



Earnings Report 4Q22

28 February 2023



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1. EXECUTIVE SUMMARY

Market figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
BHKP (USD/t) average price	1,380.0	1,140.0	21.1%	1,366.3	1.0%	1,285.0	1,010.6	27.2%
Average exchange rate (USD/€)	1.01	1.15	(11.8%)	1.01	(0.2%)	1.05	1.18	(11.2%)
BHKP (€/t) average price	1,364.6	994.2	37.3%	1,347.7	1.3%	1,225.4	855.4	43.3%
Average pool price (€/MWh)	113.2	210.9	(46.3%)	146.2	(22.6%)	167.6	111.4	50.4%

Source: Bloomberg & OMIE

Operating Metrics	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp production (t)	178,891	250,005	(28.4%)	171,533	4.3%	816,311	1,008,692	(19.1%)
Navia pulp production	157,739	142,214	10.9%	149,757	5.3%	576,996	577,435	(0.1%)
Pontevedra pulp production	21,152	107,791	(80.4%)	21,776	(2.9%)	239,315	431,257	(44.5%)
Pulp sales (t)	150,345	239,061	(37.1%)	189,214	(20.5%)	826,617	996,058	(17.0%)
Average sales pulp price (€/t)	864.5	644.2	34.2%	832.6	3.8%	756.7	546.7	38.4%
Cash cost (€/t)	678.8	437.4	55.2%	568.4	19.4%	552.7	391.9	41.0%
Operating margin per ton (€/t)	185.7	206.8	(10.2%)	264.2	(29.7%)	204.0	154.8	31.8%
Renewable Energy sales volume (MWh)	291,599	427,957	(31.9%)	366,723	(20.5%)	1,481,446	1,430,199	3.6%
Average sales price (€/MWh)	165.0	63.7	158.8%	137.2	20.2%	170.7	81.3	110.0%
Remuneration for investment (€ m)	10.2	8.6	19.4%	10.2	(0.0%)	40.9	37.8	8.1%

P&L € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Revenue from Pulp business	159.1	195.8	(18.8%)	173.8	(8.4%)	712.9	667.6	6.8%
Revenue from Renewable Energy business	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%
Consolidation adjustments	(1.3)	(0.8)		(1.0)		(3.8)	(2.8)	
Total revenue	216.3	231.1	(6.4%)	233.4	(7.3%)	1,003.4	819.7	22.4%
Pulp business EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Renewable Energy business EBITDA	13.5	3.4	n.s.	17.7	(23.7%)	109.8	17.8	n.s.
EBITDA	40.1	21.0	90.5%	59.1	(32.2%)	247.6	106.8	131.7%
Depreciation, amortisation and forestry depletion	(26.7)	(21.2)	26.0%	(27.7)	(3.7%)	(98.4)	(93.5)	5.2%
Impairment of and gains/(losses) on fixed-asset disposal	182.9	(2.1)	n.s.	(1.7)	n.s.	143.9	(193.5)	n.s.
Other non-ordinary results of operations	(14.9)	(0.8)	n.s.	0.1	n.s.	(14.9)	4.2	n.s.
EBIT	181.3	(3.1)	n.s.	29.8	n.s.	278.2	(175.9)	n.s.
Net finance cost	(6.9)	(3.6)	92.6%	(5.6)	22.9%	(26.3)	(21.5)	22.1%
Other finance income/(cost) results	(2.1)	1.3	n.s.	1.4	n.s.	1.6	4.9	(66.8%)
Profit before tax	172.3	(5.4)	n.s.	25.6	n.s.	253.6	(192.5)	n.s.
Income tax	7.8	1.5	n.s.	(3.8)	n.s.	(4.7)	(9.4)	(50.5%)
Consolidated Net income	180.1	(3.9)	n.s.	21.9	n.s.	248.9	(202.0)	n.s.
Non-controlling interests	0.1	6.0	(98.2%)	0.4	(73.6%)	(1.7)	11.6	n.s.
Attributable Net Income	180.2	2.0	n.s.	22.3	n.s.	247.2	(190.4)	n.s.
Earnings per share (Basic EPS)	0.74	0.01	n.s.	0.09	n.s.	1.02	(0.78)	n.s.

Cash flow € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	40.1	21.0	90.5%	59.1	(32.2%)	247.6	106.8	131.7%
Change in working capital	5.0	12.6	(60.3%)	59.2	(91.5%)	67.6	(33.6)	n.s.
Maintenance capex	(4.7)	(4.4)	5.6%	(3.9)	19.9%	(19.6)	(15.1)	30.2%
Net interest Payment	(5.7)	(6.2)	(8.2%)	(4.5)	25.8%	(23.3)	(19.2)	21.4%
Income tax received/(paid)	(18.2)	(1.8)	n.s.	(0.0)	n.s.	(22.6)	(8.2)	176.7%
Normalised free cash flow	16.5	21.2	(22.4%)	109.9	(85.0%)	249.7	30.9	n.s.
Energy regulation adjustment (regulatory collar)	(8.4)	60.2	n.s.	6.9	n.s.	25.0	89.1	(72.0%)
Other cash adjustments	7.2	(2.7)	n.s.	4.4	66.1%	9.6	5.9	63.9%
Efficiency and expansion capex	(3.6)	(5.2)	(31.2%)	(3.1)	15.6%	(21.2)	(39.1)	(45.7%)
Sustainability capex and other	(7.7)	(1.8)	n.s.	(1.7)	n.s.	(14.1)	(16.9)	(16.7%)
Disposals	0.3	5.5	(94.6%)	0.1	196.0%	0.8	6.0	(86.9%)
Free cash flow	4.3	77.2	(94.4%)	116.4	(96.3%)	249.8	75.9	229.1%
Dividends from the parent	(21.9)	-	n.s.	(31.6)	-	(66.6)	-	n.s.

Net debt € m	Dec-22	Dec-21	Δ%
Net financial debt Pulp business	(36.1)	(19.5)	84.8%
Net financial debt Renewable Energy business	6.1	121.2	(95.0%)
Net financial debt	(30.0)	101.7	n.s.
	2022	2021	Δ%
ROCE LTM *	13.5%	0.8%	n.s.

* ROCE LTM = EBIT LTM / Average Equity + Net Debt (including leases). Adjusted for impairments and provisions related to the Pontevedra concession in 2021 and 2022

- ✓ On 7 February 2023, Spain's Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. The full contents of the court's rulings will be released in the coming days.
- ✓ Fourth-quarter net profit came to €180m, lifting 2022 profits to €247m, including the reversal of €169m of asset impairment charges and provisions recognised in 2021 in connection with the Pulp business in the wake of the National Appellate Court rulings.
- ✓ Free cash flow amounted to €250m in 2022, underpinned by higher pulp and energy prices, leaving the Group with a net cash position of €30m. The significant improvement in working capital during the year stemmed from payments outstanding to the electricity market regulator in the amount of €85m, which are due settlement in the first half of 2023.
- ✓ The Board has agreed to pay an extraordinary interim dividend from 2022 profits in the amount of €70m, equivalent to €0.29 per share (before withholding tax), to be paid on 16 March, on top of the €67m already paid out.
- ✓ After four months idle due to loss of flow from the Lérez River, the Pontevedra biomill recommenced activity in November, availing of the new solution developed by the Company for use during periods of drought, having also performed work to repair the water withdrawal infrastructure.
- ✓ The increase in pulp prices, coupled with favourable exchange rate trends, boosted profitability, mitigating the effect of the suspension of operations in Pontevedra and offsetting raw material cost inflation. As a result, EBITDA in the Pulp business amounted to €27m in 4Q22 and €138m in 2022.
- ✓ Elsewhere, the increase in average sales prices continued to lift EBITDA in the Renewable Energy business, specifically to €13m in 4Q22 and €110m in 2022, including the reversal of €33m of the regulatory collar provision.
- ✓ The Group's return on capital employed (ROCE) amounted to 33% in 2022, including the accounting impact of the Supreme Court rulings. Stripping out that impact, the Group's ROCE would have been 13% (14% in the Pulp business and 11% in the Renewable Energy business).
- ✓ The Group's financial strength, marked by a net cash position, gives it flexibility to take advantage of growth opportunities:
 - In the Pulp business, Ence continues to execute the "Navia Excellence" project to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes. That project entails investments of an estimated €105m between 2023 and 2025, with a projected ROCE of over 12%.
 - In addition, in 2022, Ence and the regional government of Galicia announced a new project in As Pontes, Coruña, which the Company is currently analysing, for the production of mixed bleached fibre from recovered paper and board and the virgin fibre made by Ence. Phase one of that project consists of a production line with annual capacity of 100,000 tonnes, which could be commissioned in 2026, entailing an initial estimated investment of €125m and a projected ROCE of over 12%.
 - In the Renewable Energy business, Ence is developing a pipeline of 140 MW of biomass facilities and 673 MW of photovoltaic facilities, while analysing a number of opportunities for the sale of industrial heat generated using biomass. In December 2021, Group subsidiary, Magnon Green Energy, agreed the sale of 373 MW of photovoltaic developments for up to €62m; those sales will materialise as the corresponding permits are obtained, between 2023 and 2024.
 - Lastly, in 2022, Ence created a new subsidiary to develop and operate plants to produce biomethane and fertiliser from organic waste. This is a new business line based on the circular bioeconomy principles that already underpin Ence's two core businesses, one with significant growth potential in Spain. That subsidiary already has a pipeline of nine projects under development in Spain with aggregate annual supply capacity of 560 GWh of biomethane. The hurdle ROCE in this new business is also over 12%.
- ✓ Ence remains the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 91/100 in 2022.

2. PULP BUSINESS

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

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. Supreme Court ruling upholding the validity of the extension of the Pontevedra biomill concession to 2073

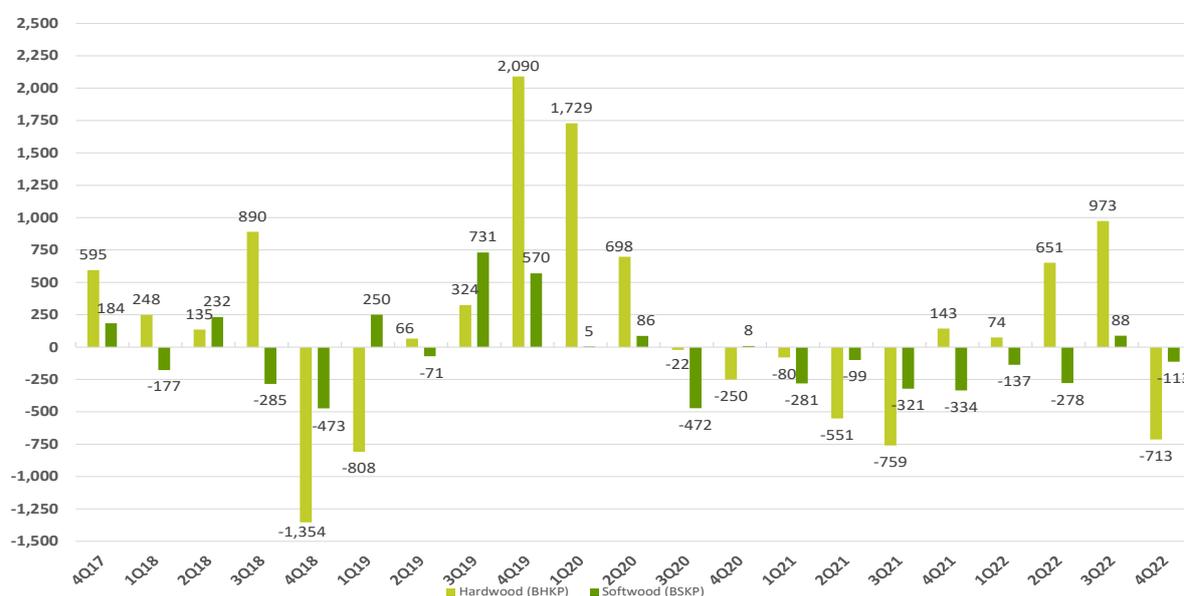
On 7 February 2023, the Supreme Court ruled in Ence's favour on the appeals presented by the Company and other entities against the National Appellate Court rulings of July 2021 annulling the Resolution issued by the Directorate General of Coastal and Marine Sustainability on 20 January 2016, extending Ence's concession at the Pontevedra biomill until 2073. The full contents of the court's rulings will be released in the coming days.

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

2.2. Pulp market trends

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

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



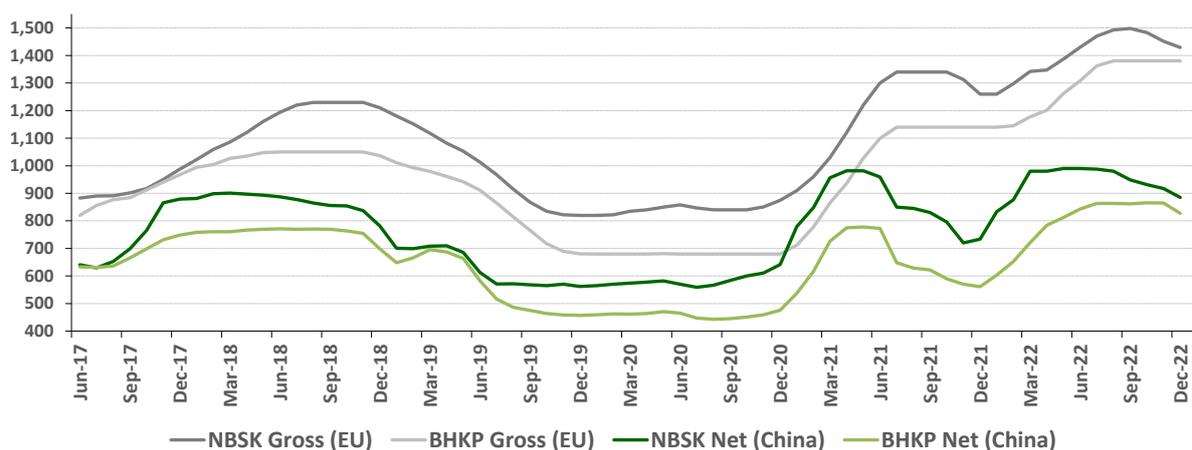
Source: PPPC-G100

Demand for pulp increased by 1.3% year-on-year in 2022 (the equivalent of 0.9 million tonnes), with all markets sustaining growth except for China, where demand contracted by 1.9% year-on-year (-0.4 million tonnes), affected by COVID-related restrictions. In Europe, demand for pulp increased by 0.8% (0.2 million tonnes), compared to growth of 0.3% in North America, with demand in the rest of the world 7% (1.1 million tonnes) higher.

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

The growth in demand, coupled with supply-side friction and widespread increases in production costs, drove hardwood pulp (BHKP) prices higher, to \$1,380 per tonne (gross) in Europe as of the year-end, and \$830 (net) in China.

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 declined by 37.1% year-on-year in 4Q22 to 150,345 tonnes, with 2022 volumes down 17% from 2021 at 826,617 tonnes, mainly as a result of the temporary suspension of operations in Pontevedra in the second half of the year, due to the reduced flow from the river that supplies that biomill.

Average sales prices improved by 38.4% year-on-year in 4Q22, to a net €864.5 per tonne, and by 38.4% year-on-year overall in 2022, to €756.7 per tonne, thanks to the increase in average benchmark prices in Europe and favourable euro-dollar exchange rate trends.

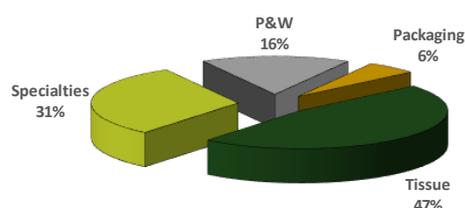
	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp sales (t)	150,345	239,061	(37.1%)	189,214	(20.5%)	826,617	996,058	(17.0%)
Average sales price (€/t)	864.5	644.2	34.2%	832.6	3.8%	756.7	546.7	38.4%
Pulp sales revenue (€ m)	130.0	154.0	(15.6%)	157.5	(17.5%)	625.5	544.6	14.9%

The combination of the two factors drove revenue from pulp sales to €130m in 4Q22, down 15.6% year-on-year, and to €625.5m in 2022, growth of 14.9% from 2021.

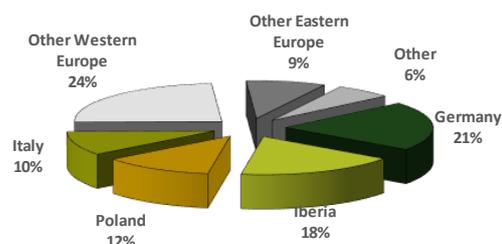
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 18% of 2022 sales, compared to 16% in 2021.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 47% of revenue from pulp sales in 2022, followed by the specialty paper segment, at 31%. The printing and writing paper segment accounted for 16% of sales and packaging, the remaining 6%.

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 2022. Germany and Iberia accounted for 21% and 18% of total revenue, respectively, followed by Poland (12%), and Italy (10%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 9%.

2.4. Pulp production and cash cost

Pulp production decreased by 28.4% year-on-year to 178,891 tonnes in 4Q22 and by 19.1% in all of 2022 to 816,311 tonnes, due to the above-mentioned temporary suspension of operations at the Pontevedra biomill during the second half.

Ence has developed an innovative solution for use during times of drought that enables it to regenerate its own wastewater, as well as the wastewater from the treatment facility adjacent to the Pontevedra biomill (in Placeres), in order to minimise water withdrawal from the river.

After four months of stoppage, the Pontevedra biomill was restarted in November, trialling that new solution, while work was carried out to repair the water withdrawal infrastructure. The biomill is expected to continue to operate combining this solution and minimising the water withdrawn from the river throughout the first half of 2023, in order to optimise the water recovery process.

	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Navia pulp production	157,739	142,214	10.9%	149,757	5.3%	576,996	577,435	(0.1%)
Pontevedra pulp production	21,152	107,791	(80.4%)	21,776	(2.9%)	239,315	431,257	(44.5%)
Pulp production (t)	178,891	250,005	(28.4%)	171,533	4.3%	816,311	1,008,692	(19.1%)

The Pontevedra and Navia biomills were stopped for annual maintenance work in January and February, respectively. Both stoppages took place in the month of March in 2021. In 2023, both biomills will be stopped for maintenance during the second quarter.

Figures in €/t	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Total cash cost	678.8	437.4	55.2%	568.4	19.4%	552.7	391.9	41.0%
Operating margin	185.7	206.8	(10.2%)	264.2	(29.7%)	204.0	154.8	31.8%

The 4Q22 cash cost increased by 55.2% year-on-year to €678.8/tonne, due mainly to the impact of the suspension of operations in Pontevedra and the costs associated with the new water recovery solution. Those factors, coupled with widespread raw material and transport cost inflation, implied a 41% increase in the average cash in 2022, to €552.7 tonne.

The temporary suspension of operations in Pontevedra, coupled with the costs associated with the new water recovery solution, impacted the 4Q22 and 2022 cash cost metrics by an estimated €89/tonne and €34/tonne, respectively. Stripping out that effect, the 4Q22 cash cost would have been €590/tonne and the 2022 figure, €519/tonne.

Nevertheless, the growth in pulp prices continued to lift unit operating margin in the Pulp business to €204/tonne in 2022, compared to €155/tonne in 2021 and an average of €149/tonne during the last five years (2017-2021).

2.5. Other income

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

Since 2022, Ence only sells surplus energy to the grid, whereas before it used to sell it all of its output. As a result, revenue from the sale of energy decreased by 42.2% year-on-year to €23m in 4Q22 and by 31.0% in 2022, to €73.6m.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Revenues from energy sales linked to pulp (€ m)	23.0	39.8	(42.2%)	14.8	55.8%	73.6	106.7	(31.0%)
Forestry and other revenue (€ m)	6.1	2.0	203.7%	1.5	n.s.	13.8	16.3	(15.6%)
Other income	29.1	41.8	(30.4%)	16.2	79.4%	87.4	123.0	(29.0%)

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.

Higher internal consumption of wood shaped a 15.6% reduction in revenue from the sale of wood to third parties to €13.8m in 2022. Internal consumption dipped in the last quarter, however, due to the suspension of operations in Pontevedra, driving an increase in revenue from third-party wood sales to €6.1m that quarter.

2.6. Statement of profit or loss

On 7 February 2023, the Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. The reversal of the asset impairment charges and provisions recognised in the 2021 financial statements in the wake of the original National Appellate Court rulings implied the recognition of a gain of €168.9m in 4Q22. As a result, net profit amounted to €243.5m in 2022.

EBITDA in the Pulp business amounted to €26.5m in the fourth quarter and €137.7m in 2022, up 50.8% and 54.7% year-on-year, respectively. EBITDA was boosted by the increase in pulp prices and favourable exchange rate trends, which mitigated the effect of the temporary suspension of operations in Pontevedra and raw material cost inflation. In 2021, EBITDA was affected by the pulp price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €21.8m and €53.2m in 4Q21 and 2021, respectively.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Pulp sales revenue	130.0	154.0	(15.6%)	157.5	(17.5%)	625.5	544.6	14.9%
Other income	29.1	41.8	(30.4%)	16.2	79.4%	87.4	123.0	(29.0%)
Total net revenue	159.1	195.8	(18.8%)	173.8	(8.4%)	712.9	667.6	6.8%
EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Depreciation and amortisation	(20.5)	(9.9)	106.8%	(11.1)	85.0%	(52.1)	(47.8)	8.9%
Depletion of forestry reserves	(1.8)	(2.9)	(37.6%)	(1.2)	52.2%	(7.0)	(11.4)	(39.1%)
Impairment of and gains/(losses) on fixed-asset disp.	187.2	(1.4)	n.s.	(1.7)	n.s.	184.5	(192.4)	n.s.
Other non-recurring gains/(losses)	(14.9)	(0.8)	n.s.	0.1	n.s.	(14.9)	4.2	n.s.
EBIT	176.5	2.5	n.s.	27.5	n.s.	248.3	(158.4)	n.s.
<i>EBIT margin</i>	<i>111%</i>	<i>1%</i>	<i>109.7 p.p.</i>	<i>16%</i>	<i>95.1 p.p.</i>	<i>35%</i>	<i>-24%</i>	<i>58.6 p.p.</i>
Net finance cost	(3.5)	(0.7)	n.s.	(1.9)	86.6%	(9.9)	(9.6)	3.2%
Other financial results	(2.1)	1.1	n.s.	1.5	n.s.	1.4	3.7	(63.7%)
Profit before tax	170.9	2.9	n.s.	27.1	n.s.	239.8	(164.3)	n.s.
Income tax	8.6	(0.5)	n.s.	(3.5)	n.s.	3.7	(19.1)	n.s.
Net Income	179.5	2.5	n.s.	23.6	n.s.	243.5	(183.4)	n.s.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied cash outflows of €3.8m in 4Q22 and €20.3m in 2022, compared to an outflow of €2.6m in 4Q21 and an inflow of €0.4m in 2021. For 2023, Ence has arranged hedges over a notional amount of \$71m with a weighted average ceiling of \$/€1.11 and a weighted average floor of \$/€1.06.

FX Hedges	1Q23	2Q23	3Q23	4Q23
Nominal hedged (USD Mn)	25.0	15.0	15.0	16.0
Average cap (USD / EUR)	1.14	1.12	1.08	1.08
Average floor (USD / EUR)	1.11	1.03	1.00	1.05

Elsewhere, the regulatory collar accounting treatment implied the recognition of non-cash revenue from energy sales of €3.6m in 4Q22 and a provision of €14.5m, likewise non-cash, in 2022.

Below the EBITDA line, depreciation and amortisation charges increased to €20.5m in 4Q22 and to €52.1m in 2022, as the Group recommenced depreciation of the Pontevedra biomill in 2022.

“Impairment and gains/(losses) on the disposal of fixed assets”, in the amount of €187.2m in 4Q22 and of €184.5m in 2022, reflects the reversal of impairment charges and provisions recognised in 2021.

Other non-recurring items - a net charge of €14.9m - includes a €21m provision recognised to cover commitments under the Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts.

Net finance cost amounted to €3.5m in 4Q22 and €9.9m in 2022 as a result of including the finance charge associated with the lease over the Pontevedra biomill. Other finance income/(cost) presents the effect of movements in exchange rates on working capital during the period: a net loss of €2.1m in 4Q22 and a net gain of €1.4m in 2022.

Lastly, the Group recognised tax income of €8.6m in 4Q22 and of €3.7m in 2022 due to the tax effects of the above-mentioned reversals.

In all, the Pulp business reported a net profit of €179.5m in 4Q22 and of €243.5m in 2022, including the reversal of the asset impairment charges and provisions recognised in 2021 in the wake of the National Appellate Court rulings.

2.7. Cash flow analysis

Net cash from operating activities amounted to €17.7m in 4Q22 and €136.7m in 2022, up from €86.5m in 2021, driven by EBITDA growth.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	26.5	17.6	50.8%	41.4	(35.9%)	137.7	89.0	54.7%
Energy regulation adjustment (regulatory collar)	(3.6)	13.3	n.s.	3.7	n.s.	14.5	24.1	(39.9%)
Other cash adjustments	6.0	0.1	n.s.	4.5	32.2%	7.7	4.5	68.5%
Change in working capital	1.7	7.9	(78.3%)	26.5	(93.5%)	(3.0)	(23.0)	(86.8%)
Income tax received / (paid)	(12.0)	(1.3)	n.s.	-	n.s.	(13.9)	(1.3)	n.s.
Net interest received / (paid)	(0.8)	(0.9)	(2.9%)	(2.1)	(59.9%)	(6.3)	(6.9)	(9.2%)
Net cash flow from operating activities	17.7	36.8	(51.9%)	74.0	(76.1%)	136.7	86.5	57.9%

Movements in working capital implied a cash inflow of €1.7m in 4Q22 and a cash outflow of €3m in 2022. The reduction in trade receivables on the back of lower sales volumes and the increase in trade payables on account of amounts due to the electricity market regulator offset the increase in wood inventories. The balance payable to the regulator stood at €23m at year-end and is due settlement during the first half of 2023.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Inventories	(16.5)	(13.7)	20.1%	(16.4)	0.7%	(24.3)	(11.5)	111.2%
Trade and other receivables	14.5	(3.0)	n.s.	22.5	(35.5%)	8.2	(43.1)	n.s.
Financial and other current assets	1.2	0.9	26.3%	0.5	119.3%	2.4	2.4	(0.8%)
Trade and other payables	2.5	23.8	(89.5%)	19.8	(87.3%)	10.7	29.3	(63.4%)
Change in working capital	1.7	8.0	(78.7%)	26.5	(93.5%)	(3.0)	(23.0)	(86.8%)

At 31 December 2022, the Pulp business had drawn down €45.2m under its non-recourse receivable discounting facilities, down from €53.7m at year-end 2021.

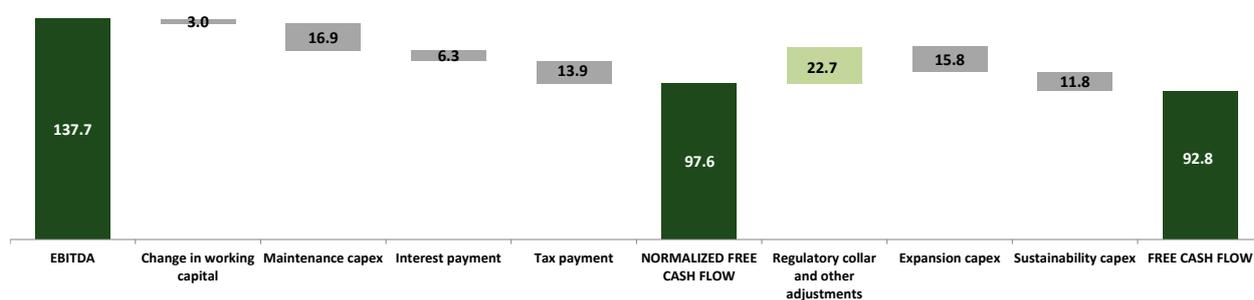
Ence has also arranged several reverse factoring facilities, which were drawn down by €76.5m at the December close, compared to €79.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue financial expenses.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Maintenance capex	(3.6)	(3.9)	(7.2%)	(3.4)	6.8%	(16.9)	(11.7)	44.3%
Sustainability capex and other	(6.5)	(1.2)	n.s.	(1.2)	n.s.	(11.8)	(13.9)	(15.5%)
Efficiency and expansion capex	(1.9)	(1.9)	(0.2%)	(2.4)	(21.7%)	(15.8)	(26.8)	(41.1%)
Financial investments	0.2	(0.3)	n.s.	(0.0)	n.s.	0.2	(0.3)	n.s.
Investments	(11.8)	(7.3)	60.6%	(7.0)	66.9%	(44.3)	(52.8)	(16.1%)
Disposals	0.3	13.3	(97.7%)	0.1	196.0%	0.4	13.7	(97.1%)
Net cash flow used in investing activities	(11.5)	5.9	n.s.	(6.9)	65.0%	(43.9)	(39.1)	12.1%

Maintenance capex decreased to €3.6m in 4Q22 and €16.9m in 2022, while sustainability capex increased to €6.5m in 4Q22 and €11.8m in 2022. The sustainability investments 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. In 4Q22, those investment also included €3.9m related with the new water recovery system for use during periods of drought.

Investments in efficiency and growth amounted to €1.9m in 4Q22 and €15.8m in 2022. Those investments are mainly related to the final payments for the capacity added in 2019 and the purchase of new equipment to increase wood-cutting capacity in Galicia.

As a result, normalised free cash flow in the Pulp business amounted to €97.6m in 2022, while free cash flow net of the adjustment for the regulatory collar and efficiency, growth and sustainability capex came in at €92.8m.



2.8. Change in net debt

The Pulp business ended the year with net cash of €36.1m, compared to €19.5m at year-end 2021. That balance includes financial lease liabilities of €37.6m at year-end 2022, up from €16.4m at year-end 2021, due to the addition of a €16.9m liability related with the Pontevedra biomill leases.

In 2022, the business paid out €66.6m in dividends and collected €19.5m following partial repayment of the intra-group loan to the Renewable Energy business.

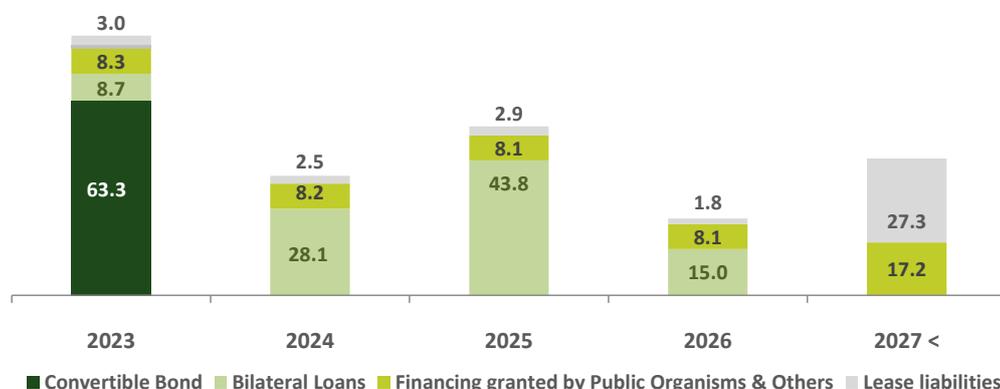
Figures in € m	Dec-22	Dec-21	Δ%
Non-current financial debt	128.6	276.5	(53.5%)
Current financial debt	80.3	12.6	n.s.
Gross financial debt	208.9	289.1	(27.7%)
Non-current lease contracts	34.6	12.8	169.6%
Current lease contracts	3.0	3.6	(16.6%)
Financial liabilities related to lease contracts	37.6	16.4	128.7%
Cash and cash equivalents	278.4	318.5	(12.6%)
Short-term financial investments	4.2	6.6	(35.7%)
Net financial debt Pulp business	(36.1)	(19.5)	84.8%

Due to the cyclical nature of the Pulp business, it is financed with covenant-free debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €282.6m. That balance includes payments outstanding to the electricity market regulator in the amount of €23m, which are due settlement in the first half of 2023.

In 2022, Ence prepaid €10m of bilateral loans, reduced its use of its receivable discounting lines by €8.5m and repurchased €65.4m of the convertible bonds due March 2023. By year-end, the Group had bought back a total of €96.7m of those convertible bonds (60% of the total issued).

The gross debt of €208.9m at year-end corresponds mainly to the €63.3m of convertible bonds (adjusted for the value of the equity component), the outstanding balance of €95.6m on bilateral loans and a series of loans totalling €50m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Finance lease liabilities stood at €37.6m at the close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants that have no relation to the pulp production process and is carried on through its 51% ownership interest in **Magnon Green Energy** ("Magnon"), along with other emerging businesses such as industrial heating and biomethane.

Magnon currently has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

In addition, Magnon has a pipeline of 813 MW of biomass and photovoltaic developments:

- In biomass, Magnon has three developments in the pipeline with combined capacity of 140 MW with which it is entitled to participate in the capacity tenders scheduled between now and 2030. Of the total, 90 MW already has the corresponding environmental permits and those for the remaining 50 MW are expected to be obtained in 2023.
- The photovoltaic pipeline amounts to 673 MW. In December 2021, Magnon agreed the sale of 373 MW of those developments for up to €62m; those sales will materialise as the corresponding permits are obtained, between 2023 and 2024. The remaining 300 MW of photovoltaic projects are at an early stage of development.

Finally, Ence is analyzing various opportunities for the sale of industrial heating with biomass and in 2022 it launched a new subsidiary, Ence Biogas, for the development and operation of biomethane and fertilizer production plants from organic waste. This subsidiary already has a portfolio of 9 projects under development in Spain with a combined capacity to supply 560 GWh of biomethane per year.

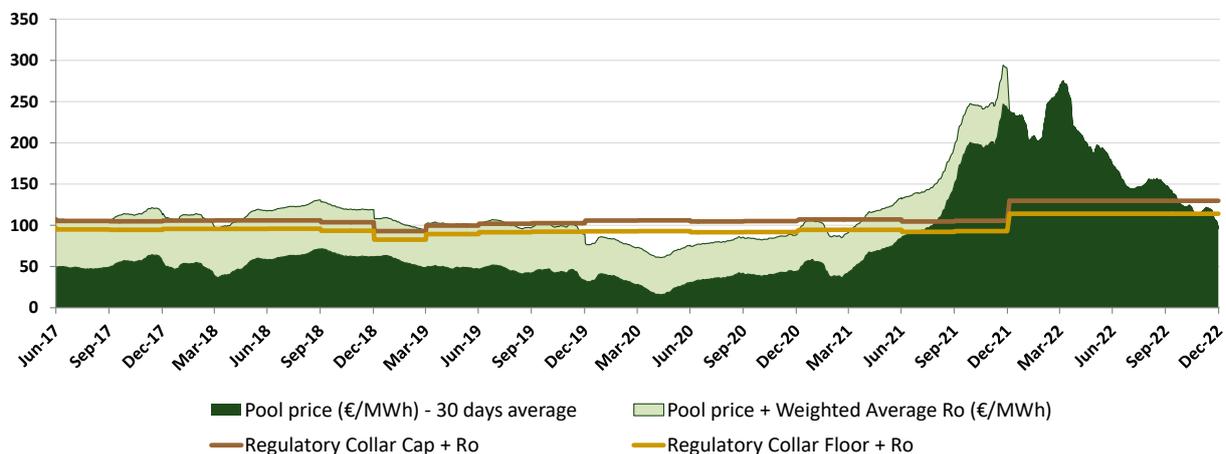
3.1. Electricity market trends

Average pool prices declined by 46.3% year-on-year to €113.2/MWh in 4Q22. In 2022 as a whole, the pool price averaged €167.6/MWh, up 50.4% from 2021.

Market figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Average pool price (€/MWh)	113.2	210.9	(46.3%)	146.2	(22.6%)	167.6	111.4	50.4%

Source: OMIE

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



The price per MWh that Ence recognises in its financial statements is determined by the pool price, within the ceiling and floor set by the regulator (regulatory collar), plus the supplementary remuneration for operations (Ro) earned by each plant. The plants that do not avail of or have depleted their remuneration for investment are not subject to the regulatory collar ceiling.

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 implied €40.9m of revenue in 2022.

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

3.2. Key changes derived from Royal Decree-Law 6/2022

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

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

The regulatory price applicable in 2022, factoring in that legislation, is €122/MWh, compared to the initially estimated €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation parameter does not apply.

The Group's annual results reflect all those measures as from 1 January.

3.3. Revenue from energy sales

Energy sales volumes amounted to 291,599 MWh in 4Q22, down 31.9% year-on-year, as a result of reduced availability of olive pomace, due to the impact of higher gas prices at the CHP facilities where it is produced. In 2022 as a whole, the lower availability of olive pomace was offset by an easier comp, in light of the incident at the 50-MW plant in Huelva in 2021, so that energy sales volumes increased by 3.6% compared to 2021, to 1,481,446 MWh.

Operating figures	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Huelva 41 MW - Biomass	-	54,537	(100.0%)	39,160	(100.0%)	136,110	193,237	(29.6%)
Jaén 16 MW - Biomass	14,369	25,113	(42.8%)	19,103	(24.8%)	80,925	92,029	(12.1%)
Ciudad Real 16 MW - Biomass	3,047	26,319	(88.4%)	18,772	(83.8%)	70,542	101,645	(30.6%)
Córdoba 27 MW - Biomass	35,871	39,572	(9.4%)	24,359	47.3%	145,793	183,470	(20.5%)
Huelva 50 MW - Biomass	76,673	86,540	(11.4%)	91,026	(15.8%)	351,553	125,876	179.3%
Mérida 20 MW - Biomass	31,650	38,967	(18.8%)	36,597	(13.5%)	140,066	151,945	(7.8%)
Huelva 46 MW - Biomass	69,588	80,902	(14.0%)	67,315	3.4%	279,484	293,118	(4.7%)
Ciudad Real 50 MW - Biomass	60,402	76,006	(20.5%)	70,392	(14.2%)	276,973	288,878	(4.1%)
Energy sales (MWh)	291,599	427,957	(31.9%)	366,723	(20.5%)	1,481,446	1,430,199	3.6%
Average sales price - Pool + Collar + Ro (€/MWh)	165.0	63.7	158.8%	137.2	20.2%	170.7	81.3	110.0%
Remuneration for investment (€m)	10.2	8.6	19.4%	10.2	(0.0%)	40.9	37.8	8.1%
Revenue (€ m)	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%

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

Elsewhere, the sale price averaged €165/MWh in 4Q22 and €170.7/MWh in 2022, boosted by higher pool prices at the plants that are not subject to the regulatory collar ceiling, coupled by the contribution made by electricity system back-up services. Moreover, in 2021, the average sales price was adversely affected by the electricity price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €33.6m and €53.3m in 4Q21 and 2021, respectively, and were accounted for as a reduction in the average sales price.

As a result, revenue from energy sales, factoring in remuneration for investment, increased by 62.1% year-on-year to €58.5m in 4Q22 and by 90% to €294.3m in 2022.

3.4. Statement of profit or loss

The increase in average sales prices continued to lift EBITDA in the Renewable Energy business, specifically to €13.5m in 4Q22 and €109.8m in 2022, including reversal of €33.1m of the regulatory collar provision.

In 2022, the Group assessed the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount (Huelva-41 MW, Jaen 16-MW, Ciudad Real 16-MW and Cordoba 14-MW) as a result of having recovered most of their regulatory value via pool prices in 2022. As a result, the Group recognised impairment charges of €38.3m against the plants' carrying amounts, which were mostly offset by the mentioned reversal of the regulatory collar provision, none of which had any impact on cash flow generation during the period.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Total revenue	58.5	36.1	62.1%	60.6	(3.5%)	294.3	154.9	90.0%
EBITDA	13.5	3.4	n.s.	17.7	(23.7%)	109.8	17.8	n.s.
Depreciation and amortisation	(4.7)	(9.0)	(47.3%)	(15.5)	(69.6%)	(40.3)	(36.9)	9.2%
Impairment of and gains/(losses) on fixed-asset disposals	(4.3)	(0.7)	n.s.	-	n.s.	(41.3)	(1.1)	n.s.
EBIT	4.5	(6.3)	n.s.	2.2	101.2%	28.3	(20.1)	n.s.
Net finance cost	(3.4)	(3.1)	11.3%	(3.8)	(9.1%)	(16.3)	(11.9)	37.2%
Other finance income/(cost)	(0.0)	0.4	n.s.	(0.0)	(33.3%)	0.3	1.1	(77.3%)
Profit before tax	1.0	(8.9)	n.s.	(1.5)	n.s.	12.2	(30.9)	n.s.
Income tax	(0.7)	2.0	n.s.	(0.2)	n.s.	(8.2)	6.3	n.s.
Net Income	0.3	(7.0)	n.s.	(1.7)	n.s.	3.9	(24.6)	n.s.
Non-controlling interests	0.5	(0.2)	n.s.	(0.9)		0.6	(1.0)	n.s.
Attributable Net Income	0.8	(7.2)	n.s.	(2.6)	n.s.	4.5	(25.5)	n.s.

The reduction in depreciation and amortisation charges in 4Q22 reflected the reclassification of €4.1m as an impairment loss. In 2022, depreciation and amortisation charges increased by 9.2% to €40.3m, after the Group realigned certain plants' estimated useful lives to reflect pool prices in 2022 and the outlook for electricity prices going forward.

The year-on-year increase in net finance costs, to €3.4m in 4Q22 and to €16.3m in 2022, mainly reflects the unwind of the regulatory collar provision, with no impact on cash flow.

Income tax expense of €0.7m in 4Q22 and €8.2m in 2022 includes the tax effect of the above-mentioned impairment losses.

As a result, the net profit attributable to the Renewable Energy business amounted to €0.8m in 4Q22 and €4.5m in 2022, compared to net losses of €7.2m and €25.5m in 4Q21 and 2021, respectively.

3.5. Cash flow analysis

Net cash flows from operating activities amounted to €2.1m in 4Q22, compared to €46.5m in 4Q21, due to adjustments for the regulatory collar accounting treatment in both periods. In 2022, operating cash flow increased to €167m, from €54.7m in 2021, driven by EBITDA growth and a significant reduction in working capital, shaped by the payments outstanding to the market regulator.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
EBITDA	13.5	3.4	<i>n.s.</i>	17.7	<i>(23.7%)</i>	109.8	17.8	<i>n.s.</i>
Energy regulation adjustment (regulatory collar)	(4.8)	46.9	<i>n.s.</i>	3.1	<i>n.s.</i>	10.4	65.0	<i>(83.9%)</i>
Other cash adjustments	1.0	(2.6)	<i>n.s.</i>	0.3	<i>n.s.</i>	1.8	1.7	<i>5.5%</i>
Change in working capital	3.3	4.6	<i>(29.4%)</i>	32.7	<i>(89.9%)</i>	70.6	(10.6)	<i>n.s.</i>
Income tax received / (paid)	(6.2)	(0.5)	<i>n.s.</i>	-	<i>n.s.</i>	(8.6)	(6.9)	<i>25.6%</i>
Net interest received / (paid)	(4.8)	(5.3)	<i>(9.0%)</i>	(2.4)	<i>100.6%</i>	(17.0)	(12.3)	<i>38.6%</i>
Net cash flow from operating activities	2.1	46.5	<i>(95.6%)</i>	51.4	<i>(96.0%)</i>	167.0	54.7	<i>205.1%</i>

The difference between actual and regulated electricity prices (the regulatory collar), which does not impact the statement of profit or loss but does affect the statement of cash flows, had a negative impact of €4.8m in 4Q22 and a positive impact of €10.4m in 2022, compared inflows of €46.9m and €65m in 4Q21 and 2021, respectively.

Movements in working capital implied a cash inflow of €3.3m in 4Q22 and of €70.6m in 2022. The improvement in working capital reflects a payment outstanding to the electricity market regulator in the amount of €62.4m, which is due settlement in the first half of 2023.

Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Inventories	(8.9)	4.6	<i>n.s.</i>	(0.2)	<i>n.s.</i>	(10.3)	(2.0)	<i>n.s.</i>
Trade and other receivables	(5.4)	(12.2)	<i>(55.6%)</i>	(4.2)	<i>28.8%</i>	0.6	(6.3)	<i>n.s.</i>
Current financial and other assets	2.0	0.1	<i>n.s.</i>	(2.0)	<i>n.s.</i>	(0.0)	-	<i>n.s.</i>
Trade and other payables	15.6	12.0	<i>30.3%</i>	39.1	<i>(60.1%)</i>	80.3	(2.3)	<i>n.s.</i>
Change in working capital	3.3	4.5	<i>(27.8%)</i>	32.7	<i>(89.9%)</i>	70.6	(10.6)	<i>n.s.</i>

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

Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €23m at the December close, compared to €18.1m at year-end 2021. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do accrue interest.

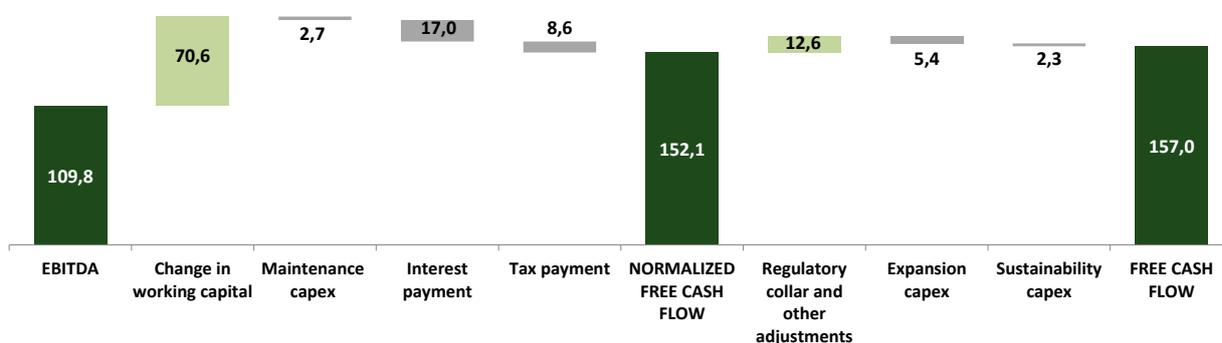
Figures in € m	4Q22	4Q21	Δ%	3Q22	Δ%	2022	2021	Δ%
Maintenance capex	(1.1)	(0.5)	<i>96.7%</i>	(0.5)	<i>104.3%</i>	(2.7)	(3.3)	<i>(19.3%)</i>
Sustainability capex and other	(1.2)	(0.6)	<i>109.4%</i>	(0.4)	<i>185.6%</i>	(2.3)	(2.9)	<i>(22.1%)</i>
Efficiency and expansion capex	(1.7)	(3.3)	<i>(48.9%)</i>	(0.7)	<i>146.6%</i>	(5.4)	(12.3)	<i>(55.6%)</i>
Financial investments	-	0.1	<i>(100.0%)</i>	-	<i>n.s.</i>	-	0.0	<i>(100.0%)</i>
Investments	(4.0)	(4.3)	<i>(8.6%)</i>	(1.6)	<i>143.1%</i>	(10.4)	(18.5)	<i>(43.8%)</i>
Disposals	-	5.5	<i>(100.0%)</i>	-	<i>n.s.</i>	0.4	5.5	<i>(93.2%)</i>
Net cash flow from investing activities	(4.0)	1.2	<i>n.s.</i>	(1.6)	<i>143.1%</i>	(10.0)	(13.0)	<i>(22.6%)</i>

Maintenance capex increased to €1.1m in 4Q22 and €2.7m in 2022, while sustainability capex increased to €1.2m in 4Q22 and €2.3m in 2022.

Lastly, investments in efficiency and growth declined to €1.7m in 4Q22 and €5.4m in 2022 and mainly related to small investments designed to render the various plants more efficient, as well as other projects under development.

Proceeds from disposals included the collection of €0.4m related with progress on the permitting of the photovoltaic projects under development. The €5.5m of proceeds recognised in 2021 stemmed from an upfront payment collected in connection with the sale of 373 MW of photovoltaic developments.

As a result, normalised free cash flow in the Renewable Energy business amounted to €152.1m in 2022, while free cash flow, after the regulatory collar and efficiency, growth and sustainability capex, came in at €157m.



The €70.6m improvement in working capital in 2022 includes a €62.4m payment due to the electricity market regulator, which will be paid during the first half of 2023.

3.6. Change in net debt

Net debt in the Renewable Energy business decreased by €115.1m from year-end 2021 to €6.1m.

In 2022, this business prepaid €38.5m of its borrowings from group companies and associates.

Figures in € m	Dec-22	Dec-21	Δ%
Non-current financial debt	121.9	162.2	(24.8%)
Current financial debt	27.1	29.4	(7.9%)
Gross financial debt	149.0	191.6	(22.2%)
Non-current lease contracts	1.0	0.7	38.9%
Current lease contracts	0.7	0.4	73.5%
Financial liabilities related to lease contracts	1.7	1.1	50.6%
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	134.5	61.5	118.9%
Net financial debt Renewable Energy business	6.1	121.2	(95.0%)

Gross debt, due by 2025, stood at €149m at the December close, while lease liabilities amounted to €1.7m. The Renewable Energy business had €144.5m of cash at year-end 2022.

Energy debt maturity profile (€Mn)



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Summarised statement of profit or loss

Figures in € m	2022				2021			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	712.9	294.3	(3.8)	1,003.4	667.6	154.9	(2.8)	819.7
Other income	20.5	4.3	(1.2)	23.6	14.8	19.3	(1.4)	32.6
Foreign exchange hedging operations results	(20.3)	-	-	(20.3)	(88.2)	-	-	(88.2)
Cost of sales and change in inventories of finished produ	(307.8)	(92.7)	3.8	(396.7)	(286.2)	(73.5)	2.8	(356.9)
Personnel expenses	(75.4)	(17.8)	-	(93.2)	(70.6)	(13.6)	-	(84.2)
Other operating expenses	(192.2)	(78.2)	1.2	(269.2)	(148.4)	(69.3)	1.4	(216.3)
EBITDA	137.7	109.8	-	247.6	89.0	17.8	-	106.8
Depreciation and amortisation	(52.1)	(40.2)	0.9	(91.4)	(47.8)	(36.7)	2.7	(81.9)
Depletion of forestry reserves	(7.0)	(0.0)	-	(7.0)	(11.4)	(0.1)	-	(11.6)
Impairment of and gains/(losses) on fixed-asset disposal:	184.5	(41.3)	0.7	143.9	(192.4)	(1.1)	-	(193.5)
Other non-ordinary operating gains/(losses)	(14.9)	-	-	(14.9)	4.2	-	-	4.2
EBIT	248.3	28.3	1.6	278.2	(158.4)	(20.1)	2.7	(175.9)
Net finance cost	(9.9)	(16.3)	-	(26.3)	(9.6)	(11.9)	-	(21.5)
Other finance income/(costs)	1.4	0.3	-	1.6	3.7	1.1	-	4.9
Profit before tax	239.8	12.2	1.6	253.6	(164.3)	(30.9)	2.7	(192.5)
Income tax	3.7	(8.2)	-	(4.7)	(19.1)	6.3	3.3	(9.4)
Net Income	243.5	3.9	1.5	248.9	(183.4)	(24.6)	6.0	(202.0)
Non-controlling interests	-	0.6	(2.3)	(1.7)	-	(1.0)	12.5	11.6
Attributable Net Income	243.5	4.5	(0.8)	247.2	(183.4)	(25.5)	18.5	(190.4)
Earnings per Share (EPS)	1.00	0.02	(0.0)	1.02	(0.75)	(0.11)	0.08	(0.78)

4.2. Summarised statement of financial position

Figures in € m	Dec - 22				Dec - 21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.6	35.0	(12.7)	37.9	13.2	38.1	(13.3)	37.9
Property, plant and equipment	603.4	389.0	(8.5)	983.9	436.9	456.3	(9.6)	883.6
Biological assets	60.4	0.2	-	60.5	59.6	0.1	(0.0)	59.7
Non-current investments in Group companies	112.6	0.0	(112.5)	0.0	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	18.6	-	(18.6)	-	38.3	-	(38.3)	-
Non-current financial assets	20.8	5.4	-	26.1	14.6	1.9	0.0	16.5
Deferred tax assets	30.5	19.4	3.2	53.1	20.1	22.1	3.3	45.6
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
Total non-current assets	861.8	459.0	(149.1)	1,171.6	695.2	528.5	(170.4)	1,053.3
Inventories	80.5	21.9	-	102.3	53.6	12.1	-	65.7
Trade and other accounts receivable	59.4	40.5	(29.2)	70.6	70.2	42.2	(17.5)	94.9
Income tax	6.8	1.3	-	8.0	1.5	0.3	0.0	1.8
Other current assets	7.5	0.4	-	7.9	10.7	(0.0)	0.0	10.7
Hedging derivatives	0.0	2.6	-	2.6	0.0	-	-	-
Current financial investments in Group companies	0.4	0.0	(0.4)	0.0	-	0.0	-	0.0
Current financial investments	4.2	0.0	-	4.3	6.6	0.0	-	6.6
Cash and cash equivalents	278.4	134.5	-	412.9	318.5	61.5	(0.0)	380.0
Total current assets	437.1	201.2	(29.6)	608.7	461.1	116.1	(17.5)	559.7
TOTAL ASSETS	1,298.9	660.2	(178.8)	1,780.3	1,156.2	644.6	(187.9)	1,613.0
Equity	719.8	228.9	(130.6)	818.2	539.0	218.6	(132.1)	625.5
Non-current borrowings	163.2	122.9	-	286.1	289.4	162.9	(0.0)	452.3
Non-current loans with Group companies and associates	-	36.4	(18.6)	17.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	-	-	2.2	-	2.2
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	27.9	0.1	-	28.0	51.1	0.1	0.0	51.2
Other non-current liabilities	38.2	75.8	-	114.0	23.7	68.0	-	91.8
Total non-current liabilities	229.2	235.3	(18.6)	445.9	364.2	308.4	(38.3)	634.2
Current borrowings	83.3	27.8	-	111.1	16.2	29.8	-	46.0
Current derivatives	0.4	-	-	0.4	7.0	2.6	-	9.6
Trade and other account payable	226.4	164.4	(29.2)	361.6	213.7	81.3	(17.5)	277.5
Short-term debts with group companies	0.0	0.7	(0.4)	0.4	0.0	1.3	(0.0)	1.3
Income tax	0.0	-	-	0.0	0.0	0.1	-	0.1
Current provisions	39.8	3.0	-	42.8	16.1	2.7	-	18.8
Total current liabilities	349.9	196.0	(29.6)	516.2	253.0	117.7	(17.5)	353.2
TOTAL EQUITY AND LIABILITIES	1,298.9	660.2	(178.8)	1,780.3	1,156.2	644.6	(187.9)	1,613.0

4.3. Statement of cash flows

Figures in € m	2022				2021			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	239.8	12.2	1.6	253.6	(164.3)	(30.9)	2.7	(192.5)
Depreciation and amortisation	59.0	40.3	(0.9)	98.4	59.3	36.9	(2.7)	93.5
Changes in provisions and other deferred expense	23.4	2.1	-	25.5	(0.5)	2.1	-	1.6
Impairment of gains/(losses) on disposals intangible asset	(184.5)	41.2	(0.7)	(144.0)	192.4	1.1	-	193.5
Net finance result	8.6	16.0	-	24.6	7.2	10.8	-	18.0
Energy regulation adjustment (regulatory collar)	14.5	10.4	-	25.0	24.1	65.0	-	89.1
Government grants taken to income	(0.5)	(0.1)	-	(0.7)	(0.6)	(0.3)	-	(0.9)
Adjustments to profit	(79.5)	109.9	(1.6)	28.8	282.0	115.4	(2.7)	394.7
Inventories	(24.3)	(10.3)	-	(34.6)	(11.5)	(2.0)	-	(13.5)
Trade and other receivables	8.2	0.6	11.7	20.5	(43.1)	(6.3)	-	(49.4)
Current financial and other assets	2.4	(0.0)	-	2.3	2.4	0.0	-	2.4
Trade and other payables	10.7	80.3	(11.7)	79.3	29.3	(2.3)	-	27.0
Changes in working capital	(3.0)	70.6	-	67.6	(23.0)	(10.6)	-	(33.6)
Interest paid	(6.3)	(17.0)	-	(23.3)	(6.9)	(12.3)	-	(19.2)
Dividends received	-	-	-	-	0.0	-	-	0.0
Income tax received/(paid)	(13.9)	(8.6)	-	(22.6)	(1.3)	(6.9)	-	(8.2)
Other collections/(payments)	(0.4)	-	-	(0.4)	-	(0.0)	-	(0.0)
Other cash flows from operating activities	(20.6)	(25.7)	-	(46.3)	(8.2)	(19.2)	-	(27.4)
Net cash flow from operating activities	136.7	167.0	-	303.7	86.5	54.8	-	141.3
Property, plant and equipment	(41.7)	(10.1)	-	(51.8)	(49.9)	(18.4)	-	(68.3)
Intangible assets	(2.8)	(0.3)	-	(3.1)	(2.6)	(0.2)	-	(2.7)
Other financial assets	0.2	-	-	0.2	(0.3)	0.0	-	(0.3)
Disposals	0.4	0.4	-	0.8	13.7	5.5	(13.3)	6.0
Net cash flow used in investing activities	(43.9)	(10.0)	-	(53.9)	(39.1)	(13.0)	(13.3)	(65.4)
Free cash flow	92.8	157.0	-	249.8	47.4	41.8	(13.3)	75.9
Buyback/(disposal) of own equity instruments	0.1	-	-	0.1	(2.2)	-	-	(2.2)
Proceeds from and repayments of financial liabilities	(66.5)	(82.9)	-	(149.4)	(174.8)	(28.2)	-	(203.1)
Dividends payments	(66.6)	(1.0)	-	(67.6)	-	(26.6)	13.3	(13.4)
Net cash flow from/ (used in) financing activities	(132.9)	(83.9)	-	(216.8)	(177.0)	(54.8)	13.3	(218.6)
Net increase/(decrease) in cash and cash equivalents	(40.1)	73.1	-	32.9	(129.6)	(13.1)	-	(142.7)

5. KEY DEVELOPMENTS

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

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

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

The full contents of the court's rulings will be released in the coming days.

Any future modification of the Spain's coastal regulation would not apply to the Pontevedra concession extension.

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

Extraordinary interim dividend of €0.29 share, payable on 16 March

On 28 February 2022, the Board agreed to pay an extraordinary interim dividend from 2022 profits in the amount of €70.4m, equivalent to €0.29 per share (before withholding tax), to be paid on 16 March.

That dividend is additional to the €67m paid out during the year, equivalent to €0.27 per share (before withholding tax).

The Pontevedra biomill restarted in November

Ence has developed an innovative solution for use during times of drought that enables it to regenerate its own wastewater, as well as the wastewater from the treatment facility adjacent to the Pontevedra biomill (in Placeres), in order to minimise water withdrawal from the river in the course of pulp production when its flow drops, as happened last summer.

After four months of stoppage due to the flow problems affecting the Lérez River, the Pontevedra biomill was restarted in November, trialling the new solution, while work was carried out to repair the water withdrawal infrastructure.

The biomill is expected to continue to operate combining that solution and minimising the water withdrawn from the river throughout the first half of 2023, in order to optimise the water recovery process.

Launch of a new project for the production of mixed fibre in As Pontes

At the end of June, Ence announced it was analysing a new project in the town of As Pontes, Coruña, for the production of mixed bleached fibre made from a combination of recovered paper and board and the virgin fibre produced by Ence.

An option to purchase the site where the project is to be located was signed in January 2023. The project embodies the fair transition and circular bioeconomy thrusts by transforming land that is part of a fossil fuel power plant into an innovative facility that will recover and reuse natural resources, without increasing wood consumption.

Phase one of the project consists of building a line for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence, with annual production capacity of 100,000 tonnes. The investment required is initially estimated at €125m and the project is expected to yield a return (ROCE) of over 12%.

Subsequent phases contemplate the installation of a certified biomass co-generation facility that would cover the factory's heat and electricity requirements and a line for the manufacture of 30,000 tonnes of paper products.

Ence biogas

In 2022, Ence created a new subsidiary to develop and operate plants to produce biomethane and fertiliser from organic waste.

This is a new business line based on the circular bioeconomy principles that already underpin Ence's two core businesses, one with significant growth potential in Spain.

That subsidiary already has a pipeline of nine projects under development in Spain with aggregate annual supply capacity of 560 GWh of biomethane. The medium-term goal is to operate 20 plants with annual capacity of over 1 TWh of biomethane.

Navia Excellence

In March 2022, Ence unveiled its "Navia Excellence" plan to the market, a project conceived of to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.

That project will entail an estimated €105m of investments between 2023 and 2025, with a projected ROCE of over 12%.

2022 Annual General Meeting

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

- ✓ Approval of the 2021 financial statements, management report and sustainability report and of the motion for the appropriation of profit for 2021
- ✓ Approval of the Board of Directors' performance and the Director Remuneration Policy for 2022, 2023 and 2024
- ✓ Re-election of Irene Hernández Álvarez as independent director
- ✓ Re-election of Fernando Abril-Martorell as external director
- ✓ Re-election of José Guillermo Zubía Guinea as external director
- ✓ Appointment of Ángel Agudo Valenciano as proprietary director, in representation of Asua Inversiones S.L.
- ✓ Appointment of Carmen Aquerreta Ferraz as independent director
- ✓ Appointment of Rosalía Gil- Albarelos Marcos as independent director
- ✓ Amendment of the Bylaws and General Meeting Regulations
- ✓ Authorisation of the Board of Directors to buy back own shares and debt instruments

APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

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

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

1. People and values

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

In terms of the generation of **quality work**, note that as of year-end 2022, 93.4% of Ence employees had permanent employment contracts and 98.1% 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 2022 the Company secured Great Place to Work certification for the third 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 2022, it promoted 73 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
- ✓ Regulatory Compliance
- ✓ Leadership Skills
- ✓ Health and Safety
- ✓ Sustainability
- ✓ Operations and Maintenance Services
- ✓ Digital Transformation

In 2022, the Company imparted 21,960 hours of training, adapting the formats to make them compatible with remote working arrangements. It is currently focusing strategically on training in the areas of compliance, leadership development with a focus on empowerment and autonomy, health and safety and digital transformation.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by over 6.8% so far in 2022 to account for 26% of the workforce at year-end. Moreover, in 2022, 51% of new positions were covered by women.

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

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. Last year, it negotiated and executed the new collective bargaining agreement for its office workers in Navia, Pontevedra and Madrid and the new collective bargaining agreement at the Navia biomill. It is also in the course of negotiating an Equality Plan.

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. However, in 2022, that positive trend was truncated by the exceptional circumstances shaping the energy market as a result of the war in Ukraine. Specifically, the surge in natural gas prices and the potential risk of supply disruption prompted Ence to decide in December 2021 to switch the fuel used to feed the lime kilns at the Navia biomill from natural gas to fuel-oil. That decision ensured the economic viability of the plant's operations but the replacement of gas with fuel-oil has led to an increase in GHG emissions, which increased by approximately 25% in 2022 by comparison with the 2021 readings. The increase is circumstantial and exceptional and the plant will revisit its standard emission levels once the energy markets return to normal. In parallel, Ence has continued to work in 2022 on the roadmap devised for decarbonising the biomill, making progress on the engineering details for the projects for replacing fossil fuels with renewable sources.

Ence updates its inventory of greenhouse gas emissions annually, most recently including, for the first time, an analysis of the net carbon balance of the forests owned by the Company. That analysis, performed in keeping with the IPCC guidelines, showed that in 2022 the forests managed by Ence sequestered around 90,000 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.

In the industrial businesses, the fourth quarter was strong on the **health and safety** front, with neither the Magnon plants nor the pulp biomills recording any lost-time injuries. As a result, the Pulp business ended the year with its best metrics in history (reducing its injury frequency rate by 47% and its severity rate by 70% by comparison with the 2021 readings) to levels that are 14 times lower than the benchmark values for the sector in Spain (ASPAPPEL)

Magnon ended the year with worse injury rates than in 2021, but did not record a single lost-time injury in the last four months of the year.

The Forestry Purchases and Forest Assets units also posted better safety metrics than in 2021, which were likewise well below the benchmarks for the primary sector in Spain (48% below in the case of Forestry Purchases and 68% better in the case of Forest Assets).

Overall, in 2022, the lost-time injury frequency rate deteriorated slightly year-on-year, but the severity rate was 23% better than last year. What that means is that the number of accidents involving lost time increased a little but those accidents were less serious, implying a lower number of lost working days.

All of Ence's business units continue to rank well below the key benchmark accident metrics in Spain (general industry and the pulp and paper and wood industries). Nevertheless, the Company plans to continue to work to further improve its safety performance, which is a top priority for Ence.

As for Ence's **environmental performance**, the Pulp biomills made remarkable progress in 2022, cutting odour emissions in Navia by 65% and in Pontevedra by 25% compared to 2021. In fact, the annual reading of 61 minutes recorded by the Navia biomill marks its best ever performance. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 13% in Navia and 2% in Pontevedra.

In the Renewable Energy business, in 2022, the Group continued to execute and monitor its plans for delivering the unit water consumption targets across its plants.

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

As for the effort to implement environmental management systems across the Renewable Energy business, the external audit recently concluded favourably so that by year-end, all Magnon facilities had their systems externally certified.

4. Rural and forest development

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

Indeed, Ence has cemented itself as a benchmark in **sustainable forest management** in Spain, applying internationally-recognised criteria and standards of excellence, such as the FSC® (Forest Stewardship Council®, with licence 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 2022, over 83% of its forest assets were certified under one or other of those standards and around 73% of the wood that entered its biomills during the year from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 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. In 2022, it monitored 45 owned forest tracts and further progress is planned for 2023 in the form of new fauna and flora biodiversity studies.

As for the **generation of value for forest owners and suppliers**, Ence goes to lengths to support smaller-sized firms: in 2022, 94% of wood suppliers and 74% of forest owners were small players. The Company purchased nearly €44.5 million worth of wood from over 1,700 forest owners in 2022. In its energy plants, Ence purchased over 1,664,000 tonnes of biomass in 2022, generating over €83m of value for its biomass supply chain in rural areas.

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 2022, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, the Basque region, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint.

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

Over 87% of the agricultural biomass used in 2022 was compliant with the 10-Point Plan criteria, ahead of the target of 80%. In industrial biomass, compliance stands at 91%, which is likewise ahead of target.

As for implementation of the SURE certification scheme in order to comply with its requirements under Directive (EU) 2018/2001 (RED II), having renewed certification at the energy plants and biomills in early 2022, work has begun on certification of the Group's suppliers: 103 suppliers are already SURE-certified for the purposes of the energy plants and 28 are certified for the biomills. By the last week of the year, 92.7% of the biomass used at the energy plants was certified, to put the figure for the year at 86.7% (measured as the incoming volume weighed in at the plants, in tonnes); at the biomills, 83% of biomass was certified last year (at the biomills this calculation considers biomass received from third parties and the biomass generated internally).

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

5. Sustainable products

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

Within that effort, it is worth flagging the Company's unbleached pulp, Naturcell, which is not only more environmentally-friendly to make, the GHG emissions derived from its life cycle are offset with credits purchased on the voluntary market, such that all sales of Naturcell made in Pontevedra last year comprised the zero carbon product, Naturcell Zero, so topping the related sustainability target set by the Company for 2022.

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

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set sales targets for Naturcell, Powercell and Naturcell Zero for 2022. Sales of those products accounted for 17% of total pulp sales in 2022.

In addition to the above projects, in 2022 Ence continued to work on the pre-assessment required to obtain biodegradability certification for its pulp in order to shine the spotlight on this sustainability attribute of our products.

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

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

6. Community commitment

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

In addition to the above community investments, in 2022 Ence continued to roll out specific relations plans for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted more than 1,000 visits to the facilities in Navia, Pontevedra and Huelva last year. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects and met with representatives of its various stakeholders in order to foster open communication with all of them.

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

7. Corporate governance

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

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

Below is a snapshot of the sustainability milestones attained in 2022:

Production cost reduction



Safe & efficient operations

Protecting Health and Safety

- ✓ **-23%** Ence's global Severity Index (2022 vs. 2021)

Water footprint reduction

- ✓ **Water use reduction in both biofactories** (-11% in Navia vs. 2021 and -2% in Pontevedra vs. 2021)

Advancing towards a circular economy

- ✓ **>98%** of waste recovered (2022)
- ✓ **100% plants ZERO WASTE certified**

Odour reduction (vs 2021)

- ✓ **-65%** odour time (minutes) in Navia in 2022 vs 2021 (best historical performance) and **-25%** in Pontevedra

Leadership and differentiation



Climate action

Committed to mitigate climate change

- ✓ Ongoing climate risk analysis following **TCFD Recommendations**



Sustainable products

Differentiated products with higher added value

- ✓ **18%** (vs 16% in 2021) of total sales. Products with higher and growing margins
- ✓ **1st Pulp EPD* published:** Encell TCF and Naturcell
- ✓ **1st Carbon neutral product** (Naturcell Zero)
- ✓ Feasibility study for **Recycled Pulp** project

License to operate



People & Values

Talent as a competitive advantage

- ✓ **Great Place to Work** certification for the third year in a row
- ✓ Quality jobs: **93,4% permanent contracts**
- ✓ **+6,8% female employees** vs 2021
- ✓ **51% of new hires** in 2022 were women



Commitment to communities

Adding value to society:

- ✓ **More than 1000 visits** from our local stakeholders to our facilities in 2022

Risk minimisation



Sustainable agroforestry

Certified supply chain

- ✓ **>83%** of managed land certified
- ✓ **73%** of supplied wood certified
- ✓ **>98%** wood & biomass suppliers homologated
- ✓ **100% plants SURE System certified** (Sustainable biomass)



Corporate governance

Transparent management

- ✓ Virtual AGM with 100% of resolutions approved
- ✓ **38,5%** female directors
- ✓ **60% independent female directors** on our Committees (Audit, Nomination and Remuneration and Sustainability)

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

Facility	Type of facility	MW	2022 Remuneration for investment in P&L (Ri; €/MW) *	2022 Remuneration for investment in FCF (Ri; €/MW) *	Type of fuel	Remuneration for operation 2022 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	-	Lignin	-	6,500	2032
	Biomass generation		55,308	36,445	Agroforestry biomass	-	7,500	
Navia	Biomass co-generation	40.3	-	-	Lignin	-	6,500	2034
	Biomass generation		230,965	168,978	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	246,267	136,337	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,008	159,687	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,008	159,687	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,582	156,224	Olive Pulp	-	7,500	2031
	Gas co-generation		-	-	Natural Gas	117.7	6,537	
Huelva 50MW	Biomass generation	50.0	266,452	208,800	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,579	237,200	Agroforestry biomass	-	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	-	Agroforestry biomass	-	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	-	Agroforestry biomass	-	7,500	2044

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

1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a minimum return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for 2020–2031 via Royal Decree-Law 17/2019 (22 November 2019).
2. The **regulated sales price (€/MWh)** enables plant owners to cover all the estimated costs of operating a 'standard' plant, including fuel costs. It is made up of the electricity market (pool) price, within the ceiling and floor set by the regulator (regulatory collar), plus the supplementary remuneration for operation (Ro) earned by each plant.

The regulator determines the supplementary remuneration for operation of each plant (Ro) as a function of the estimated cost of operating a 'standard' plant, which are updated every six months and the electricity prices estimated at the start of a three-year regulatory sub period (regulatory price). At the end of that period, any deviations between the actual market price (pool) and the price estimated by the regulator at the start of the period (regulatory price) are compensated, as a function of certain annual upper and lower limits (the regulator collar), by adjusting the remuneration for investment to be collected during the plants' remaining regulatory useful lives.

The difference between the remuneration for investment accrued and the amount collected each year corresponds to the accumulated effect of the adjustments made for those deviations between actual pool prices and the upper and lower annual limits set by the regulator (the regulatory collar).

Further, if the price estimated by the regulator for a given year is higher than the estimated cost of operating a 'standard' plant, that difference also triggers an adjustment to the remuneration for investment due to the plants over their remaining useful lives.

The plants that do not avail of or have depleted their remuneration for investment are not subject to the regulatory collar ceiling and are not affected by any potential excess between the price estimated by the regulator and the cost of operating a standard plant.

The annual sales volume entitled to the regulated price (€/MWh) may not exceed the product of a facility's gross installed capacity (MW) and the cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 6,500 hours in the case of CHP generation.

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

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

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

The regulatory price applicable in 2022, factoring in that legislation, is €122/MWh, compared to the initially estimated €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation parameter does not apply.

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

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

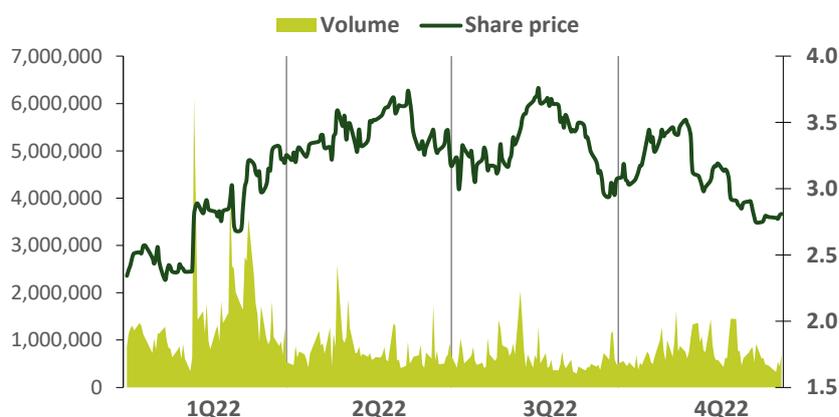
On 28 December 2022, the regulator published its draft Ministerial Order updating the remuneration parameters applicable for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025. **Below are the pool prices estimated by the regulator for 2023-2025**, along with the corresponding annual ceilings and floors:

Eur / MWh	2023	2024	2025
LS2	215.7	137.5	78.2
LS1	211.8	133.6	86.0
Estimated price pool	207.9	129.7	78.2
LI1	204.0	125.8	74.3
LI2	200.0	121.9	70.4

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 the year at €2.81, a gain of 24.1% from year-end 2021. Over the same timeframe, the Company's peers' share prices corrected by 10.2% on average.



SHARES	1Q22	2Q22	3Q22	4Q22
Share price at the end of the period	3.19	3.26	3.07	2.81
Market capitalization at the end of the period	786.6	803.3	756.1	692.0
Ence quarterly evolution	41.1%	2.1%	(5.9%)	(8.5%)
Daily average volume (shares)	1,457,945	793,780	657,916	745,786
Peers quarterly evolution *	3.3%	(1.0%)	(8.6%)	(4.0%)

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

Source: Bloomberg

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 €8.5636 per share (adjusted on 1 July 2022). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	1Q22	2Q22	3Q22	4Q22
Bond price at the end of the period (ask)	100.28	100.20	100.03	100.39
Yield to worst at the end of the period*	0.945%	0.947%	1.179%	-1.038%

*Yield to maturity

Source: Bloomberg

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

EBITDA

EBITDA is a metric used in the statements of profit or loss presented in this report, in sections 1, 2.6, 2.7, 3.4 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and other non-operating items that undermine the comparability of the numbers.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	248.3	28.3	1.6	278.2	(158.4)	(20.1)	2.7	(175.9)
Depreciation and amortisation charges	€ m	P&L	52.1	40.2	(0.9)	91.4	47.8	36.7	(2.7)	81.9
Depletion of forest reserve	€ m	P&L	7.0	0.0	-	7.0	11.4	0.1	-	11.6
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	(184.5)	41.3	(0.7)	(143.9)	192.4	1.1	-	193.5
Other non-recurring items	€ m	APM	14.9	-	-	14.9	(4.2)	-	-	(4.2)
EBITDA	€ m		137.7	109.8	-	247.6	89.0	17.8	-	106.8

Other non-recurring items, presented in sections 1, 2.6 and 4.1 of this report, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable.

In 2021 and 2022, this heading reflects the movements in the provisions derived from the Appellate Court rulings annulling the concession in Pontevedra in July 2022 and the subsequent Supreme Court rulings of February 2023 upholding the validity of the concession in Pontevedra until 2073. In 2022, it includes a €21m provision recognised to cover commitments under Ence's Pontevedra Environmental Pact and the reversal of a €6.1m provision covering the termination of onerous contracts. In 2021, it included the reversal of the provision accumulated to cover commitments under the Environmental Pact in the amount of €14m, coupled with recognition of a €6.1m provision to cover the termination of contracts in effect and of €3.7m to cover the potential impairment of biomill spare parts and other contingencies.

HEDGE SETTLEMENT

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a loss of €20.3m in 2022, compared to a gain of €0.4m in 2021.

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. In 2021, settlement of those hedges implied a loss of €53.2m. Spurred on by that same uncertainty, Ence decided to lock in an average price of €44.5/MWh for the sale of 732,063 MWh in 2021 by arranging financial hedges and fixed-price agreements. In 2021, settlement of those hedges implied a loss of €53.3m.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2021 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Source Financial Statement	2022			2021				
		Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Gains/(losses) on foreign currency hedges	€ m	(20.3)	-	-	(20.3)	0.4	-	-	0.4
Gains/(losses) on pulp and energy price hedges	€ m	-	-	-	-	(53.2)	(53.3)	-	(106.5)
HEDGE SETTLEMENT	€ m	(20.3)	-	-	(20.3)	(52.8)	(53.3)	-	(106.1)

CASH COST

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

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

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022	2021
			Pulp	Pulp
Revenue from pulp sales	€ m	P&L	625.5	544.6
EBITDA	€ m	APM	(137.7)	(89.0)
Total costs (Revenue - EBITDA)	€ m		487.7	455.5
Gains/(losses) on hedging transactions	€ m	APM	(20.3)	(52.8)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		(14.5)	(24.1)
Depletion of forest reserve	€ m	P&L	7.0	11.4
Change in inventories	€ m	P&L	3.6	9.0
Other income and expenses	€ m		(11.3)	(4.5)
ADJUSTED CASH COST	€ m		452.2	394.5
Pulp production costs	€ m		373.8	330.5
No. of tonnes produced	Unit		816,311	1,008,692
PRODUCTION-RELATED COSTS PER TONNE	€/tonne		457.9	327.6
Overhead, sales and logistics costs	€ m		78.4	64.1
No. of tonnes sold	Unit		826,617	996,058
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE	€/tonne		94.8	64.3
CASH COST	€/tonne		552.7	391.9

“Other income and expenses” includes expenses incurred to implement a new solution for the recovery of wastewater totalling €5.4m in 2022, losses on the sale of wood to third parties (-€0.8m in 2022 and -€1.4m in 2021), provisions for the impairment of receivables (-€1.3m in 2022 and +€0.9m in 2021), charges for banking services (-€1.1m in 2022 and -€1.3m in 2021), long-term remuneration and termination benefits (-€1.2m in 2022 and -€0.5m in 2021) and nursery costs (-€1.1m in 2022 and -€0.7m in 2021). The remaining items implied costs of €0.4m in 2022 and of €1.5m in 2021.

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.4 of this report is a yardstick for the operating profit generated by the Pulp business without taking into account asset depreciation and amortisation charges, impairment losses on non-current assets or gains or losses on their disposal or other non-operating items, adjusted for the settlement of hedges, the effect of the regulatory collar on energy sales and forest depletion charges.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022	2021
			Pulp	Pulp
Revenue from pulp sales	€ m	P&L	625.5	544.6
No. of tonnes sold	Unit		826,617	996,058
Average sales price per tonne (Revenue / # tonnes)	€/tonne		756.7	546.7
Cash cost (€)	€/tonne	APM	552.7	391.9
TOTAL OPERATING PROFIT PER TONNE OF PULP	€/tonne		204.0	154.8

NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.6, 3.4 and 4.1. They aggregate statement of profit or loss headings in order to facilitate their comparison.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	1.9	0.2	(1.0)	1.1	6.1	1.8	(1.2)	6.6
Finance costs	€ m	P&L	(11.8)	(16.5)	1.0	(27.3)	(15.7)	(13.7)	1.2	(28.1)
NET FINANCE COST	€ m		(9.9)	(16.3)	-	(26.3)	(9.6)	(11.9)	-	(21.5)
Change in fair value of financial instruments	€ m	P&L	-	0.3	-	0.3	-	1.2	-	1.2
Exchange differences	€ m	P&L	1.4	(0.0)	-	1.3	3.7	(0.0)	-	3.7
OTHER FINANCIAL ITEMS	€ m		1.4	0.3	-	1.6	3.7	1.1	-	4.8
NET FINANCE INCOME/(COST)	€ m	P&L	(8.5)	(16.1)	-	(24.6)	(5.9)	(10.8)	-	(16.7)

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

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

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

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(16.9)	(2.7)	-	(19.6)	(11.7)	(3.3)	-	(15.1)
Efficiency and growth capex	€ m		(11.8)	(2.3)	-	(14.1)	(13.9)	(2.9)	-	(16.9)
Sustainability capex	€ m		(15.8)	(5.4)	-	(21.2)	(26.8)	(12.3)	-	(39.1)
Financial investments	€ m		0.2	-	-	0.2	(0.3)	0.0	-	(0.3)
TOTAL CAPITAL EXPENDITURE	€ m		(44.3)	(10.4)	-	(54.7)	(52.8)	(18.5)	-	(71.3)

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.7 and 3.5 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.3. However, operating cash flow is arrived at by starting from EBITDA, whereas net cash from operating activities is arrived at by starting from profit before tax. As a result, the adjustments to profit do not coincide in the two calculations. This APM is provided to reconcile EBITDA and operating cash flow.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022			2021		
			Pulp	Renewable Energy	CONSOLIDATED TOTAL	Pulp	Renewable Energy	CONSOLIDATED TOTAL
EBITDA	€ m	APM	137.7	109.8	247.6	89.0	17.8	106.8
Other non-recurring items	€ m	APM	(14.9)	-	(14.9)	4.2	-	4.2
Adjustments to reconcile profit before tax to net cash flows:								
Changes in provisions and other deferred expense (net)	€ m	CF	23.4	2.1	25.5	(0.5)	2.1	1.6
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	14.5	10.4	25.0	24.1	65.0	89.1
Grants taken to profit and loss	€ m	CF	(0.5)	(0.1)	(0.7)	(0.6)	(0.3)	(0.9)
Exchange differences with an impact on cash	€ m		0.0	(0.2)	(0.1)	1.4	(0.0)	1.3
Change in working capital	€ m		(3.0)	70.6	67.6	(23.0)	(10.6)	(33.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(6.3)	(17.0)	(23.3)	(6.9)	(12.3)	(19.2)
Dividends received	€ m	CF	-	-	-	0.0	-	0.0
Income tax paid	€ m	CF	(13.9)	(8.6)	(22.6)	(1.3)	(6.9)	(8.2)
Other collections/(payments)	€ m	CF	(0.4)	-	(0.4)	-	(0.0)	(0.0)
OPERATING CASH FLOW			136.7	167.0	303.7	86.5	54.8	141.3

FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 1, 2.7, 3.5 and 4.3 of this report.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	136.7	167.0	-	303.7	86.5	54.8	(0.0)	141.3
Net cash flows from/(used in) investing activities	€ m	CF	(43.9)	(10.0)	-	(53.9)	(39.1)	(13.0)	(13.3)	(65.4)
FREE CASH FLOW	€ m		92.8	157.0	-	249.8	47.4	41.8	(13.3)	75.9

NORMALISED FREE CASH FLOW

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

Normalised free cash flow provides a proxy for the cash generated by the Company's operating activities before collection of proceeds from asset sales, the adjustments related with electricity sector regulations and other

adjustments to profit. It represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	137.7	109.8	-	247.6	89.0	17.8	-	106.8
Changes in working capital:										
Inventories	€ m	CF	(24.3)	(10.3)	-	(34.6)	(11.5)	(2.0)	-	(13.5)
Trade and other receivables	€ m	CF	8.2	0.6	11.7	20.5	(43.1)	(6.3)	-	(49.4)
Short-term investments	€ m	CF	2.4	(0.0)	-	2.3	2.4	0.0	-	2.4
Trade payables, other payables and other liabilities	€ m		10.7	80.3	(11.7)	79.3	29.3	(2.3)	-	27.0
Maintenance capex	€ m	APM	(16.9)	(2.7)	-	(19.6)	(11.7)	(3.3)	-	(15.1)
Interest paid, net (including right-of-use assets)	€ m	CF	(6.3)	(17.0)	-	(23.3)	(6.9)	(12.3)	-	(19.2)
Income tax paid	€ m	CF	(13.9)	(8.6)	-	(22.6)	(1.3)	(6.9)	-	(8.2)
NORMALISED FREE CASH FLOW	€ m		97.6	152.1	-	249.7	46.2	(15.3)	-	30.9

NET DEBT/(CASH)

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

Net debt/(cash) is calculated as the difference between current and non-current borrowings on the liability side of the statement of financial position and unrestricted cash on the asset side, which includes cash and cash equivalents, the debt service cash reserve (included with non-current financial assets) and other financial investments (within current assets), as outlined in sections 2.8 and 3.6 of this report.

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

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	2022				2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Non-current borrowings:										
Bonds and other marketable securities	€ m	BS	-	78.4	-	78.4	125.6	92.1	-	217.7
Bank borrowings	€ m	BS	87.0	43.5	-	130.4	99.3	70.0	-	169.4
Other financial liabilities	€ m	BS	76.2	1.0	-	77.3	64.5	0.7	-	65.2
Current borrowings:										
Bonds and other marketable securities	€ m	BS	64.1	0.0	-	64.1	0.8	-	-	0.8
Bank borrowings	€ m	BS	7.9	27.1	-	35.0	5.4	29.4	-	34.8
Other financial liabilities	€ m	BS	11.4	0.7	-	12.0	10.0	0.4	-	10.4
Cash and cash equivalents	€ m	BS	278.4	134.5	-	412.9	318.5	61.5	-	380.0
Current financial assets - Other financial investments	€ m		4.2	0.0	-	4.3	6.6	0.0	-	6.6
Cash reserve for debt service	€ m		-	10.0	-	10.0	-	10.0	-	10.0
NET DEBT/(CASH)	€ m		(36.1)	6.1	-	(30.0)	(19.5)	121.2	-	101.7

ROCE

ROCE stands for the return on capital employed and is used by management as a key profitability performance indicator. It is provided in section 1 of this report.

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

ROCE is widely used in the capital markets to measure and compare the earnings performance of different companies.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for 2022 and the comparison with the 2021 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBIT, last 12 months	€ m	P&L	84,3	28,3	1,6	114,2	25,7	(20,1)	2,7	8,2
Average capital employed, last 12 months					-					
Average equity	€ m	BS	615,5	224,8	-	840,3	567,4	253,1	-	820,5
Average net debt	€ m	BS	(33,4)	40,6	-	7,2	30,1	137,0	-	167,2
ROCE	%		14,5%	10,6%	n.s.	13,5%	4,3%	(5,2%)	n.s.	0,8%

For ROCE calculation purposes, adjustments have been made for the impairment losses and provisions recognised in 2021 in the wake of the National Appellate Court sentences which annulled the extension of the Pontevedra biomill concession and their subsequent reversal following the Supreme Court ruling upholding the validity of the original extension to 2073.

In 2021, adjustments were made for impairment losses and provisions with a net effect on EBIT of €184m and on equity of €200m. In 2022, adjustments were made for the reversal of impairment losses and provisions with a net effect on EBIT of €164m and on equity of €169m.

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.

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