and a prudent leverage.

## 2. PULP BUSINESS

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

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

### 2.1. National Court Sentences affecting the concession in Pontevedra

The 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. Ence has appealed the sentences before the Supreme Court and is awaiting an initial decision from the high court about the admissibility of the appeals lodged.

If the Supreme Court does not agree to hear, or dismisses, the appeals, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (at the behest of the Appellate Court) the deadline for potentially discontinuing activities at the biomill.

### 2.2. Pulp market trends

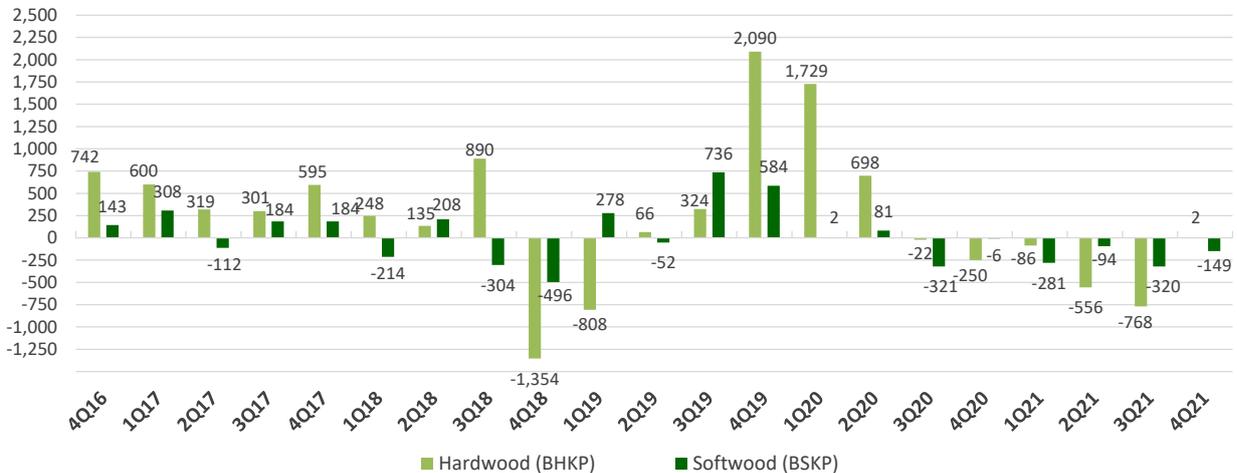
Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable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

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

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

In 2021, demand for pulp fell back by 3.2% year-on-year (equivalent to 2.1 million tonnes) due to logistics restrictions and a fresh bout of destocking, particularly in China. In China demand contracted by 9.8% year-on-year in 2021, compared to a growth of 4.2% in Europe, and contractions by 0.5% in North America and 1.4% in the rest of the world.

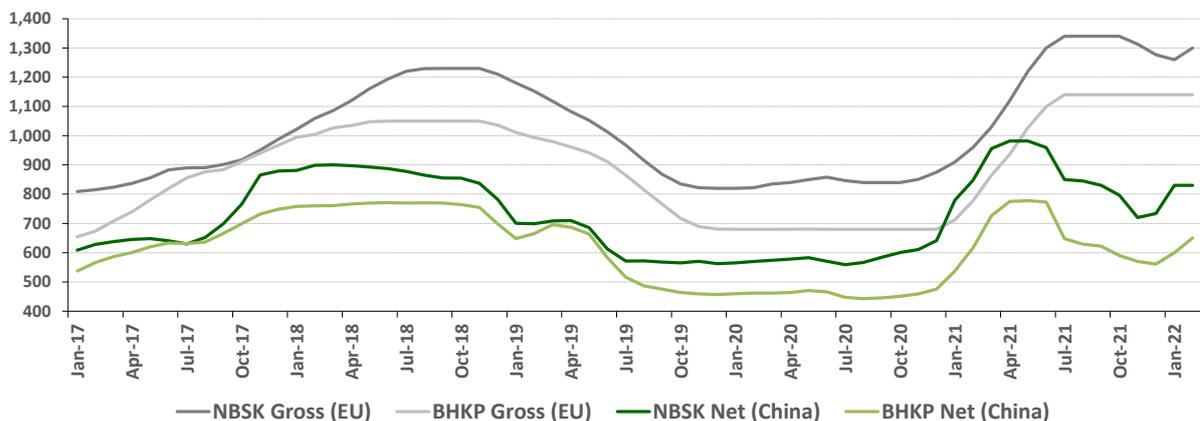
Year-on-year change in global demand for pulp, last five years (tonnes, 000)



Source: Ence, PPPC-G100

Pulp prices rebounded sharply in 2021, even though logistics restrictions are shaping uneven price trends across the various regions. In Europe, hardwood pulp (BHKP) prices have been steady at \$1,140 per tonne (gross) since July 2021. The main pulp producers have announced additional price increases to \$1,200 from March 2022. In China, meanwhile, BHKP prices eased during the second half of 2021 before resuming their ascent in December to currently trade at above \$650 per tonne (net).

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



Source: FOEX

### 2.3. Revenue from pulp sales

Pulp sales volumes decreased by 7.8% year-on-year in 4Q21 to 239,061 tonnes, due to lower output at both biomills and an increase in stocks ahead of the annual maintenance stoppages programmed at both complexes in 1Q22. In 2021, sales volumes declined by 1.9% to 996,058 tonnes.

Averages sales prices, meanwhile, jumped 67.6% year-on-year in 4Q21 to €644.2 per tonne (net), for an overall improvement in 2021 of 36.3% to €546.7 per tonne.

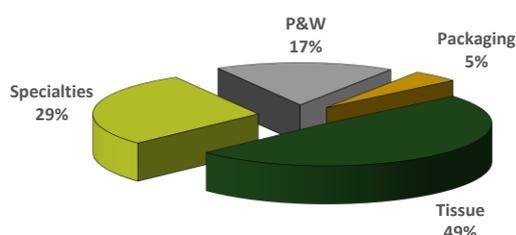
	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>Pulp sales (t)</b>	<b>239,061</b>	<b>259,224</b>	<b>(7.8%)</b>	<b>259,230</b>	<b>(7.8%)</b>	<b>996,058</b>	<b>1,015,482</b>	<b>(1.9%)</b>
Average sales price (€/t)	644.2	384.4	67.6%	613.3	5.0%	546.7	401.2	36.3%
<b>Pulp sales revenue (€ m)</b>	<b>154.0</b>	<b>99.7</b>	<b>54.5%</b>	<b>159.0</b>	<b>(3.1%)</b>	<b>544.6</b>	<b>407.4</b>	<b>33.7%</b>

The combination of the two factors drove year-on-year growth in revenue from pulp sales of 54.5% to €154m in 4Q21 and of 33.7% to €544.6m in 2021.

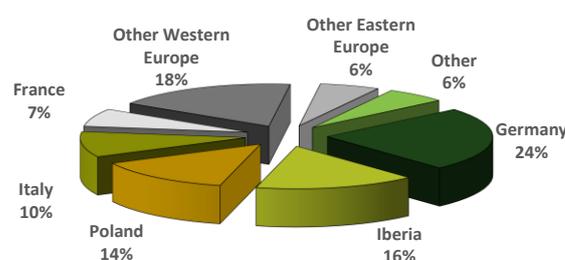
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 16% of 2021 sales, compared to 9% in 2020.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 49% of revenue from pulp sales in 9M20, followed by the specialty paper segment, at 29%. The printing and writing paper segment accounted for 17% 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 9M21. Germany and Spain/Portugal accounted for 24% and 16% of total revenue, respectively, followed by Poland (14%), Italy (10%) and France (7%). The other western European countries accounted for 18% of the total, with the rest of Eastern Europe representing 6%.

## 2.4. Pulp production and cash cost

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

	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Navia pulp production	142,214	150,592	(5.6%)	152,629	(6.8%)	577,435	572,565	0.9%
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Pulp production decreased by 5.6% year-on-year in 4Q21 to 250,005 tonnes, due largely to the temporary restrictions on felling in Galicia; for the full year, production was flat compared to 2020, at 1,008,692 tonnes.

Ence's cash cost was €437.4/tonne in the fourth quarter, up 19.2% year-on-year, due mainly to higher raw material and logistics costs.

The reduction in conversion costs partially offset the increase in raw material and logistics costs, so that the full-year cash cost increased by 4.8% to €391.9/tonne.

Figures in €/t	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Wood cost	258.5	205.6	25.8%	220.4	17.3%	224.2	204.5	9.7%
Conversion costs	103.6	102.1	1.4%	95.9	8.0%	103.3	109.0	(5.3%)
Sales and logistic costs	43.7	28.4	54.0%	33.9	29.1%	35.7	29.2	22.1%
Overheads	31.5	30.7	2.7%	29.9	5.3%	28.8	31.3	(8.0%)
<b>Total cash cost</b>	<b>437.4</b>	<b>366.8</b>	<b>19.2%</b>	<b>380.2</b>	<b>15.1%</b>	<b>391.9</b>	<b>374.0</b>	<b>4.8%</b>

Wood costs were 25.8% higher year-on-year in 4Q21 at €258.5/tonne as a result of the increase in the premium tied to pulp prices, coupled with higher consumption of imported wood and the transport of wood from proprietary plantations in southern in Spain in order to mitigate the temporary reduction in felling capacity in Galicia. In 2021, wood costs increased by 9.7% year-on-year to €224.2/tonne.

Conversion costs increased by 1.4% year-on-year in 4Q21 to €103.6/tonne, due to chemical product and gas price inflation, partially offset by a higher contribution from energy not covered by the regulatory collar. Due to those factors, as well as efficiency gains eked out, in 2021 conversion costs decreased by 5.3% to €103.3/tonne.

Logistics costs were 54% higher year-on-year in 4Q21 at €43.7/tonne due to higher freight costs. In 2021, logistics costs increased by 22.1% to €35.7/tonne.

Lastly, overhead increased by 2.7% year-on-year in 4Q21 to €31.5/tonne, due partly to reduced economies of scale. In 2021, overhead decreased by 8% to €28.8/tonne.

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

Ence uses the lignin and forest biomass derived from its manufacturing activities to generate 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 pulp production process at the Navia biomill.

	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Navia energy sales	141,412	149,033	(5.1%)	151,279	(6.5%)	565,576	568,561	(0.5%)
Pontevedra energy sales	69,961	67,747	3.3%	71,195	(1.7%)	266,608	247,883	7.6%
<b>Energy sales linked to the pulp process (MWh)</b>	<b>211,373</b>	<b>216,780</b>	<b>(2.5%)</b>	<b>222,474</b>	<b>(5.0%)</b>	<b>832,183</b>	<b>816,444</b>	<b>1.9%</b>
Average sales price - Pool + Ro (€/MWh)	176.2	80.9	117.7%	94.8	85.8%	115.9	80.0	44.9%
Remuneration for investment (€ m)	2.6	2.6	(0.0%)	2.6	-	10.3	10.3	(0.0%)
<b>Revenues from energy sales linked to pulp (€ m)</b>	<b>39.8</b>	<b>20.1</b>	<b>98.0%</b>	<b>23.7</b>	<b>68.3%</b>	<b>106.7</b>	<b>75.5</b>	<b>41.2%</b>

The sale of energy in connection with pulp production decreased by 2.5% year-on-year in 4Q21 to 211,373 MWh, in line with the reduction in pulp production. In 2021, the sale of energy in connection with pulp production increased by 1.9% year-on-year to 832,183 MWh, boosted by efficiency gains at the Pontevedra turbine.

The average sales price improved by 117.7% year-on-year in 4Q21 to €176.2/MWh, fuelled by higher pool prices fetched by the CHP plants and prices within the limits set by the regulator at the biomass generation plants. In 2021, average sales prices improved by 44.9% year-on-year, to €115.9/MWh, driven by the same factors.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). That accounting treatment led to the recognition of a provision of €13.3m within revenue in 4Q21 and one of €24.1m in 2021, with equivalent counterbalancing cash inflows in both periods.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - increased by 98% year-on-year to €39.8m in 4Q21 and by 41.2% year-on-year to €106.7m in 2021.

## 2.6. Revenue from forestry and other activities

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

	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>Forestry and other revenue (€ m)</b>	<b>2.0</b>	<b>6.2</b>	<b>(67.3%)</b>	<b>1.2</b>	<b>64.5%</b>	<b>16.3</b>	<b>21.5</b>	<b>(24.1%)</b>

Revenue from forestry activities amounted to €2m in 4Q21, down 67.3% from 4Q20, due to higher internal consumption of wood in order to offset the temporary reduction in felling capacity in Galicia. In 2021, revenue from forestry activities declined by 24.1% to €16.3m.

## 2.7. Statement of profit or loss

As a result of the sentences issued by the National Court in July and October 2021, annulling the extension of the concession in Pontevedra, in keeping with applicable accounting rules, in 2021, the Group recognised asset impairment losses and provisions for expenditures that will not imply an outflow of cash in a net amount of €151.9m, in addition to a €42.3m provision to cover the estimated cost of the potential dismantling of the biomill and a €6m provision for the costs of possibly having to terminate certain contracts.

The cost of restructuring the surplus manpower, including some of the Group's corporate services staff, as a result of the potential discontinuation of business in Pontevedra, has not been provided for, given that the related recognition requirements under prevailing accounting rules have not been met.

Excluding the impact of those sentences, the Pulp business would have reported a net profit of €16.8m in 2021, compared to a net loss of €52.3m in 2020.

Figures in € m	4Q21	4Q20	Δ%	3Q21	Δ%	2021 pre rullings	Rullings impact	2021	2020	Δ%
<b>Total net revenue</b>	<b>195.8</b>	<b>125.9</b>	<b>55.5%</b>	<b>183.9</b>	<b>6.5%</b>	<b>667.6</b>	<b>-</b>	<b>667.6</b>	<b>504.5</b>	<b>32.3%</b>
<b>EBITDA before hedges</b>	<b>42.0</b>	<b>6.3</b>	<b>n.s.</b>	<b>51.8</b>	<b>(18.9%)</b>	<b>140.3</b>	<b>1.5</b>	<b>141.8</b>	<b>23.2</b>	<b>n.s.</b>
<i>EBITDA margin</i>	<i>21%</i>	<i>5%</i>	<i>16.4 p.p.</i>	<i>28%</i>	<i>(6.7) p.p.</i>	<i>21%</i>		<i>21%</i>	<i>5%</i>	<i>16.6 p.p.</i>
<b>EBITDA</b>	<b>17.6</b>	<b>6.8</b>	<b>158.6%</b>	<b>30.5</b>	<b>(42.2%)</b>	<b>87.5</b>	<b>1.5</b>	<b>89.0</b>	<b>13.9</b>	<b>n.s.</b>
<i>EBITDA margin</i>	<i>9%</i>	<i>5%</i>	<i>3.6 p.p.</i>	<i>17%</i>	<i>(7.6) p.p.</i>	<i>13%</i>		<i>13%</i>	<i>3%</i>	<i>10.6 p.p.</i>
Depreciation and amortisation	(9.9)	(15.4)	(35.7%)	(10.8)	(8.1%)	(47.8)	-	(47.8)	(57.3)	(16.5%)
Depletion of forestry reserves	(2.9)	(2.4)	21.8%	(2.1)	36.5%	(11.4)	-	(11.4)	(9.8)	17.0%
Impairment of and gains/(losses) on fixed-asset disp.	(1.4)	(0.2)	n.s.	(1.6)	(11.3%)	(2.1)	(190.4)	(192.4)	0.2	n.s.
Other non-recurring gains/(losses)	(0.8)	31.6	n.s.	-	n.s.	(2.1)	6.3	4.2	27.9	(0.8) p.p.
<b>EBIT</b>	<b>2.5</b>	<b>(12.5)</b>	<b>n.s.</b>	<b>15.9</b>	<b>(84.1%)</b>	<b>24.2</b>	<b>(182.6)</b>	<b>(158.4)</b>	<b>(58.0)</b>	<b>173.3%</b>
<i>EBIT margin</i>	<i>1%</i>	<i>-10%</i>	<i>11.2 p.p.</i>	<i>9%</i>	<i>(7.4) p.p.</i>	<i>4%</i>		<i>-24%</i>	<i>-11%</i>	<i>(12.2) p.p.</i>
Net finance cost	(0.7)	(3.2)	(78.4%)	(4.2)	(83.3%)	(9.6)	-	(9.6)	(12.1)	(20.9%)
Other financial results	1.1	(0.8)	n.s.	1.1	(2.6%)	3.7	-	3.7	(1.1)	n.s.
<b>Profit before tax</b>	<b>2.9</b>	<b>(16.6)</b>	<b>n.s.</b>	<b>12.9</b>	<b>(77.1%)</b>	<b>18.3</b>	<b>(182.6)</b>	<b>(164.3)</b>	<b>(71.2)</b>	<b>130.7%</b>
Income tax	(0.5)	5.4	n.s.	(5.1)	(90.8%)	(1.5)	(17.6)	(19.1)	18.9	n.s.
<b>Net Income</b>	<b>2.5</b>	<b>(11.1)</b>	<b>n.s.</b>	<b>7.8</b>	<b>(68.3%)</b>	<b>16.8</b>	<b>(200.2)</b>	<b>(183.4)</b>	<b>(52.3)</b>	<b>n.s.</b>

EBITDA in the Pulp business, before the impact of hedges, amounted to €42m in 4Q21, compared to €6.3m in 4Q20, thanks to growth of 67.6% in the average sales price, which more than offset the 5.6% decrease in sales volumes and the 19.2% increase in the cash cost. 2021 EBITDA, again excluding the impact of hedges, amounted to €141.8m, which is six times the 2020 figure.

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 €2.6m in 4Q21 and a cash inflow of €0.4m in 2021, compared to an inflow of €0.5m and an outflow of €9.3m in the same periods of 2020, respectively.

Elsewhere, in 2020, Ence took the exceptional decision of locking in a price of \$773/tonne for the sale of 247,200 tonnes of pulp in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Those hedges implied a cash outflow of €21.8m in 4Q21 and of €53.2m in 2021.

Layering in the impact of those hedges, EBITDA in the Pulp business amounted to €17.6m in 4Q21 and €89.0m in 1H21, six times the EBITDA posted in 2020.

Note, lastly, that EBITDA includes other income and expenses not included in the cash cost with a net negative impact of €7.4m in 4Q21 and of €12.1m in 2021. Those items of income and expenses include, among other things, the impact of the regulatory collar on sales of energy in connection with pulp production, the EBITDA generated from forestry activities, charges for community work in the vicinity of the Group's biomills, working capital provisions, non-recurring staff costs and *ad-hoc* advisory service costs. In 2Q21, the Company reversed the €1.5m provision recognised in respect of the 2021 Pontevedra Community Plan in 1H21 as a result of the above-mentioned Appellate Court sentences.

Below the EBITDA line, depreciation and amortisation charges declined by 12.8% year-on-year to €47.8m in 2021, due mainly to the impairment losses recognised against assets associated with the Pontevedra biomill in 2Q21; forest reserve depletion charges increased by 17.0% to €11.4m due to the higher use of wood sourced from proprietary plantations.

“Impairment of and gains/(losses) on fixed asset disposals”, which amounted to €192.4m in 2021, mainly reflects the impairment losses recognised against assets associated with the Pontevedra biomill (€151.9m) and a provision for the estimated cost of dismantling the biomill (€42.3m).

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

Elsewhere, the net finance cost in the Pulp business amounted to €9.6m in 2021, down 20.9% from 2020, while other finance income includes the impact of exchange rate movements on working capital during the period, specifically a net gain of €3.7m, compared to a loss of €1.1m in 2020.

Lastly, the 2021 income tax charge of €19.1m includes the derecognition of deferred taxes of €13.4m along with the tax effect of the reversal of the Environmental Pact provision, in the amount of €4.2m.

In all, the Pulp business reported a net profit of €2.5m in 4Q21 and a net loss of €183.4m in 2021, mainly as a result of the net €200.2m of asset impairment charges and provisions recognised in the wake of the Appellate Court sentences, in keeping with applicable accounting rules.

Excluding the impact of those sentences, the Pulp business would have reported a net profit of €16.8m in 2021, compared to a net loss of €52.3m in 2020.

## 2.8. Cash flow analysis

Net cash from operating activities amounted to €36.9m in 4Q21 (€6.5m in 4Q20) and €82.9m in 2021 (€23.9m in 2020), fuelled by the sharp growth in EBITDA. The positive adjustment for the regulatory collar provision - in the amount of €24.1m - was offset by the movement in working capital.

Figures in € m	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>EBITDA</b>	<b>17.6</b>	<b>6.8</b>	<b>158.6%</b>	<b>30.5</b>	<b>(42.2%)</b>	<b>89.0</b>	<b>13.9</b>	<b>n.s.</b>
Energy regulation adjustment (regulatory collar)	13.3	(1.6)		10.9		24.1	(10.6)	
Non cash expenses / (income)	(0.6)	(6.2)	(90.3%)	7.0	n.s.	3.1	2.4	30.6%
Other collections / (payments)	0.7	0.1	n.s.	0.6	10.7%	1.4	(0.4)	n.s.
Change in working capital	8.0	2.3	246.8%	(11.8)	n.s.	(26.6)	18.8	n.s.
Income tax received / (paid)	(1.3)	6.3	n.s.	-	n.s.	(1.3)	6.3	n.s.
Net interest received / (paid)	(0.9)	(1.3)	(31.1%)	(2.2)	(59.7%)	(6.9)	(6.5)	7.2%
<b>Net cash flow from operating activities</b>	<b>36.9</b>	<b>6.5</b>	<b>n.s.</b>	<b>35.0</b>	<b>5.4%</b>	<b>82.9</b>	<b>23.9</b>	<b>246.8%</b>

Indeed, working capital movements implied a net cash inflow of €8m in 4Q21, as the increase in inventories was more than offset by the increase in trade payables attributable to the higher cost of supplies. In 2021, working capital movements entailed a net cash outflow of €26.6m, due mainly to the impact of the improvement in pulp prices on trade receivables, coupled with a €12.4m reduction in the use of receivable discounting lines, which offset the increase in trade payables.

Figures in €Mn	4T21	4T20	Δ%	3T21	Δ%	2021	2020	Δ%
Inventories	(13.7)	3.7	n.s.	(4.1)	232.9%	(11.5)	2.4	n.s.
Trade and other receivables	(3.0)	(1.6)	83.6%	(10.2)	(70.8%)	(43.9)	(8.0)	n.s.
Financial and other current assets	0.9	(5.7)	n.s.	1.3	(27.8%)	2.4	(4.5)	n.s.
Trade and other payables	23.8	5.9	n.s.	1.2	n.s.	26.4	28.9	(8.8%)
<b>Change in working capital</b>	<b>8.0</b>	<b>2.3</b>	<b>246.8%</b>	<b>(11.8)</b>	<b>n.s.</b>	<b>(26.6)</b>	<b>18.8</b>	<b>n.s.</b>

At year-end 2021, the Pulp business had drawn down €53.7m under its non-recourse receivable discounting facilities, down from €66.1m at year-end 2020. Ence has reduced its use of discounting facilities in a bid to lower the associated financial cost. In addition, Ence has a number of non-recourse reverse factoring agreements, which were drawn down by €79.5m at year-end 2021, down from €104.6m at year-end 2020.

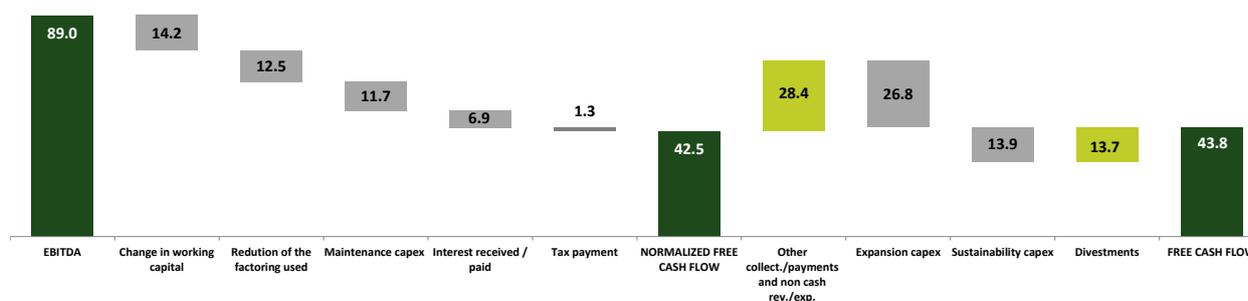
Figures in €Mn	4T21	4T20	Δ%	3T21	Δ%	2021	2020	Δ%
Maintenance capex	(3.9)	(1.8)	113.4%	(2.6)	51.3%	(11.7)	(11.1)	5.5%
Sustainability capex and other	(1.2)	(2.2)	(44.6%)	(3.0)	(58.6%)	(13.9)	(12.9)	7.8%
Efficiency and expansion capex	(1.9)	(3.4)	(43.9%)	(2.5)	(23.9%)	(26.8)	(32.2)	(16.8%)
Financial investments	(0.3)	(3.2)	(90.6%)	0.0	n.s.	(0.3)	(3.2)	(89.7%)
<b>Investments</b>	<b>(7.3)</b>	<b>(10.7)</b>	<b>(31.3%)</b>	<b>(8.1)</b>	<b>(9.1%)</b>	<b>(52.8)</b>	<b>(59.4)</b>	<b>(11.2%)</b>
Disposals	13.3	82.8	(84.0%)	-	n.s.	13.7	83.5	(83.6%)
<b>Net cash flow used in investing activities</b>	<b>5.9</b>	<b>72.1</b>	<b>(91.8%)</b>	<b>(8.1)</b>	<b>n.s.</b>	<b>(39.1)</b>	<b>24.0</b>	<b>n.s.</b>

Maintenance capex amounted to €3.9m in 4Q21 and to €11.7m in 2021, compared to €1.8m and €11.1m in the same periods of 2020, respectively.

Investments in sustainability initiatives, meanwhile, amounted to €1.2m in 4Q21 and €13.9m in 2021, compared to €2.2m and €12.9m in the same periods of 2020, respectively, and were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term.

The outlay for efficiency and growth capex amounted to €1.9m in 4Q21 and to €26.8m in 2021, compared to €3.4m and €32.2m in the same periods of 2020, respectively. Those payments are mostly related with the capacity added in 2019.

Lastly, the proceeds from disposals correspond to the reimbursement of capital contributions to the Renewable Energy business in the amount of €13.3m in 4Q21; in 4Q20, this heading included the proceeds from the sale of the solar thermal plant in Puertollano of €82.5m.



As a result, normalised free cash flow in the Pulp business amounted to €42.5m in 2021, while free cash flow net of the positive impact of the regulatory collar and of efficiency, growth and sustainability capex came in at €43.8m.

## 2.9. Change in net debt

The Pulp business ended 2021 with €19.5m of net cash, an improvement of €62.9m from the net debt position recorded at year-end 2020. Free cash flow was boosted by the derecognition of lease liabilities related with the concession fee in Pontevedra in the amount of €28.8m, reducing lease liabilities to €16.4m by year-end.

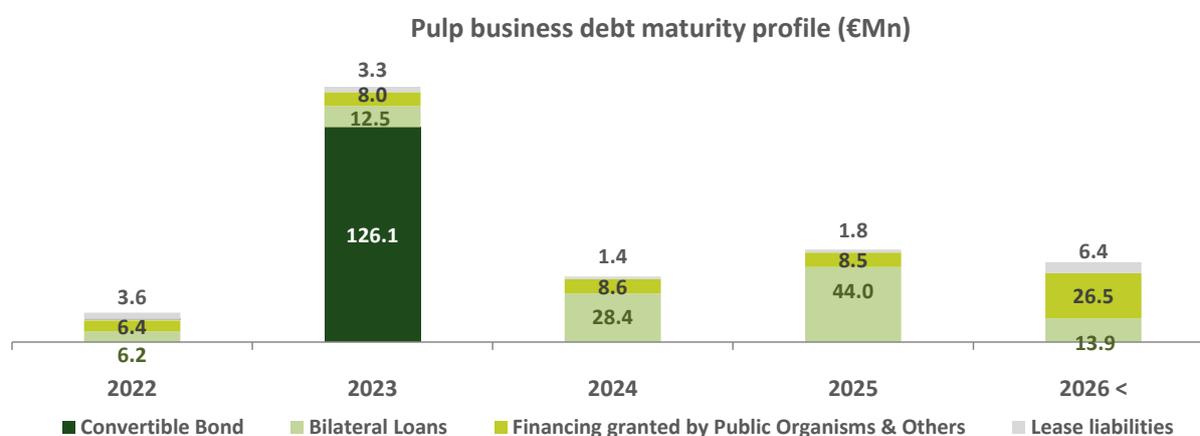
Figures in € m	Dec. 21 pre rullings	Rullings impact	Dec-21	Dec-20	Δ%
Non-current financial debt	276.5		276.5	401.2	(31.1%)
Current financial debt	12.6		12.6	54.4	(76.9%)
<b>Gross financial debt</b>	<b>289.1</b>		<b>289.1</b>	<b>455.6</b>	<b>(36.5%)</b>
Non-current lease contracts	42.8	(30.0)	12.8	42.8	(70.0%)
Current lease contracts	2.4	1.2	3.6	2.0	78.2%
<b>Financial liabilities related to lease contracts</b>	<b>45.3</b>	<b>(28.8)</b>	<b>16.4</b>	<b>44.8</b>	<b>(63.3%)</b>
Cash and cash equivalents	318.5		318.5	448.1	(28.9%)
Short-term financial investments	6.6		6.6	9.0	(26.5%)
<b>Net financial debt Pulp business</b>	<b>9.3</b>	<b>(28.8)</b>	<b>(19.5)</b>	<b>43.4</b>	<b>n.s.</b>

Due to the cyclical nature of the Pulp business, it is financed with covenant-free, long-term debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €325.1m.

In light of heightened uncertainty regarding the fate of COVID-19 and following the sale of a 49% equity interest in Ence Energía, S.L. in December 2020, the Company prepaid €115m of bilateral loans, repurchased €31.3m of convertible bonds and reduced the use of receivables discounting facilities by €12.4m during the year in order to reduce the associated financial cost.

In addition, in 3Q21, it refinanced the business's revolving credit facility (RCF), increasing the limit to €130m, and refinanced €80m of bilateral loans, extending both the RCF and the loans' maturity to 2026.

The gross debt of €289.1m at year-end corresponds mainly to the €126.1m of convertible bonds (adjusted for the value of the equity component), the outstanding balance of €105m on bilateral loans and a series of loans totalling €58m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



### 3. RENEWABLE ENERGY BUSINESS

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

The new agricultural and forestry biomass plants in Huelva (46 MW) and Puertollano (Ciudad Real) (50 MW) were brought on line on 31 January and 31 March 2020, respectively.

In December 2020, Ence sold a minority interest of 49% in Ence Energía, S.L. to the infrastructure fund, Ancala Partners, for a fixed sum of €223m, which was collected at the transaction close, plus an earnout which is tied to the business's development and cash generation over the coming years.

Also in December 2020, Ence sold its 50-MW solar thermal power plant in Puertollano (Ciudad Real) for €157m, including the €75m of net debt assumed by the buyer.

In December 2021, the company 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.

Ence 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

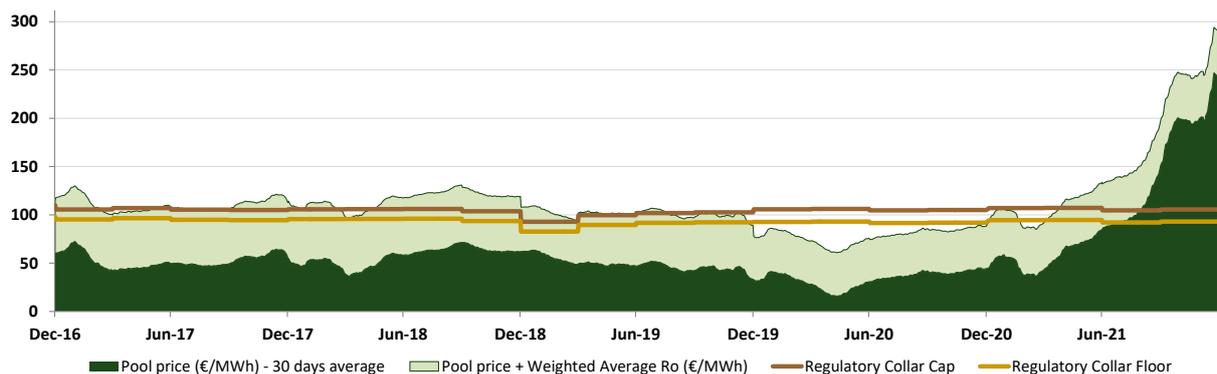
Electricity pool prices averaged €218.1/MWh in 4Q21, which is 5.2 times the 4Q20 level, and €116.5/MWh in 2020, 3.5 times 2020 prices.

Market figures	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Average pool price (€/MWh)	218.1	41.7	n.s.	121.9	78.9%	116.5	33.8	245.0%

Source: Bloomberg

The price per MWh recognised by Ence in its statement of profit or loss is determined by the market price (pool price) plus the remuneration for the operation of each facility (Ro), within the ceiling and floor set by the regulator (regulatory collar), with the exception of the two newest biomass plants, commissioned in 2020, which are not currently subject to the regulatory collar.

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



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

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 was suspended temporarily from July by Royal Decree 12/2021, such that Ence has reduced its plants' 2H21 sales average sales price accordingly, with no significant impact on EBITDA.

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

### 3.2. Energy sales

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

Ence sold 427,957 MWh of energy in 4Q21, year-on-year growth of 2.6% on a like-for-like basis (i.e., excluding the solar thermal plant in Puertollano, sold in December 2020). In 2021, like-for-like energy sales volumes increased by 5% to 1,430,199 MWh, due mainly to higher capacity utilisation at the new Huelva 46-MW and Ciudad Real 50-MW plants, coupled with a higher contribution by the Huelva 41-MW plant, which offset the reduced contributed by the Huelva 50-MW plant, which was taken offline in 2Q21 and 3Q21 due to an incident detected at the generator in the course of its annual review.

The Cordoba 28-MW plant was stopped for maintenance in 4Q21. In 2Q21, the 50-MW Ciudad Real, 20-MW Merida, 16-MW Ciudad Real and 16-MW Jaen plants were stopped for their annual maintenance work. The 50-MW, 41-MW and 46-MW Huelva plants had been stopped for maintenance in 1Q21.

Operating figures	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
Huelva 41 MW - Biomass	54,537	53,900	1.2%	52,860	3.2%	193,237	106,733	81.0%
Jaén 16 MW - Biomass	25,113	17,913	40.2%	23,284	7.9%	92,029	88,644	3.8%
Ciudad Real 16 MW - Biomass	26,319	25,400	3.6%	25,843	1.8%	101,645	81,661	24.5%
Córdoba 27 MW - Biomass	39,572	48,040	(17.6%)	49,290	(19.7%)	183,470	196,371	(6.6%)
Ciudad Real 50 MW - CSP plant	-	7,198	(100.0%)	-	n.s.	-	59,874	(100.0%)
Huelva 50 MW - Biomass	86,540	98,302	(12.0%)	-	n.s.	125,876	330,551	(61.9%)
Mérida 20 MW - Biomass	38,967	37,082	5.1%	41,726	(6.6%)	151,945	147,854	2.8%
Huelva 46 MW - Biomass	80,902	69,254	16.8%	75,793	6.7%	293,118	214,360	36.7%
Ciudad Real 50 MW - Biomass	76,006	67,250	13.0%	75,992	0.0%	288,878	195,398	47.8%
<b>Energy sales (MWh)</b>	<b>427,957</b>	<b>424,339</b>	<b>0.9%</b>	<b>344,787</b>	<b>24.1%</b>	<b>1,430,199</b>	<b>1,421,446</b>	<b>0.6%</b>
<i>Energy sales excluding the CSP plant (MWh)</i>	<i>427,957</i>	<i>417,141</i>	<i>2.6%</i>	<i>344,787</i>	<i>24.1%</i>	<i>1,430,199</i>	<i>1,361,572</i>	<i>5.0%</i>
Average sales price - Pool + Ro + Collar + Hedges (€/MWh)	63.7	94.0	(32.2%)	68.9	(7.5%)	81.3	97.0	(16.3%)
Remuneration for investment (€m)	8.6	15.3	(44.1%)	8.8	(2.8%)	37.8	62.9	(39.9%)
<i>Remuneration for investment excluding the CSP plant (€m)</i>	<i>8.6</i>	<i>10.2</i>	<i>(16.3%)</i>	<i>8.8</i>	<i>(2.8%)</i>	<i>37.8</i>	<i>40.9</i>	<i>(7.5%)</i>
<b>Revenue (€ m)</b>	<b>36.1</b>	<b>55.4</b>	<b>(34.8%)</b>	<b>32.8</b>	<b>10.0%</b>	<b>154.9</b>	<b>201.8</b>	<b>(23.3%)</b>
Capitalized revenues (€ m)	-	-	-	-	-	-	4.1	-
<b>Total revenue (€ m)</b>	<b>36.1</b>	<b>55.4</b>	<b>(34.8%)</b>	<b>32.8</b>	<b>10.0%</b>	<b>154.9</b>	<b>206.0</b>	<b>(24.8%)</b>

Despite the increase in pool prices, Ence's average sales price narrowed by 32.2% year-on-year in 4Q21 as a result of the sales contracted at a fixed price, in addition to the impact of the regulatory collar limits. In 2021, average sales prices declined by 16.3% year-on-year.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). That accounting treatment led to the recognition of a provision of €46.9m in 4Q21 and of €65m in 2021, with equivalent counterbalancing cash inflows in both periods.

Elsewhere, in 2020, Ence decided to lock in an average price of €44.5/MWh for the sale of 732,063 MWh of energy in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high.

Those hedges implied a cash outflow of €33.6m in 4Q21 and of €53.3m in 2021 and were accounted for as a reduction in the average sales price.

Lastly, remuneration on investment decreased by €6.7m in 4Q21 and by €25.1m in 2021 as a result, mainly, of the sale of the solar thermal plant in December 2020. The incident at the 50-MW Huelva plant had the effect of eroding remuneration on investment by €3.1m in 2021.

In total, the Renewable Energy business posted revenue of €36.1m in 4Q21, down 34.8% year-on-year, and of €154.9m in 2020, growth of 24.8%.

### 3.3. Statement of profit or loss

Figures in € m	4T21	4T20	Δ%	3T21	Δ%	2021	2020	Δ%
<b>Total revenue</b>	<b>36.1</b>	<b>55.4</b>	<b>(34.8%)</b>	<b>32.8</b>	<b>10.0%</b>	<b>154.9</b>	<b>206.0</b>	<b>(24.8%)</b>
<b>EBITDA</b>	<b>37.0</b>	<b>17.4</b>	<b>113.4%</b>	<b>11.5</b>	<b>222.2%</b>	<b>71.1</b>	<b>59.7</b>	<b>18.9%</b>
<i>EBITDA margin</i>	<i>103%</i>	<i>31%</i>	<i>71.3 p.p.</i>	<i>35%</i>	<i>67.6 p.p.</i>	<i>46%</i>	<i>29%</i>	<i>16.9 p.p.</i>
<b>EBITDA before hedges and excluding the CSP plant</b>	<b>37.0</b>	<b>14.0</b>	<b>165.0%</b>	<b>11.5</b>	<b>222.2%</b>	<b>71.1</b>	<b>42.2</b>	<b>68.3%</b>
<b>EBITDA</b>	<b>3.4</b>	<b>17.4</b>	<b>(80.2%)</b>	<b>(3.6)</b>	<b>n.s.</b>	<b>17.8</b>	<b>59.7</b>	<b>(70.2%)</b>
<i>EBITDA margin</i>	<i>10%</i>	<i>31%</i>	<i>(21.8) p.p.</i>	<i>-11%</i>	<i>20.5 p.p.</i>	<i>11%</i>	<i>29%</i>	<i>(17.5) p.p.</i>
<b>EBITDA excluding the CSP plant</b>	<b>3.4</b>	<b>11.9</b>	<b>(71.2%)</b>	<b>-3.6</b>	<b>n.s.</b>	<b>17.8</b>	<b>45.6</b>	<b>(61.0%)</b>
Depreciation and amortisation	(9.0)	(12.1)	(26.2%)	(9.0)	(0.8%)	(36.9)	(44.0)	(16.3%)
Impairment of and gains/(losses) on fixed-asset disposals	(0.7)	(0.1)	n.s.	(0.1)	n.s.	(1.1)	(1.8)	(42.5%)
	-	32.9		-		-	32.9	(100.0%)
<b>EBIT</b>	<b>(6.3)</b>	<b>37.9</b>	<b>n.s.</b>	<b>(12.7)</b>	<b>(50.8%)</b>	<b>(20.1)</b>	<b>46.7</b>	<b>n.s.</b>
<i>EBIT margin</i>	<i>-17%</i>	<i>69%</i>	<i>(85.9) p.p.</i>	<i>-39%</i>	<i>21.4 p.p.</i>	<i>-13%</i>	<i>23%</i>	<i>(35.7) p.p.</i>
Net finance cost	(3.1)	(4.3)	(29.4%)	(3.1)	0.3%	(11.9)	(16.1)	(26.2%)
Other finance income/(cost)	0.4	0.0	n.s.	0.5	(30.3%)	1.1	0.0	n.s.
<b>Profit before tax</b>	<b>(8.9)</b>	<b>33.6</b>	<b>n.s.</b>	<b>(15.2)</b>	<b>(41.3%)</b>	<b>(30.9)</b>	<b>30.6</b>	<b>n.s.</b>
Income tax	2.0	(3.7)	n.s.	3.8	(47.3%)	6.3	(3.0)	n.s.
<b>Net Income</b>	<b>(7.0)</b>	<b>29.9</b>	<b>n.s.</b>	<b>(11.5)</b>	<b>(39.3%)</b>	<b>(24.6)</b>	<b>27.7</b>	<b>n.s.</b>
Non-controlling interests	(0.2)	(0.4)	(46.8%)	(0.1)		(1.0)	(1.7)	(43.1%)
<b>Attributable Net Income</b>	<b>(7.2)</b>	<b>29.5</b>	<b>n.s.</b>	<b>(11.6)</b>	<b>(38.0%)</b>	<b>(25.5)</b>	<b>26.0</b>	<b>n.s.</b>

\* The €32.9m gain recognised in 4Q20 on the sale of the solar thermal plant in Puertollano has been reclassified from other finance income to non-recurring operating income

The impact of the sharp increase in pool prices on the plants that are not bound by the regulatory price cap, coupled with collection of an insurance claim of €9.2m in connection with the breakdown at the Huelva 50-MW plant, drove life-for-like (excluding the solar thermal plant) EBITDA, before hedges, in the Renewable Energy business 165% higher year-on-year to €37m in 4Q21 and 68% higher to €71.1m in 2021.

The above-mentioned fixed-price hedges had a negative impact of €33.6m in 4Q21 and of €53.3m in 2021.

As a result, 4Q21 EBITDA decreased to €3.4m, compared to €11.4m in 4Q20 (excluding the EBITDA corresponding to the solar thermal plant sold in December 2020). By the same token, 2021 EBITDA amounted to €17.8m, compared to a like-for-like €45.6m in 2020.

Below the EBITDA line, it is worth highlighting the 16% decline in depreciation charges to €36.7m in 2021, again as a result of the sale of the solar thermal plant.

Other non-recurring income of €32.9m in 2020 included the gain on the sale of the 50-MW solar thermal plant in Puertollano in December of that year.

Net finance costs decreased by 26.2% to €11.9m in 2021, due to the deconsolidation of the solar thermal plant and its debt.

As a result, the net loss attributable to the Renewable Energy business amounted to €7.2m in 4Q21 and €29.5m in 2021, compared to a net profit of €29.5m in 4Q20 and of €25.5m in 2020.

### 3.4. Cash flow analysis

Cash flow from operations totalled €46.5m in 4Q21 and €58.4m in 2021, compared to €9.6m in 4Q20 and €38.5m in 2020, mainly due to opposing trends in the regulatory collar in the two reporting periods.

Figures in € m	4Q21	4Q20	Δ%	3Q21	Δ%	2021	2020	Δ%
<b>EBITDA</b>	<b>3.4</b>	<b>17.4</b>	<b>(80.2%)</b>	<b>(3.6)</b>	<b>n.s.</b>	<b>17.8</b>	<b>59.7</b>	<b>(70.2%)</b>
Energy regulation adjustment (regulatory collar)	46.9	(3.1)	n.s.	19.4	141.4%	65.0	(25.6)	n.s.
Non cash expenses / (incomes)	(2.6)	(9.6)	(73.2%)	(1.4)	90.5%	1.8	(3.5)	n.s.
Other collections / (payments)	(0.0)	0.0	n.s.	(0.0)	(56.1%)	(0.1)	(0.0)	239.9%
Change in working capital	4.5	13.2	(65.5%)	(10.5)	n.s.	(6.9)	23.7	n.s.
Income tax received / (paid)	(0.5)	(1.2)	(59.1%)	(6.6)	(92.5%)	(6.9)	(0.4)	n.s.
Net interest received / (paid)	(5.3)	(7.0)	(24.0%)	(0.6)	n.s.	(12.3)	(15.6)	(21.0%)
<b>Net cash flow from operating activities</b>	<b>46.5</b>	<b>9.6</b>	<b>n.s.</b>	<b>(3.4)</b>	<b>n.s.</b>	<b>58.4</b>	<b>38.5</b>	<b>51.9%</b>

That regulatory collar had a positive impact on cash flow generation of €46.9m in 4Q21 and of €65m in 2021, compared to negative impacts of €3.1m and €25.6m in the same periods of 2020.

Elsewhere, the change in working capital implied cash inflows of €4.5m in 4Q21 and of €6.9m in 2021, compared to inflows of €13.2m and €23.7m in 4Q20 and 2020, respectively.

Figures in € m	4T21	4T20	Δ%	3T21	Δ%	2021	2020	Δ%
Inventories	4.6	4.5	1.7%	(0.2)	n.s.	(2.0)	1.1	n.s.
Trade and other receivables	(12.2)	6.2	n.s.	1.4	n.s.	(5.5)	(2.8)	97.9%
Current financial and other assets	0.1	-	n.s.	(0.1)	n.s.	-	-	n.s.
Trade and other payables	12.0	2.5	n.s.	(11.7)	n.s.	0.6	25.4	(97.6%)
<b>Change in working capital</b>	<b>4.5</b>	<b>13.2</b>	<b>(65.5%)</b>	<b>(10.5)</b>	<b>n.s.</b>	<b>(6.9)</b>	<b>23.7</b>	<b>n.s.</b>

At year-end, the Renewable Energy business had drawn down its factoring lines by €13.3m, down €8.9m from the €22.2m drawn at year-end 2020. Ence has also contracted several non-recourse reverse factoring facilities, which were drawn down by €18.1m at the December close, compared to €27.4m at year-end 2020.

Figures in € m	4T21	4T20	Δ%	3T21	Δ%	2021	2020	Δ%
Maintenance capex	(0.5)	(1.2)	(52.8%)	(0.5)	4.4%	(3.3)	(5.1)	(34.6%)
Sustainability capex and other	(0.6)	(0.5)	5.9%	(1.1)	(47.9%)	(2.9)	(3.4)	(14.2%)
Efficiency and expansion capex	(3.3)	(12.5)	(73.3%)	(2.3)	44.8%	(12.3)	(59.2)	(79.3%)
Financial investments	0.1	-	n.s.	-	n.s.	0.0	0.0	(80.0%)
<b>Investments</b>	<b>(4.3)</b>	<b>(14.2)</b>	<b>(69.3%)</b>	<b>(3.9)</b>	<b>10.9%</b>	<b>(18.5)</b>	<b>(67.7)</b>	<b>(72.6%)</b>
Disposals	5.5	58.3	(90.5%)	-	n.s.	5.5	58.3	(90.5%)
<b>Net cash flow from investing activities</b>	<b>1.2</b>	<b>44.1</b>	<b>(97.3%)</b>	<b>(3.9)</b>	<b>n.s.</b>	<b>(13.0)</b>	<b>(9.4)</b>	<b>37.7%</b>

Maintenance capex was pared back to €0.5m in 4Q21 and to €3.3m in 2021, compared to €1.2m and €5.1m in the same periods of 2020, respectively.

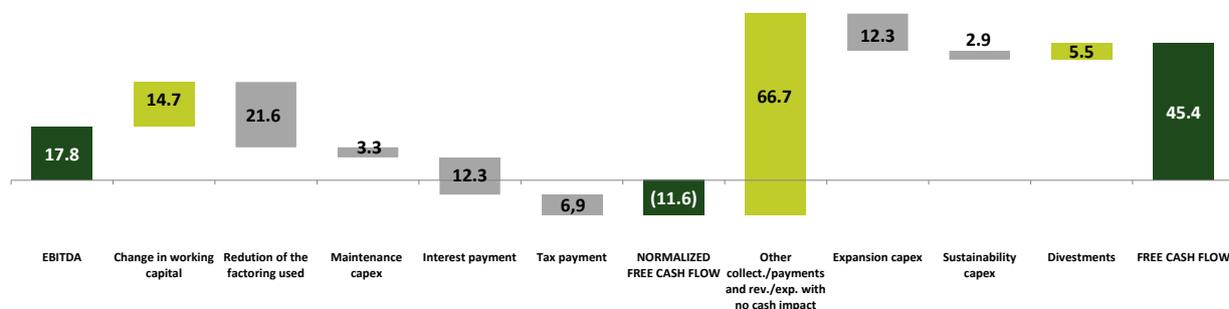
Investments in sustainability initiatives, meanwhile, amounted to €0.6m in 4Q21 and €2.9m in 2021, compared to €0.5m and €3.4m in the same periods of 2020, respectively.

Investments in efficiency and growth - €3.3m in 4Q21 and €12.3m in 2021 - corresponded mainly to payments outstanding on the construction of the two new biomass plants commissioned in 1Q20.

The efficiency and growth investments of €59.2m recognised in 2020 notably included the transfer of the remaining Huelva assets by the Pulp business at a value of €26.9m, thus completing the separation of the two units' assets; that transfer had no impact on the Group's consolidated cash flows.

Lastly, proceeds from disposals in the amount of €5.5m includes the upfront payment collected on the sale of five photovoltaic solar power developments with aggregate capacity of 373 MW agreed in December 2021. In the same period of 2020 this heading included the collection of €58.3m from the sale of Ence's investment in the Puertollano solar thermal plant. That balance was adjusted at the consolidated level as it was already included as proceeds in

the cash flows of the Pulp business, along with the €24.2m of cash at the plant at the transaction close, for a total sum of €82.5m.



As a result, free cash flow after the impact of the regulatory collar and investments in efficiency, growth and sustainability totalled €45.5m in 2021.

### 3.5. Change in net debt

Net debt in the Renewable Energy business decreased by €13.3m from year-end 2020 to €121.2m at 31 December 2021, following the repayment of shareholder capital contributions in the amount of €26.6m.

Figures in € m	Dec-21	Dec-20	Δ%
Non-current financial debt	162.2	189.2	(14.3%)
Current financial debt	29.4	28.6	2.8%
<b>Gross financial debt</b>	<b>191.6</b>	<b>217.8</b>	<b>(12.1%)</b>
Non-current lease contracts	0.7	0.7	1.9%
Current lease contracts	0.4	0.4	(15.1%)
<b>Financial liabilities related to lease contracts</b>	<b>1.1</b>	<b>1.2</b>	<b>(4.6%)</b>
Cash and cash equivalents	61.5	74.5	(17.5%)
Cash reserve for debt service	10.0	10.0	-
Short-term financial investments	0.0	0.0	-
<b>Net financial debt Renewable Energy business</b>	<b>121.2</b>	<b>134.5</b>	<b>(9.9%)</b>

Gross - long-term - debt at the December close stood at €191.6m, while cash amounted to €71.5m.

#### Energy debt maturity profile (€Mn)



## 4. CONSOLIDATED FINANCIAL STATEMENTS

### 4.1. Statement of profit or loss

Figures in € m	2021						2020			
	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Total revenue</b>	<b>667.6</b>	-	<b>667.6</b>	<b>154.9</b>	<b>(2.8)</b>	<b>819.7</b>	<b>504.5</b>	<b>206.0</b>	<b>(2.7)</b>	<b>707.7</b>
Other income	14.8	-	14.8	19.3	(1.4)	32.6	14.8	8.3	(5.6)	17.5
Foreign exchange hedging operations results	(88.2)	-	(88.2)	-	-	(88.2)	(9.3)	-	-	(9.3)
Cost of sales and change in inventories of finished products	(286.2)	-	(286.2)	(73.5)	2.8	(356.9)	(280.1)	(65.3)	2.7	(342.7)
Personnel expenses	(70.6)	-	(70.6)	(13.6)	-	(84.2)	(78.4)	(13.9)	-	(92.4)
Other operating expenses	(149.9)	1.5	(148.4)	(69.3)	1.4	(216.3)	(137.5)	(75.3)	5.6	(207.2)
<b>EBITDA</b>	<b>87.5</b>	<b>1.5</b>	<b>89.0</b>	<b>17.8</b>	<b>(0.0)</b>	<b>106.8</b>	<b>13.9</b>	<b>59.7</b>		<b>73.6</b>
<i>EBITDA margin</i>	13%		13%	11%		13%	3%	29%		10%
Depreciation and amortisation	(47.8)	-	(47.8)	(36.7)	2.7	(81.9)	(57.3)	(43.7)	3.9	(97.1)
Depletion of forestry reserves	(11.4)	-	(11.4)	(0.1)	-	(11.6)	(9.8)	(0.3)	-	(10.1)
Impairment of and gains/(losses) on fixed-asset disposals	(2.1)	(190.4)	(192.4)	(1.1)	-	(193.5)	0.2	(1.8)	-	(1.6)
Other non-ordinary operating gains/(losses)	(2.1)	6.3	4.2	-	-	4.2	(5.0)	32.9	-	27.9
<b>EBIT</b>	<b>24.2</b>	<b>(182.6)</b>	<b>(158.4)</b>	<b>(20.1)</b>	<b>2.7</b>	<b>(175.9)</b>	<b>(58.0)</b>	<b>46.7</b>	<b>3.9</b>	<b>(7.3)</b>
<i>EBIT margin</i>	4%		-24%	-13%		-21%	-11%	23%		-1%
Net finance cost	(9.6)	-	(9.6)	(11.9)	-	(21.5)	(12.1)	(16.1)	-	(28.3)
Other finance income/(costs)	3.7	-	3.7	1.1	-	4.9	(1.1)	0.0	-	(1.1)
<b>Profit before tax</b>	<b>18.3</b>	<b>(182.6)</b>	<b>(164.3)</b>	<b>(30.9)</b>	<b>2.7</b>	<b>(192.5)</b>	<b>(71.2)</b>	<b>30.6</b>	<b>3.9</b>	<b>(36.7)</b>
Income tax	(1.5)	(17.6)	(19.1)	6.3	3.3	(9.4)	18.9	(3.0)	(4.0)	11.9
<b>Net income</b>	<b>16.8</b>	<b>(200.2)</b>	<b>(183.4)</b>	<b>(24.6)</b>	<b>6.0</b>	<b>(202.0)</b>	<b>(52.3)</b>	<b>27.7</b>	<b>(0.1)</b>	<b>(24.7)</b>
Non-controlling interests	-	-	-	(1.0)	12.5	11.6	-	(1.7)	-	(1.7)
<b>Atributable Net Income</b>	<b>16.8</b>	<b>(200.2)</b>	<b>(183.4)</b>	<b>(25.5)</b>	<b>18.5</b>	<b>(190.4)</b>	<b>(52.3)</b>	<b>26.0</b>	<b>(0.1)</b>	<b>(26.4)</b>
Earnings per Share (EPS)	0.07	(0.82)	(0.75)	(0.11)	0.08	(0.78)	(0.21)	0.11	(0.00)	(0.11)

\* The €32.9m gain recognised in 4Q20 on the sale of the solar thermal plant in Puertollano has been reclassified from other finance income to non-recurring operating income

### 4.2. Balance sheet

Figures in € m	Dec- 21						Dec - 20			
	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Intangible assets</b>	<b>15.6</b>	<b>(2.5)</b>	<b>13.2</b>	<b>38.1</b>	<b>(13.3)</b>	<b>37.9</b>	<b>15.8</b>	<b>40.0</b>	<b>(13.9)</b>	<b>41.9</b>
Property, plant and equipment	608.9	(172.0)	436.9	456.3	(9.6)	883.6	627.7	476.8	(11.7)	1,092.9
Biological assets	62.1	(2.5)	59.6	0.1	-	59.7	71.0	0.2	-	71.3
Non-current investments in Group companies	112.6	-	112.6	0.0	(112.5)	0.0	125.8	0.0	(125.8)	-
Non-current borrowings to Group companies	38.3	-	38.3	-	(38.3)	-	38.3	-	(38.3)	-
Non-current financial assets	14.6	-	14.6	1.9	-	16.5	17.6	6.6	-	24.2
Deferred tax assets	37.7	(17.6)	20.1	22.1	3.3	45.6	56.2	15.8	-	72.0
Cash reserve for debt service	-	-	-	10.0	-	10.0	-	10.0	-	10.0
<b>Total non-current assets</b>	<b>889.7</b>	<b>(194.6)</b>	<b>695.2</b>	<b>528.5</b>	<b>(170.4)</b>	<b>1,053.3</b>	<b>952.4</b>	<b>549.5</b>	<b>(189.7)</b>	<b>1,312.2</b>
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
Inventories	56.5	(2.9)	53.6	12.1	-	65.7	43.3	9.5	(1.0)	51.8
Trade and other accounts receivable	70.2	-	70.2	42.2	(17.5)	94.9	61.7	23.2	(26.7)	58.2
Income tax	1.5	-	1.5	0.3	-	1.8	0.0	0.9	-	1.0
Other current assets	10.7	-	10.7	(0.0)	-	10.7	1.3	0.1	-	10.6
Hedging derivatives	0.0	-	0.0	-	-	-	6.8	-	-	6.8
Current financial investments	6.6	-	6.6	0.0	-	6.6	18.2	0.0	-	9.0
Cash and cash equivalents	318.5	-	318.5	61.5	-	380.0	448.1	74.5	-	522.6
<b>Total current assets</b>	<b>464.0</b>	<b>(2.9)</b>	<b>461.1</b>	<b>116.1</b>	<b>(17.5)</b>	<b>559.7</b>	<b>579.4</b>	<b>108.3</b>	<b>(27.7)</b>	<b>659.9</b>
<b>TOTAL ASSETS</b>	<b>1,353.7</b>	<b>(197.5)</b>	<b>1,156.2</b>	<b>644.6</b>	<b>(187.9)</b>	<b>1,613.0</b>	<b>1,531.8</b>	<b>657.8</b>	<b>(217.5)</b>	<b>1,972.1</b>
<b>Equity</b>	<b>739.2</b>	<b>(200.2)</b>	<b>539.0</b>	<b>218.6</b>	<b>(132.1)</b>	<b>625.5</b>	<b>733.0</b>	<b>268.5</b>	<b>(151.3)</b>	<b>850.1</b>
Non-current borrowings	319.4	(30.0)	289.4	162.9	-	452.3	444.0	190.0	-	634.0
Non-current loans with Group companies and associates	-	-	-	75.2	(38.3)	36.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	2.2	-	2.2	0.1	5.5	-	5.6
Deferred tax liabilities	-	-	-	-	-	-	19.9	1.8	-	21.7
Non-current provisions	2.9	48.3	51.1	0.1	-	51.2	2.7	0.1	-	2.8
Other non-current liabilities	23.7	-	23.7	68.0	-	91.8	4.5	8.8	-	13.3
<b>Total non-current liabilities</b>	<b>346.0</b>	<b>18.3</b>	<b>364.2</b>	<b>308.4</b>	<b>(38.3)</b>	<b>634.2</b>	<b>471.2</b>	<b>281.3</b>	<b>(38.3)</b>	<b>714.2</b>
Current borrowings	15.0	1.2	16.2	29.8	-	46.0	56.4	29.0	-	85.5
Current derivatives	7.0	-	7.0	2.6	-	9.6	4.9	3.2	-	8.1
Trade and other account payable	215.2	(1.5)	213.7	81.3	(17.5)	277.5	238.0	68.2	(26.8)	279.3
Short-term debts with group companies	0.0	-	0.0	1.3	-	1.3	0.0	-	-	-
Income tax	0.0	-	0.0	0.1	-	0.1	0.0	5.6	-	5.6
Current provisions	31.4	(15.3)	16.1	2.7	-	18.8	28.4	1.9	(1.0)	29.4
<b>Total current liabilities</b>	<b>268.6</b>	<b>(15.6)</b>	<b>253.0</b>	<b>117.7</b>	<b>(17.5)</b>	<b>353.2</b>	<b>327.8</b>	<b>108.0</b>	<b>(27.8)</b>	<b>407.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,353.7</b>	<b>(197.5)</b>	<b>1,156.2</b>	<b>644.6</b>	<b>(187.9)</b>	<b>1,613.0</b>	<b>1,531.9</b>	<b>657.8</b>	<b>(217.5)</b>	<b>1,972.2</b>

### 4.3. Statement of cash flows

Figures in €Mn	2021					2020				
	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Resultado del ejercicio antes de impuestos</b>	<b>18.3</b>	<b>(182.6)</b>	<b>(164.3)</b>	<b>(30.9)</b>	<b>2.7</b>	<b>(192.5)</b>	<b>(71.2)</b>	<b>30.6</b>	<b>3.9</b>	<b>(36.7)</b>
Amortización del inmovilizado	59.3		59.3	36.9	(2.7)	93.5	67.0	44.0	(3.9)	107.1
Variación de provisiones y otros gastos a distribuir	7.3	(7.8)	(0.5)	2.1		1.6	8.4	(3.2)		5.2
Deterioro y resultado por enajenaciones de inmovilizado	2.1	190.4	192.4	1.1	(0.0)	193.5	(0.4)	(31.1)		(31.5)
Resultado financiero neto	7.2		7.2	10.8		18.0	13.0	16.1		29.2
Ajuste regulación eléctrica (collar regulatorio)	24.1		24.1	65.0		89.1	(10.6)	(25.6)		(36.2)
Subvenciones transferidas a resultados	(0.6)		(0.6)	(0.3)		(0.9)	(1.0)	(0.3)		(1.2)
<b>Ajustes al resultado</b>	<b>99.4</b>	<b>182.6</b>	<b>282.0</b>	<b>115.4</b>	<b>(2.7)</b>	<b>394.7</b>	<b>76.5</b>	<b>0.1</b>	<b>(3.9)</b>	<b>72.6</b>
Existencias	(11.5)		(11.5)	(2.0)		(13.5)	2.4	1.1		3.5
Deudores comerciales y otras cuentas a cobrar	(43.9)		(43.9)	(5.5)		(49.4)	(8.0)	(2.8)		(10.8)
Inversiones financieras y otro activo corriente	2.4		2.4	0.0		2.4	(4.5)	-		(4.5)
Acreedores comerciales y otras cuentas a pagar	26.4		26.4	0.6		27.0	28.9	25.4		54.3
<b>Cambios en el capital circulante</b>	<b>(26.6)</b>		<b>(26.6)</b>	<b>(6.9)</b>		<b>(33.6)</b>	<b>18.8</b>	<b>23.7</b>		<b>42.5</b>
Pago neto de intereses	(6.9)		(6.9)	(12.3)		(19.2)	(6.5)	(15.6)		(22.0)
Cobros de dividendos	0.0		0.0	-		0.0	-	-		-
Cobros/(Pagos) por impuesto sobre beneficios	(1.3)		(1.3)	(6.9)		(8.16)	6.3	(0.4)		5.9
Otros cobros / (Pagos)	-		-	(0.0)		(0.0)	-	-		-
<b>Otros flujos de efectivo de las actividades de explotación</b>	<b>(8.2)</b>		<b>(8.2)</b>	<b>(19.2)</b>		<b>(27.4)</b>	<b>(0.2)</b>	<b>(15.9)</b>		<b>(16.1)</b>
<b>Flujo de caja de explotación</b>	<b>82.9</b>		<b>82.9</b>	<b>58.4</b>		<b>141.3</b>	<b>23.9</b>	<b>38.4</b>		<b>62.4</b>
Activos materiales y biológicos	(49.9)		(49.9)	(18.4)		(68.3)	(52.2)	(66.9)	26.9	(92.2)
Activos inmateriales	(2.6)		(2.6)	(0.2)		(2.7)	(4.0)	(0.8)		(4.8)
Otros activos financieros	(0.3)		(0.3)	0.0		(0.3)	(3.2)	0.0	3.2	-
Cobros por desinversiones	13.7		13.7	5.5	(13.3)	6.0	83.5	58.3	(82.5)	59.2
<b>Flujo de caja de inversión</b>	<b>(39.1)</b>		<b>(39.1)</b>	<b>(13.0)</b>	<b>(13.3)</b>	<b>(65.4)</b>	<b>24.0</b>	<b>(9.4)</b>	<b>(52.4)</b>	<b>(37.8)</b>
<b>Flujo de caja libre</b>	<b>43.8</b>		<b>43.8</b>	<b>45.4</b>	<b>(13.3)</b>	<b>75.9</b>	<b>47.9</b>	<b>29.0</b>	<b>(52.4)</b>	<b>24.6</b>
Cobros / (pagos) por instrumentos de patrimonio	(2.2)		(2.2)	-		(2.2)	219.8	(52.4)	52.4	219.8
Cobros / (pagos) por instrumentos de pasivo financiero	(171.2)		(171.2)	(31.9)		(203.1)	79.1	(11.6)		67.5
Pagos por dividendos	-		-	(26.6)	13.3	(13.4)	-	(1.4)		(1.4)
<b>Flujo de caja de financiación</b>	<b>(173.3)</b>		<b>(173.3)</b>	<b>(58.5)</b>	<b>13.3</b>	<b>(218.6)</b>	<b>298.9</b>	<b>(65.4)</b>	<b>52.4</b>	<b>285.8</b>
<b>Aumento / (disminución) neta de efectivo y equivalentes</b>	<b>(129.6)</b>		<b>(129.6)</b>	<b>(13.1)</b>		<b>(142.7)</b>	<b>346.8</b>	<b>(36.4)</b>		<b>310.4</b>

## 5. KEY DEVELOPMENTS

### National Court Sentences affecting the concession in Pontevedra

The 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. Ence has appealed the sentences before the Supreme Court and is awaiting an initial decision from the high court about the admissibility of the appeals lodged.

If the Supreme Court does not agree to hear, or dismisses, the appeals, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (at the behest of the Appellate Court) the deadline for potentially discontinuing activities at the biomill.

In keeping with applicable accounting rules, assuming a scenario in which operations at the biomill have to be discontinued between 2023 and 2024, the Group recognised asset impairment losses and provisions for expenditures that will not imply an outflow of cash in a net amount of €151.9m in its second-quarter 2021 financial statements, along with a €42.3m provision to cover the estimated cost of the potential dismantling of the biomill and a €6m provision for the cost of possibly having to terminate certain contracts.

The cost of restructuring the surplus manpower, including some of the Group's corporate services staff, as a result of the potential discontinuation of business in Pontevedra, has not been provided for, given that the related recognition requirements under prevailing accounting rules have not been met.

If, having exhausted all appeal options, the annulment of the extension of the Pontevedra biomill concession extension is upheld, the Company will seek damages from the state in respect of all the losses caused to it as a result.

### New Shareholder Remuneration Policy of Ence Energía y Celulosa, S.A.

28 February 2022, ENCE's Board of Directors approved a new the following Shareholder Remuneration Policy.

The overriding purpose of the Policy is to establish, within the scope of applicable legislation, the Company's Bylaws and prevailing corporate governance recommendations, a series of remuneration criteria designed to tie the Company's financial performance to the remuneration received by its shareholders, framed by principles of sustainability, profitability and financial prudence.

To that end, it has been decided that the main criterion that should articulate and guide the Policy should be cash generation at ENCE and its subsidiaries, coupled with the ability to keep leverage at a level deemed prudent for the types of business carried on by the Company, aligned with its legal and contractual obligations.

As a result, annual shareholder remuneration will be determined by the cash available for distribution while ensuring an appropriate level of leverage of, by way of reference, a factor of ENCE's earnings before interest, tax, depreciation and amortisation ("EBITDA") of 2.5 times in the Pulp business and 5 times in the Energy business, using mid-cycle prices, and considering existing commitments and investment plans.

In keeping with the criterion of prudence, in order to align remuneration with the Company's actual cash generation, the Board proposes the following dividend payment time schedule: (i) two interim dividends agreed at the end of the second and third quarters of each year, i.e., in the months of July and October; and (ii) a final dividend for submission at the Company's Annual General Meeting within the first six months of the following year.

The Board of Directors may propose the forms of shareholder remuneration it deems most fitting at any given point in time, potentially including the repurchase of shares for cancellation, flexible remuneration schemes and in-kind distributions.

### **S&P and Moody's credit ratings**

S&P reiterated Ence's BB- rating on 6 December 2021, a decision it attributed to the recovery in pulp and electricity prices, as well as the Company's strong liquidity position. It did, however, change its outlook from Stable to Negative to reflect the risk of annulment of the extension of the concession in Pontevedra.

On 14 October 2021, Moody's reiterated Ence's credit rating of Ba3 in light of the improvement in its credit ratios thanks to the recovery in pulp prices, as well as its strong liquidity position. That agency similarly changed its outlook from Stable to Negative to reflect the risk of annulment of the Pontevedra pulp biomill concession.

### **PV solar asset rotation**

On 10 December 2021, Ence Energía, S.L. agreed to sell Naturgy Renovables S.L.U. five photovoltaic assets with aggregate capacity of 373 MW; the individual assets will be sold as they complete their permitting processes, milestones expected to take place between 4Q22 and 1Q24.

The sale price is up to €62 million, subject to certain adjustments depending on the contractual terms.

### **Improvement in ESG score**

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

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

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

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

### **2021 Annual General Meeting**

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

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

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

### **Maintenance of activity and jobs**

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

### **COVID-19 protocol**

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

Among other things, the protocol stipulates the following:

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

The protocol is updated constantly to layer in new scientific knowledge, prevailing legislation and other pandemic developments.

### **COVID-19 related costs**

In 2021, the costs induced by Covid-19 amounted to €1.7m. Those costs include extra staff costs to implement the new safety and hygiene measures put in place and the provision of disinfectants, face masks, tests and equipment to facilitate working from home.

## APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

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

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

### 1. People and values

Ence's commitment to its people has guided the Company's actions since the onset of the pandemic induced by COVID-19 in 2020. Throughout 2021, the Company continued to revise and fine-tune its general protocols, as well as the protocols addressing stoppages and restriction easing, to adapt them for the circumstances prevailing at all times.

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

In terms of the generation of quality work, note that, in addition to preserving all jobs throughout the pandemic, at year-end 2021, 90% of Ence employees had indefinite employment contracts and 98% 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 2021, it promoted 56 professionals, 20 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 2021, the Company imparted 20,269 hours of training, i.e., nearly 18 hours per employee (up 18% from 2020), adapting the formats for the remote working arrangements and other safety protocols deriving from the health crisis.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by 3% in 2021 to account for 25% by year-end. Moreover, 80% of graduate hires under the age of 30 were female.

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.

Elsewhere, as part of the drive to create **sustainability awareness**, Ence has launched equality and sustainability related training programmes addressed at the entire organisation. Some 1,017 people participated in the equality training programme and 725 people participated the sustainability training programme, which was carried over from 2020.

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. Ence updates its safety protocol regularly and meets periodically to monitor how the Covid-19 pandemic is unfolding.

## 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 2021, Ence also updated its inventory of greenhouse gas emissions to include, for the first time, the analysis of the net carbon balance of the forests owned by the Company. That analysis, which was performed in keeping with the IPCC guidelines, showed that in 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.

2021 was marked by a vigorous effort to enhance **health and safety** management at the Company, which translated into a substantial improvement in accident metrics by comparison with 2020. Overall, Ence's injury frequency ratio improved by 39% in 2021, moving towards record levels.

Almost all of the business units (Pulp, Independent Power Plants, Forestry Purchases, Biomass Supplies) improved their frequency readings in 2021 and two of them (Independent Power Plants and Biomass Supplies) were accident-free all year long (i.e., frequency rate = 0), a remarkable achievement considering the fact that the various activities had to be adapted for the restrictions emanating from the health protocols. Moreover, all units outperformed the key benchmark accident indicators in Spain (general industry and the pulp and paper and the chemicals industries). The Company plans to continue to work to further improve its safety performance, which is a top priority for Ence.

On the **health front**, the situation continued to be dominated by COVID-19 health crisis, with the Group sticking to its proactive stance, which has made it a benchmark for many other firms, due to the speed of implementation and innovative nature of the strategies it rolled out to combat the virus. Against that backdrop, the Company has prioritised the ongoing health and safety of the entire Ence family throughout. Pandemic-related developments were monitored constantly by a high-level committee, which, advised by a panel of scientific experts, updated and fine-tuned the existing protocols with a view to continuing to prevent transmission. Those protocols encompass initiatives on different fronts, including: the organisation of work; ventilation and air renewal; the use of specific personal protection equipment; regular disinfection; screening tests; training, education and communication; the provision of health resources; and the preparation of emergency response plans.

As for Ence's **environmental performance**, both biomills improved their odour emission readings compared to last year, with the Navia biomill standing out with a year-on-year reduction in its ratio of 52%. Odour emissions at Pontevedra came down by 25%.

As for particle emissions, the Group delivered a reduction across all its facilities of 47% by comparison with 2020. Ence, already at the forefront of its sector in this respect, plans to continue to work hard on particle emissions, framed by its firm commitment to doing business sustainably.

In the Renewable Energy business, completion of the Water Consumption Rationalisation Study has unearthed measures for saving on water consumption and improving wastewater quality, enabling the Company to set specific targets for reducing unit consumption in 2022.

As for its **circular economy** transition, Ence continues to present high waste recovery and recycling readings (above 99% of all waste), enabling it to expand the scope of its Zero Waste management certification from AENOR. At year-end 2021, six of the Group's eight industrial facilities had obtained Zero Waste certification, a seal only given to facilities that send less than 10% of their waste to landfill.

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 and Enemansa plants and plant certification obtained in Merida.

In 2021, Ence also made progress on the implementation of environmental management enhancement tools such as the environmental observations preventive tool, designed to deliver tighter control over the facilities' environmental aspects and promote a culture of environmental awareness among its employees. Another example is the 'Works of Particular Environmental Risk' tool, which ensures detailed analysis and planning of any environmentally-risky work to be undertaken by the Company.

It is also worth noting the advances made to digitalise the safety and environmental management tools by developing, using in-house resources, IT tools that enable the management of: Preventive Health & Safety and Environmental Observations; Works of Particular Risk for Health & Safety and Environmental Reasons; and the Registration and Analysis of Accidents and Incidents.

#### 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. In 2021, over 85% of its forest assets were certified under one or other of those standards and a little over 74% of the wood that entered its biomills during the year from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted studies to analyse biodiversity encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands.

As regards its effort to **create value for forest owners and suppliers**, Ence lends particular support to small firms: 53% of the volume purchased from suppliers came from small suppliers, while 96% of the volume purchased from owners corresponded to small players. The Company purchased nearly €30 million worth of wood from 1,600 forest owners in 2021. As for biomass, Ence mobilised over 1.9 million tonnes, worth over €76 million, through its plants.

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 2021, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, Andalusia 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).

Compliance with the 10-Point Declaration in respect of agricultural biomass was 76.5% in 2021, above the targeted 75%.

Last year, Ence also launched and completed the process for certifying its facilities in accordance with the sustainability requirements established for biomass in EU Directive 2018/2001 on the promotion of the use of energy from renewable sources, specifically by means of the SURE-EU scheme. Having satisfactorily concluded the required audits in July, the Merida and Pontevedra facilities became the first to obtain SURE certification in all of Europe. Following that first milestone, Ence continued to execute its certification plan to end the year with all its facilities certified. It plans to move on to expand SURE certification to its universe of suppliers in the early months of 2022.

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 99% by year-end 2021.

## 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 production were offset with credits purchased on the voluntary market to make it a Zero Carbon product.

In order to be transparently accountable for its products' sustainability attributes, Ence is working to develop Product Category Rules (PCR) and the Environmental Product Declarations (EPD), framed by the International EPD 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 EDP for unbleached pulp - Naturcell - was published on the corporate website in 1Q21, as was the EDP for the standard bleached pulp produced in Pontevedra. At present, Ence continues to work with Environdec on drafting the PCR for the manufacture of pulp, a process which is currently under review following stakeholder consultation. Ence's products are the first pulp products on the market to obtain Environmental Product Declarations.

Increasing **sales of its greener products** is one of Ence's sustainability targets: in 2021, sales of those sustainable products accounted for 16% of overall pulp sales. Ence backed the creation in 2021 of a cluster comprising 30 of its customers who produce products that are **good potential substitutes for plastic**. It set itself the target of making 40% of its sales to that cluster, a level it outperformed in 2021. Ence plans to continue to work to increase sales to the cluster and to work together with those customers on substitution projects.

In terms of customer engagement, in 2021 Ence held nearly a dozen interviews to address sustainability matters, again outperforming the target set. The suggestions and feedback provided by customers during those meetings were taken into consideration in setting the sales department's sustainability targets for 2022.

## 6. Community commitment

On the community work front, Ence continued to **invest in its local communities** under the umbrella of the ongoing third edition of its Pontevedra Community Plan, endowed with €3 million in total for social, environmental, sports and entrepreneurship projects, and initiatives aimed at addressing social exclusion, among others. Ence also has agreements with the town councils of Navia and San Juan del Puerto, endowed with €100,000 per annum apiece, for the sponsorship and patronage of social and other community activities.

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

In addition to the above community investments, Ence continues to roll out **specific relations plans** for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it organised over 750 visits to the facilities in Navia, Pontevedra and Huelva in 2021, reconfiguring them as online visits after the onset of the pandemic. In parallel to those facility tours, Ence carried out numerous training, education and volunteering activities with the help of its employees.

Institutional and community relations and proximity are one of the articulating thrusts of Ence's sustainability policy. Against that backdrop, in the third quarter of the year, it rolled out a number of initiatives in collaboration with a host of entities to promote local social, cultural, education, sports and economic development, as well as environmental care. In addition to the activities designed to improve community relations, it is worth highlighting the knock-on effects and impact on socioeconomic development Ence's activities have in 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 commitment to delivering on its objectives, with those related with **diversity on the Company's governing bodies** standing out. Specifically, the Company has appointed a new female independent director, so lifting female representation in its boardroom from 7% in 2017 to 38.5% in 2021. One of the Company's female directors was also appointed lead independent director. Following those appointments, Ence's commitment to diversity is similarly tangible in the composition of its board committees: 60% of the members of both the Audit and Compliance and Appointments and Remuneration Committees are women; and they are all independent directors. Moreover, those committees are chaired by women. Ence's effort to foster equality in recent years have earned it a place in the Ibox Gender Equality Index, the first to measure the presence of women in executive positions at Spanish companies. That ranks Ence among the 30 top-performing companies on equality matters. The Ibox Gender Equality Index is made up of stocks that are traded on Madrid's general stock index, the IGBM, that boast female boardroom representation of between 25% and 75% and a female senior management presence of between 15% and 85%.

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

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

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

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW) *	Type of fuel	Remuneration for operation 2021 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	28.4	-	2032
			55,317	Agroforestry biomass	50.6	-	
Navia	Biomass co-generation	40.3	-	Lignin	27.0	-	2034
	Biomass generation	36.2	230,426	Agroforestry biomass	53.8	7,500	
Huelva 41MW	Biomass generation	41.0	246,318	Agroforestry biomass	60.0	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,059	Olive Pulp	38.5	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,059	Olive Pulp	39.9	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,620	Olive Pulp	44.0	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	45.3	-	2030
Huelva 50MW	Biomass generation	50.0	204,807	Agroforestry biomass	40.0	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,608	Agroforestry biomass	50.4	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	48.1	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	48.1	7,500	2044

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

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

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

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

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

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

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

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

The last two biomass plants commissioned in 2020 are not currently subject to those ceilings.

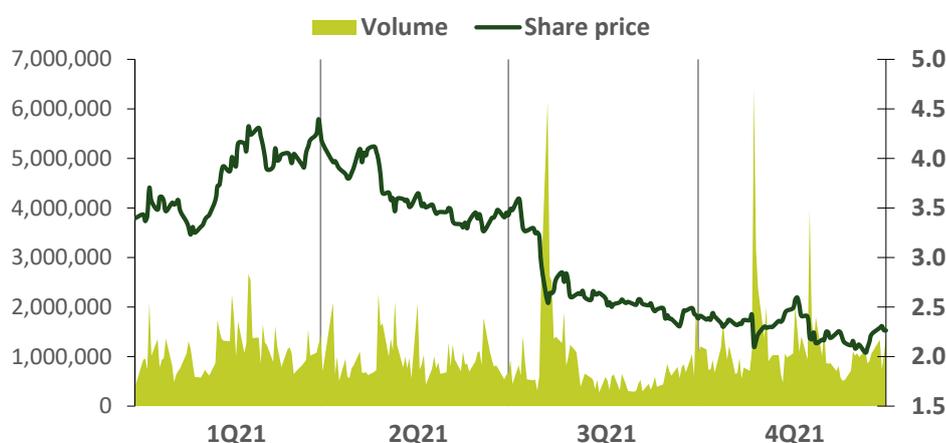
Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass (there is no cap in the case of CHP generation). Output above this cap is sold at pool prices, with no entitlement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

3. Both the remuneration for investment and the regulated sale price are subject to a levy on the value of electric energy produced of 7%. That tax was suspended temporarily from July 2021 by Royal Decree 12/2021 and the Company has accordingly reduced its plants' remuneration for operations.

## 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 2021 at €2.26, which is down 33.3% from year-end 2020, shaped mainly by the publication in July of the National Appellate Court sentences annulling the extension of the Pontevedra biomill's concession. Over the same timeframe, the Company's peers' share prices gained 0.8% on average.



Source: Bloomberg

SHARES	4Q20	1Q21	2Q21	3Q21	4Q21
Share price at the end of the period	3.40	4.26	3.43	2.38	2.26
Market capitalization at the end of the period	836.1	1,047.9	843.7	587.1	557.6
Ence quarterly evolution	54.9%	25.3%	(19.5%)	(30.4%)	(5.0%)
Daily average volume (shares)	1,272,577	1,145,084	960,860	862,883	1,220,887
Peers quarterly evolution *	34.4%	18.5%	(11.3%)	(8.5%)	4.1%

(\*) 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 2021). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	4Q20	1Q21	2Q21	3Q21	4Q21
Bond price at the end of the period (ask)	94.49	97.60	98.14	97.96	99.15
Yield to worst at the end of the period*	3.553%	2.063%	2.075%	2.208%	1.515%

\*Yield to maturity

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

	RATING	OUTLOOK	DATE
S&P	BB-	Negative	06/12/2021
Moody's	Ba3	Negative	14/10/2021

## APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

### CASH COST

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

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

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

### EBITDA

EBITDA is a measure used in the statements of profit or loss presented in this report, in sections 2.7, 3.3 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

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

### MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of its capex-related cash outflows for each of its business units in sections 1, 2.8 and 3.4, distinguishing between maintenance, efficiency, growth and sustainability capex.

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

Ence's 2019-2023 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency, growth and sustainability in order to attain the strategic targets set. The disclosure of capex cash flows broken down by area of investment facilitates oversight of execution of the published Business Plan.

## **CASH FLOWS**

The Cash Flow Analysis presented in sections 1, 2.8 and 3.4 of this report differs from the cash flow movements presented in the statement of cash flows included in section 4.3 and also presented in the annual financial statements.

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

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

## **FREE CASH FLOW**

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 2.8, 3.4 and 4.3 of this report.

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

## **NORMALISED FREE CASH FLOW**

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.8 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

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

## **NET DEBT**

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

Net debt is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet and the sum of cash and cash equivalents, the debt service cash reserve and other financial investments within current assets, as outlined in sections 2.9 and 3.5 of this report.

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

## DISCLAIMER

The information contained in this report was prepared by Ence and includes forward-looking statements.

Any statements made in this report other than those based on historical information, including, merely for illustrative purposes, those referring to Ence's financial situation, business strategy, planned capital expenditure, management plans and objectives related to future operations, as well as statements including words such as "anticipate", "believe", "estimate", "consider", "expect" and other similar expressions, constitute forward-looking statements that reflect the current outlook of Ence or its management team with respect to future events and involve known and unknown risks and uncertainties. As a result, the actual situation and results of Ence and its sector could differ substantially from those depicted expressly or implicitly in these forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding Ence's current and future business strategy and the environment it expects to encounter in the future. A series of material factors could cause Ence's situation and results to differ materially from those reflected in these forward-looking statements, including fluctuations in pulp and/or wood prices, business seasonality, exchange rate fluctuations, financial risks, strikes or other action taken by Ence's employees, the competitive landscape, environmental risks and any of the other factors detailed in this document. The forward-looking statements are made only as of the date of this presentation. Ence disclaims any obligation or undertaking to update or revise these statements, whether as a result of any change in Ence's expectations or the conditions or circumstances underlying these statements, or any other information or data contained in this presentation.

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# Earnings Report 4Q21



SUSTAINALYTICS  
Global ESG score:  
91/100



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