



# Earnings Report 2Q23

27 July 2023



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## EXECUTIVE SUMMARY

Market figures	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
BHKP (USD/t) average price	1,101.6	1,241.3	(11.3%)	1,338.8	(17.7%)	1,220.2	1,199.8	1.7%
Average exchange rate (USD/€)	1.09	1.07	1.8%	1.07	1.6%	1.08	1.10	(1.7%)
BHKP (€/t) average price	1,012.1	1,160.6	(12.8%)	1,249.8	(19.0%)	1,131.0	1,092.7	3.5%
Source: Bloomberg & OMIE								
Operating Metrics	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
<b>Pulp production (t)</b>	<b>225,324</b>	<b>266,954</b>	<b>(15.6%)</b>	<b>252,679</b>	<b>(10.8%)</b>	<b>478,003</b>	<b>465,888</b>	<b>2.6%</b>
Navia pulp production	137,085	154,786	(11.4%)	153,866	(10.9%)	290,951	269,501	8.0%
Pontevedra pulp production	88,240	112,168	(21.3%)	98,812	(10.7%)	187,052	196,387	(4.8%)
<b>Pulp sales (t)</b>	<b>244,875</b>	<b>287,600</b>	<b>(14.9%)</b>	<b>216,618</b>	<b>13.0%</b>	<b>461,493</b>	<b>487,059</b>	<b>(5.2%)</b>
Average sales pulp price (€/t)	577.7	723.9	(20.2%)	762.4	(24.2%)	664.4	693.9	(4.2%)
Cash cost (€/t)	534.5	489.5	9.2%	635.8	(15.9%)	587.4	499.7	17.5%
Operating margin per ton (€/t)	43.2	234.4	(81.6%)	126.6	(65.9%)	77.0	194.2	(60.3%)
<b>Renewable Energy sales volume (MWh)</b>	<b>250,145</b>	<b>382,440</b>	<b>(34.6%)</b>	<b>305,608</b>	<b>(18.1%)</b>	<b>555,753</b>	<b>823,124</b>	<b>(32.5%)</b>
Average sales price (€/MWh)	148.1	128.3	15.4%	151.4	(2.2%)	149.9	139.4	7.5%
Remuneration for investment (€ m)	6.2	10.2	(39.1%)	6.2	1.1%	12.4	20.5	(39.4%)

P&L € m	Proforma			Proforma <sup>1</sup>				
	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Revenue from Pulp business	155.6	221.5	(29.8%)	179.6	(13.4%)	335.1	380.0	(11.8%)
Revenue from Renewable Energy business	43.7	99.1	(55.9%)	82.0	(46.7%)	125.7	175.2	(28.3%)
Consolidation adjustments	(0.6)	(1.0)		(1.3)		(2.0)	(1.5)	
<b>Total revenue</b>	<b>198.6</b>	<b>319.6</b>	<b>(37.9%)</b>	<b>260.2</b>	<b>(23.7%)</b>	<b>458.8</b>	<b>553.7</b>	<b>(17.1%)</b>
Pulp business EBITDA	8.2	49.0	(83.3%)	25.6	(68.1%)	33.8	69.8	(51.6%)
Renewable Energy business EBITDA	4.2	52.9	(92.1%)	27.4	(84.7%)	31.6	78.6	(59.8%)
<b>EBITDA</b>	<b>12.4</b>	<b>101.9</b>	<b>(87.9%)</b>	<b>53.1</b>	<b>(76.7%)</b>	<b>65.4</b>	<b>148.4</b>	<b>(55.9%)</b>
Depreciation, amortisation and forestry depletion	(24.0)	(22.9)	5.0%	(24.0)	0.3%	(48.0)	(43.9)	9.3%
Impairment of and gains/(losses) on fixed-assets	(0.0)	(36.6)	(99.9%)	(0.2)	(87.9%)	(0.3)	(37.3)	(99.3%)
Other non-ordinary results of operations	(6.6)	(0.1)	n.s.	-	n.s.	(6.6)	(0.1)	n.s.
<b>EBIT</b>	<b>(18.3)</b>	<b>42.4</b>	<b>n.s.</b>	<b>28.9</b>	<b>n.s.</b>	<b>10.6</b>	<b>67.1</b>	<b>(84.2%)</b>
Net finance cost	(7.6)	(8.2)	(7.3%)	(5.4)	41.6%	(13.0)	(13.7)	(5.3%)
Other finance income/(cost) results	(0.0)	1.6	n.s.	(0.4)	(94.3%)	(0.4)	2.3	n.s.
<b>Profit before tax</b>	<b>(25.9)</b>	<b>35.8</b>	<b>n.s.</b>	<b>23.1</b>	<b>n.s.</b>	<b>(2.8)</b>	<b>55.6</b>	<b>n.s.</b>
Income tax	6.6	(5.1)	n.s.	(2.6)	n.s.	4.0	(8.7)	n.s.
<b>Consolidated Net income</b>	<b>(19.3)</b>	<b>30.7</b>	<b>n.s.</b>	<b>20.5</b>	<b>n.s.</b>	<b>1.2</b>	<b>46.9</b>	<b>(97.4%)</b>
Non-controlling interests	2.5	0.9	191.0%	(7.9)	n.s.	(5.4)	(2.2)	143.1%
<b>Attributable Net Income</b>	<b>(16.8)</b>	<b>31.6</b>	<b>n.s.</b>	<b>12.6</b>	<b>n.s.</b>	<b>(4.2)</b>	<b>44.7</b>	<b>n.s.</b>
Earnings per share (Basic EPS)	(0.07)	0.13	n.s.	0.05	n.s.	(0.02)	0.18	n.s.

Cash flow € m	Proforma			Proforma <sup>2</sup>				
	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
<b>EBITDA</b>	<b>12.4</b>	<b>101.9</b>	<b>(87.9%)</b>	<b>53.1</b>	<b>(76.7%)</b>	<b>65.4</b>	<b>148.4</b>	<b>(55.9%)</b>
Change in working capital	30.9	4.9	n.s.	(136.7)	n.s.	(105.8)	3.4	n.s.
Maintenance capex	(3.2)	(5.8)	(45.5%)	(2.0)	55.4%	(5.2)	(11.0)	(52.8%)
Net interest Payment	(6.3)	(7.6)	(17.3%)	(4.6)	36.1%	(10.9)	(13.1)	(16.8%)
Income tax received/(paid)	(14.1)	(4.4)	219.1%	0.0	n.s.	(14.1)	(4.3)	224.2%
<b>Normalised free cash flow</b>	<b>19.7</b>	<b>89.0</b>	<b>(77.9%)</b>	<b>(90.2)</b>	<b>n.s.</b>	<b>(70.6)</b>	<b>123.3</b>	<b>n.s.</b>
Energy regulation adjustment (regulatory collar)	(4.8)	(13.8)	n.s.	(5.8)	(16.4%)	(10.6)	26.5	n.s.
Other cash adjustments	(0.1)	3.7	n.s.	7.8	n.s.	7.8	(2.0)	n.s.
Efficiency and expansion capex	(10.6)	(5.6)	87.8%	(2.9)	n.s.	(13.5)	(14.5)	(7.0%)
Sustainability capex and other	(3.5)	(2.4)	49.0%	(7.8)	(54.8%)	(11.3)	(4.7)	138.9%
Disposals	(0.1)	0.0	n.s.	-	n.s.	(0.1)	0.4	n.s.
<b>Free cash flow</b>	<b>0.6</b>	<b>71.0</b>	<b>(99.1%)</b>	<b>(98.8)</b>	<b>n.s.</b>	<b>(98.2)</b>	<b>129.0</b>	<b>n.s.</b>
Dividends from the parent	(77.7)	(13.3)	n.s.	(62.9)	-	(140.6)	(13.3)	n.s.

Net debt € m	Jun-23	Dec-22	Δ%
Net financial debt Pulp business	123.7	(36.1)	n.s.
Net financial debt Renewable Energy business	86.6	6.1	n.s.
<b>Net financial debt</b>	<b>210.4</b>	<b>(30.0)</b>	<b>n.s.</b>

**Pro forma 1Q23 and 2Q23:** The accounting impact of the update of the remuneration parameters applicable to the Group's renewable energy plants, with retroactive effect from 1 January 2023, has been allocated to each quarter with the following impact on the already-published 1Q23 earnings:

- 1) The updates imply a reduction of €35.9m in consolidated revenue and of €17.8m in profit attributable to equity holders of the parent in the first quarter with respect to the figures previously published and will be offset by higher annual remuneration for investment in the affected plants of €14m from this year.
- 2) The updated parameters have no impact on the free cash flow generated in the first quarter.

- ✓ The second-quarter results were marked by the drop in pulp prices and the accounting impact of the updated regulatory energy prices approved at the end of June with retroactive effect from 1 January 2023.
- ✓ From an operations point of view, it is worth highlighting the quarter-on-quarter reduction of over €100/tonne in the cash cost in 2Q23 to €535/tonne, partially mitigating the impact of the decrease of 24% in the average sales price during the quarter.
- ✓ Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power plants for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively. The regulatory price for 2023 has been set at €109/MWh, compared to the price of €208/MWh published in the draft Order dated 28 December 2022, which is now void.
- ✓ The updated regulatory energy price implied an increase in cash generation in the first half of approximately €14m and, for accounting purposes, a reduction in revenue of €65m, with no impact on cash, to be offset by higher annual remuneration for investment of €14m from this year.
- ✓ As a result, the Group reported EBITDA of €12m in 2Q23 and of €65m in 1H23. Under the previously proposed regulatory price and methodology, first-half EBITDA would have been €130m.
- ✓ Completion of the sale of the first photovoltaic power plant under construction in Jaén in 1Q23 increased EBITDA by €23m. The anticipated completion of the sale of the rest of the plants under development in Huelva, Seville and Granada during the coming quarters will boost EBITDA by an estimated €27m.
- ✓ Attributable net income for the first half was affected by the accounting impact - in the amount of €34m - of the update of the regulatory energy price, which will be offset by higher attributable net income throughout the rest of the plants' regulatory useful lives. Under the previously proposed regulatory price and methodology, attributable net income for the first half would have been €30m, rather than the reported loss of €4m.
- ✓ Free cash flow generated during the first six months before working capital movements totalled €8m. The €106m increase in working capital in the first half reflects the repayment of the €85m of surplus remuneration collected as a result of the regulatory adjustments made in renewables in 2022, as well as normalisation of activity at Pontevedra biomill.
- ✓ The Company paid out dividends from 2022 earnings of €0.29 per share in both March and May 2023 for a total payment of €140m, implying a shareholder return of 16%.
- ✓ In 1H23, Ence redeemed the remaining €63m of convertible bonds issued in March 2018 and arranged a number of bilateral loans with several financial institutions, raising €268m, to leave the Group's cash balance at €377m as at 30 June 2023.
- ✓ The Group's net debt stood at €210m at the June close, implying leverage of just 1.1 times mid-cycle EBITDA (2015-2022).
- ✓ On 7 February 2023, Spain's Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073 and on 4 July 2023, it dismissed the proceedings brought by the town council of Pontevedra and the state attorney to have the concession extension annulled on technicalities.
- ✓ The Company's financial strength gives it flexibility to take advantage of growth and diversification opportunities in its two core businesses.
  - In the Pulp business, Ence continues to boost the sale of its differentiated products and to diversify its production into pulp for absorbent personal care products (fluff pulp).
  - In parallel, Ence continues to analyse the project planned for As Pontes, Coruña, which was declared 'strategic' by the regional government of Galicia in June. It is an innovative project for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence, without increasing its wood consumption.
  - In the Renewables business, Ence Biogas aims to develop 20 biomethane plants in the next five years. This subsidiary already has a pipeline of 15 projects under development in Spain and in 1Q23 it hired Sener to perform the conceptual engineering work for six of those facilities, which are expected to be commissioned in 2026.
  - Likewise in the Renewables business, the Group also has a 140-MW portfolio of rights for participating in upcoming biomass capacity auctions and is exploring opportunities for generating industrial heat from biomass.
- ✓ Ence has been the leading sustainability player in the global pulp market for three years in a row, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 90/100 in 2023.
- ✓ In June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance.

## 1. PULP BUSINESS

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

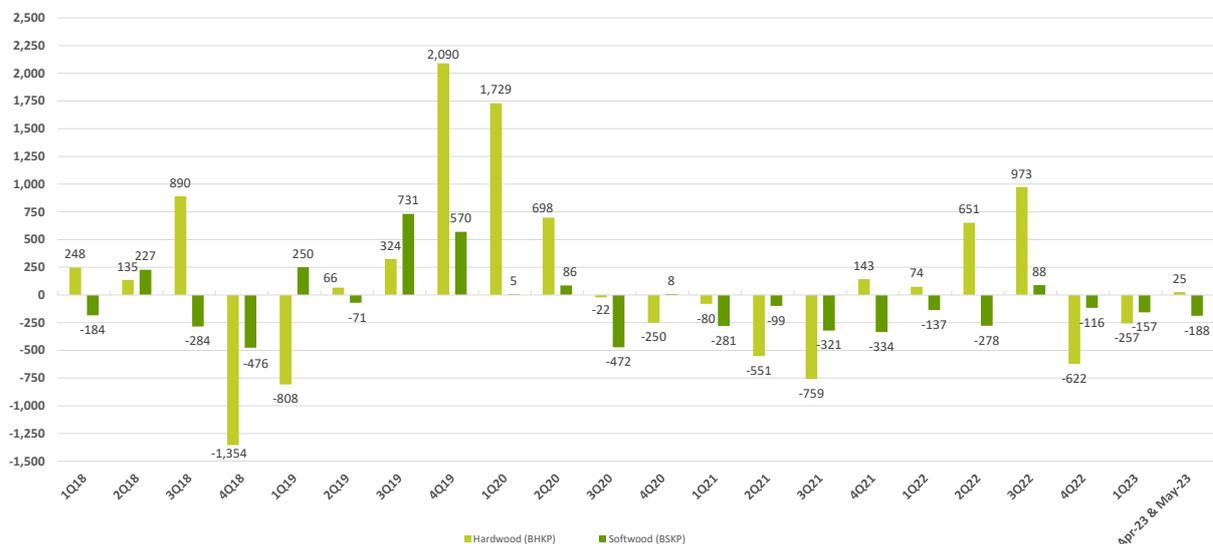
On 7 February 2023, Spain’s Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073.

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

### 2.1. Pulp market trends

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

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

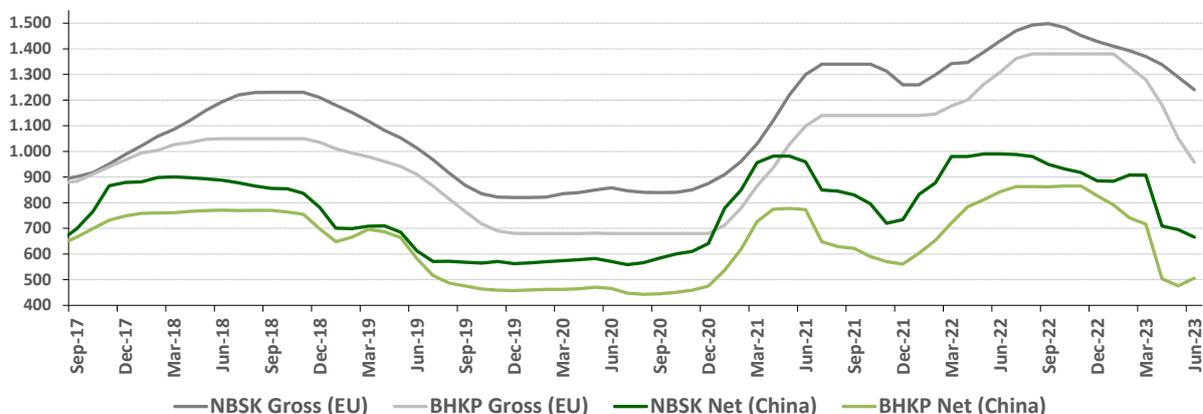


Source: PPPC-G100

Demand for pulp eased by 3% in the first five months of 2023, due mainly to destocking by the paper industry, particularly in the West. Demand shrank in all markets except for China, where it increased by 9%, boosted by the removal of Covid-related restrictions.

The dip in demand implied a 13-day increase in pulp producers’ inventories to 56 days as of the end of May.

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



Source: FOEX

The benchmark price for hardwood pulp (BHKP) in Europe averaged \$1,101/tonne (gross) in 2Q23, down 17.7% from 1Q23 and 11.3% lower than the 2Q22 average.

Market figures	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
BHKP (USD/t) average price	1,101.6	1,241.3	(11.3%)	1,338.8	(17.7%)	1,220.2	1,199.8	1.7%
Average exchange rate (USD/€)	1.09	1.07	1.8%	1.07	1.6%	1.08	1.10	(1.7%)
BHKP (€/t) average price	1,012.1	1,160.6	(12.8%)	1,249.8	(19.0%)	1,131.0	1,092.7	3.5%

Source: Bloomberg & OMIE

## 2.2. Revenue from pulp sales

Pulp sales increased by 13% quarter-on-quarter to 244,875 tonnes in the second quarter. Year-on-year, sales volumes contracted by 14.9% due to the effect of the annual maintenance stoppages at both biomills, which were carried out in the second quarter of this year compared to the first quarter in 2022.

In the first half, pulp sales volumes declined by 5.2% year-on-year to 461,493 tonnes, shaped by pulp inventory factors.

Elsewhere, the second-quarter average sales price decreased by 24.2% quarter-on-quarter and 20.2% year-on-year to €577.7 per tonne (net), due mainly to the drop in benchmark prices in Europe, the movement in the euro exchange rate against the dollar and lower prices fetched on sales outside Europe. The average sales price decreased by 4.2% year-on-year in 1H23.

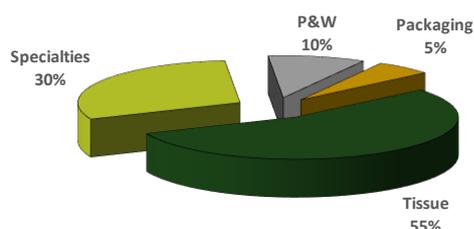
	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
<b>Pulp sales (t)</b>	<b>244,875</b>	<b>287,600</b>	<b>(14.9%)</b>	<b>216,618</b>	<b>13.0%</b>	<b>461,493</b>	<b>487,059</b>	<b>(5.2%)</b>
Average sales price (€/t)	577.7	723.9	(20.2%)	762.4	(24.2%)	664.4	693.9	(4.2%)
<b>Pulp sales revenue (€ m)</b>	<b>141.5</b>	<b>208.2</b>	<b>(32.1%)</b>	<b>165.2</b>	<b>(14.3%)</b>	<b>306.6</b>	<b>338.0</b>	<b>(9.3%)</b>

The combination of the two factors left revenue from pulp sales at €141.5m in 2Q23, down 14.3% compared to 1Q23 and 32.1% versus 2Q22.

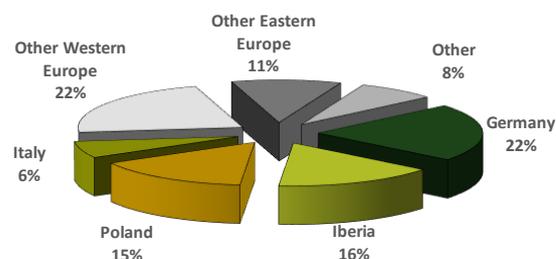
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 16% of revenue from pulp sales in 1H23, compared to 19% in 1H22. The lower contribution this year is attributable to the temporary narrowing of the gap between hardwood and softwood pulp prices observed in the first quarter.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 55% of revenue from pulp sales in 1H23, followed by the specialty paper segment, at 30%. The printing and writing paper segment accounted for 10% and packaging, the remaining 5%.

#### Breakdown of revenue by end product



#### Breakdown of revenue by geographic market



By geography, most of the pulp produced by Ence is sold in Europe, namely 92% of revenue from pulp sales in 1Q23. Germany and Iberia accounted for 22% and 16% of total revenue, respectively, followed by Poland (15%), and Italy (6%). The other western European countries accounted for 22% of the total, with the rest of Eastern Europe representing 11%.

### 2.3. Pulp production and cash cost

First-half pulp production amounted to 478,003 tonnes, up 2.6% year-on-year. The drop in production in the second quarter is attributable to the timing of the annual maintenance stoppages at the two biomills, which were carried out in the second quarter of this year compared to the first quarter in 2022.

	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Navia pulp production	137,085	154,786	(11.4%)	153,866	(10.9%)	290,951	269,501	8.0%
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<b>Pulp production (t)</b>	<b>225,324</b>	<b>266,954</b>	<b>(15.6%)</b>	<b>252,679</b>	<b>(10.8%)</b>	<b>478,003</b>	<b>465,888</b>	<b>2.6%</b>

The cash cost fell by a noteworthy €100/tonne in 2Q23 versus 2Q22 to €535/tonne, thanks mainly to the drop in the cost of raw materials and energy. Moreover, the extra costs of €46/tonne recorded in 1Q23 fell back to €28/tonne in 2Q23 thanks to lower costs associated with the incident affecting the turbine at the co-generation plant and the water treatment facility in Pontevedra. The repair of the co-generation turbine at the Pontevedra biomill concluded in July.

Figures in €/t	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Total cash cost	534.5	489.5	9.2%	635.8	(15.9%)	587.4	499.7	17.5%
<b>Operating margin</b>	<b>43.2</b>	<b>234.4</b>	<b>(81.6%)</b>	<b>126.6</b>	<b>(65.9%)</b>	<b>77.0</b>	<b>194.2</b>	<b>(60.3%)</b>

Leaving aside the above-mentioned extra cost of €28/tonne, the cash cost would only have increased by 4.5% year-on-year in 2Q23, due largely to the different timing of the maintenance stoppages in both years.

The lower average sales price, coupled with the growth in costs, drove a reduction in unit operating profit to €43/tonne in 2Q23 and €77/tonne in 1H23, compared to €234/tonne and €194/tonne in 2Q22 and 1H22, respectively.

## 2.4. Other income

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

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

Figures in € m	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%				
Revenues from energy sales linked to pulp (€ m)	8.8	10.2	(13.6%)	7.4	18.2%	16.2	35.8	(54.8%)	
Forestry and other revenue (€ m)	5.3	3.2	67.5%	7.0	(23.5%)	12.3	6.2	98.4%	
<b>Other income</b>	<b>14.1</b>	<b>13.3</b>	<b>5.8%</b>	<b>14.4</b>	<b>(2.0%)</b>	<b>28.5</b>	<b>42.0</b>	<b>(32.2%)</b>	

*The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp business results in a reduction of €11.3m in revenues from energy sales in 1Q23 compared to the previously reported figures.*

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory sub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively. The regulatory price for 2023 has been set at €109.31/MWh, compared to the price of €207.88/MWh published in the draft Order dated 28 December 2022, which is now void.

Although the price update had an accounting impact of €25.4m on first-half revenue, the impact on cash was positive thanks to the collection of €4.7m more annual remuneration for investment from this year on.

## 2.5. Statement of profit or loss

EBITDA in the Pulp business amounted to €8.2m in 2Q23 and €33.8m in 1H23, down 51.6% compared to 1H22. In addition to the margin squeeze implied by the sudden drop in pulp prices and more gradual correction in the cash cost, the updated regulatory energy price further eroded profits.

Although the regulatory energy price update had an accounting impact of €25.4m on first-half EBITDA, the impact on cash was positive thanks to the collection of €4.7m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half EBITDA in the Pulp business would have been €59.2m.

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

Figures in € m	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%	Δ%			
Pulp sales revenue	141.5	208.2	(32.1%)	165.2	(14.3%)		306.6	338.0	(9.3%)
Other income	14.1	13.3	5.8%	14.4	(2.0%)		28.5	42.0	(32.2%)
<b>Total net revenue</b>	<b>155.6</b>	<b>221.5</b>	<b>(29.8%)</b>	<b>179.6</b>	<b>(13.4%)</b>		<b>335.1</b>	<b>380.0</b>	<b>(11.8%)</b>
<b>EBITDA</b>	<b>8.2</b>	<b>49.0</b>	<b>(83.3%)</b>	<b>25.6</b>	<b>(68.1%)</b>		<b>33.8</b>	<b>69.8</b>	<b>(51.6%)</b>
Depreciation and amortisation	(13.0)	(10.9)	19.3%	(13.2)	(1.5%)		(26.2)	(20.4)	28.3%
Depletion of forestry reserves	(2.7)	(2.3)	21.1%	(2.3)	18.2%		(5.0)	(4.0)	26.7%
Impairment of and gains/(losses) on fixed-asset disp	(0.3)	(0.3)	(5.3%)	(0.2)	30.6%		(0.5)	(1.1)	(52.4%)
Other non-recurring gains/(losses)	(6.6)	(0.1)	n.s.	-	n.s.		(6.6)	(0.1)	n.s.
<b>EBIT</b>	<b>(14.4)</b>	<b>35.5</b>	<b>n.s.</b>	<b>9.9</b>	<b>n.s.</b>		<b>(4.5)</b>	<b>44.2</b>	<b>n.s.</b>
Net finance cost	(4.3)	(3.5)	23.2%	(2.3)	91.0%		(6.6)	(4.5)	44.9%
Other financial results	(0.0)	1.5	n.s.	(0.4)	(94.6%)		(0.4)	2.0	n.s.
<b>Profit before tax</b>	<b>(18.7)</b>	<b>33.5</b>	<b>n.s.</b>	<b>7.2</b>	<b>n.s.</b>		<b>(11.5)</b>	<b>41.7</b>	<b>n.s.</b>
Income tax	4.9	(1.4)	n.s.	(2.0)	n.s.		2.9	(1.4)	n.s.
<b>Net Income</b>	<b>(13.8)</b>	<b>32.0</b>	<b>n.s.</b>	<b>5.2</b>	<b>n.s.</b>		<b>(8.6)</b>	<b>40.4</b>	<b>n.s.</b>

The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp business results in a reduction of €11.3m in revenues and €8.4m in net income in 1Q23 compared to the previously reported figures.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. These hedges implied a cash inflow of €0.2m in 2Q23 and a cash outflow of €0.7m in 1H23, compared to outflows €7.7m and €11.3m in the same periods of 2022, respectively. For the rest of 2023, Ence has arranged hedges over a notional amount of \$60m with a weighted average ceiling of \$/€1.09 and a weighted average floor of \$/\$1.05.

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

Below the EBITDA line, depreciation and amortisation charges increased to €13m in 2Q23 and €26.2m in 1H23, due to the resumption of depreciation of the Pontevedra biomill following the Supreme Court ruling upholding its continuity until 2073.

Forest depletion charges also increased to €2.7m in 2Q23 and €5m in 1H23 due to higher owned wood consumption.

“Other non-recurring operating items” includes €6.6m of inventory impairment allowances, as net pulp prices were below the amount at which the Group’s inventories were carried as at the June close.

Elsewhere, the business’s net finance cost increased to €4.3m in 2Q23 and €6.6m in 1H23, due mainly to a higher gross debt balance and the increase in interest rates. Other finance income/(cost) presents the effect of movements in exchange rates on working capital during the period: a net loss of €0.4m in 1H23 compared to a net gain of €2m in 1H22.

Lastly, tax income amounted to €4.9m in 2Q23 and €2.9m in 1Q23, compared to tax expense of €1.4m in the same periods of 2022, when the Company utilised tax credits related with the impairment losses recognised in respect of the Pontevedra biomill.

As a result, the Pulp business reported a net loss of €13.8m in 2Q23 and of €8.6m in 1H23, compared to net profit of €32m and €40.4m in the same periods of 2022, respectively.

## 2.6. Cash flow analysis

Net cash flows from operating activities amounted to €49.7m in 2Q23, up 41% year-on-year, thanks mainly to a lower working capital requirement. In 1H23, net cash from operating activities totalled €7.5m, compared to €45.4m in 1H22, shaped mainly by the drop in EBITDA.

Figures in € m	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%	Δ%			
<b>EBITDA</b>	<b>8.2</b>	<b>49.0</b>	<b>(83.3%)</b>	<b>25.6</b>	<b>(68.1%)</b>		<b>33.8</b>	<b>69.8</b>	<b>(51.6%)</b>
Energy regulation adjustment (regulatory collar)	(0.7)	7.8	n.s.	(1.7)	(58.7%)		(2.5)	14.4	n.s.
Other cash adjustments	(1.0)	4.2	n.s.	6.5	n.s.		5.5	(2.4)	n.s.
Change in working capital	48.9	(22.7)	n.s.	(69.8)	n.s.		(20.9)	(31.2)	(33.0%)
Income tax received / (paid)	(3.9)	(1.9)	108.3%	-	n.s.		(3.9)	(1.9)	108.4%
Net interest received / (paid)	(1.7)	(1.1)	56.2%	(2.8)	(39.9%)		(4.5)	(3.3)	33.8%
<b>Net cash flow from operating activities</b>	<b>49.7</b>	<b>35.3</b>	<b>41.0%</b>	<b>(42.2)</b>	<b>n.s.</b>		<b>7.5</b>	<b>45.4</b>	<b>(83.4%)</b>

The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp has no impact on the cash flow from operating activities generated in 1Q23 compared to the previously reported figures.

Working capital movements implied a cash inflow of €48.9m in the second quarter, due in part to the effect of the correction in pulp prices on trade receivables. In 1H23, working capital movements implied a cash outflow of €20.9m due to the increase in inventories and reduction in trade payables, including the repayment of surplus remuneration collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Inventories	(1.9)	8.3	n.s.	(7.7)	(75.0%)	(9.6)	8.6	n.s.
Trade and other receivables	43.5	(48.1)	n.s.	(44.7)	n.s.	(1.2)	(28.8)	(95.7%)
Financial and other current assets	1.1	0.6	69.5%	(0.3)	n.s.	0.8	0.6	28.9%
Trade and other payables	6.2	16.4	(62.0%)	(17.1)	n.s.	(10.9)	(11.6)	(6.5%)
<b>Change in working capital</b>	<b>48.9</b>	<b>(22.7)</b>	<b>n.s.</b>	<b>(69.8)</b>	<b>n.s.</b>	<b>(20.9)</b>	<b>(31.2)</b>	<b>(33.0%)</b>

At 30 June 2023, the Pulp business had drawn down €89.1m under its non-recourse receivable discounting facilities, compared to €45.2m at year-end 2022.

Ence has also arranged several reverse factoring facilities, which were drawn down by €90.2m at the June close, compared to €76.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

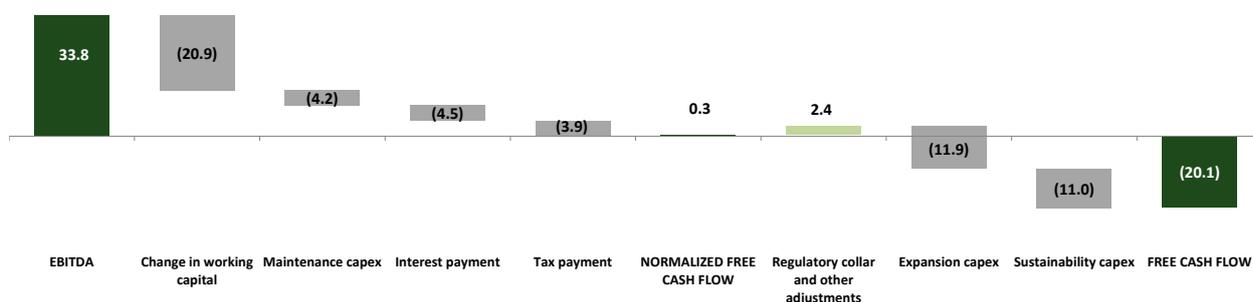
Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Maintenance capex	(2.7)	(5.4)	(49.5%)	(1.5)	83.4%	(4.2)	(9.9)	(57.7%)
Sustainability capex and other	(3.4)	(2.1)	65.9%	(7.6)	(54.8%)	(11.0)	(4.1)	170.7%
Efficiency and expansion capex	(9.6)	(3.7)	155.7%	(2.3)	n.s.	(11.9)	(11.4)	3.5%
Financial investments	(0.6)	(0.0)	n.s.	0.5	n.s.	(0.1)	(0.0)	n.s.
<b>Investments</b>	<b>(16.3)</b>	<b>(11.2)</b>	<b>45.7%</b>	<b>(10.8)</b>	<b>51.2%</b>	<b>(27.1)</b>	<b>(25.5)</b>	<b>6.7%</b>
Disposals	(0.5)	0.0	n.s.	-	n.s.	(0.5)	0.0	n.s.
<b>Net cash flow used in investing activities</b>	<b>(16.8)</b>	<b>(11.2)</b>	<b>50.0%</b>	<b>(10.8)</b>	<b>55.6%</b>	<b>(27.6)</b>	<b>(25.4)</b>	<b>8.5%</b>

Investments in efficiency and growth amounted to €16.3m in 2Q23 and €27.1m in 1H23. Maintenance capex declined to €2.7m in 2Q23 and €4.2m in 1H23, sustainability capex amounted to €3.4m in 2Q23 and €11m in 1H23 and investments in efficiency and growth came to €9.6m in 2Q23 and €11.9m in 1H23.

The sustainability investments were largely related with the new water recovery system in Pontevedra for use during periods of drought, as well as a range of initiatives targeted at reinforcing safety and reducing odour, noise and water consumption at the biomills, all of which will make Ence more competitive in the long run.

The investments in efficiency and growth were mostly related with development of the project underway in As Pontes, efficiency improvements in Navia and additional wood-cutting capacity in Galicia.

As a result, normalised free cash flow was €0.3m in 2Q23, while free cash flow was negative by €20.1 in 1H23, affected by the impact of resumption of activity in Pontevedra on working capital in the first quarter.



## 2.7. Change in net debt

The Pulp business ended June with net debt of €123.7m, compared to net cash of €36.1m at year-end 2022. The Company paid out €140.6m in dividends during the first half.

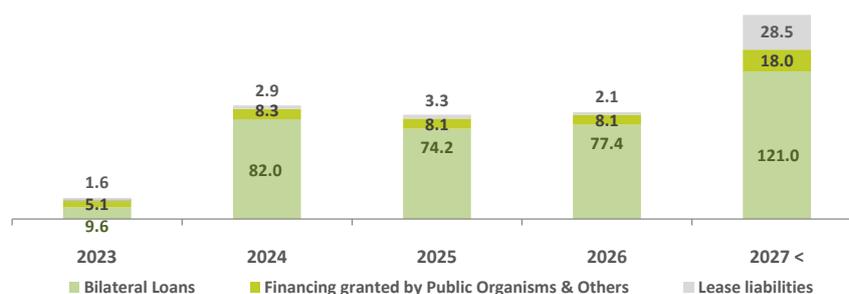
Figures in €Mn	Jun-23	Dic-22	Δ%
Non-current financial debt	332.2	128.6	158.3%
Current financial debt	79.7	80.3	(0.7%)
<b>Gross financial debt</b>	<b>412.0</b>	<b>208.9</b>	<b>97.2%</b>
Non-current lease contracts	35.4	34.6	2.2%
Current lease contracts	3.1	3.0	3.5%
<b>Financial liabilities related to lease contracts</b>	<b>38.5</b>	<b>37.6</b>	<b>2.3%</b>
Cash and cash equivalents	323.3	278.4	16.1%
Short-term financial investments	3.4	4.2	(19.4%)
<b>Net financial debt Pulp business</b>	<b>123.7</b>	<b>(36.1)</b>	<i>n.s.</i>

In 1H23, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in March 2018 and arranged a number of bilateral loans with several financial institutions, raising €268m of new financing due in 2030 at the latest.

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 €326.7m.

The gross debt of €412m at the June close corresponds to the outstanding balance of €364.2m of bilateral loans and a series of loans totalling €47.7m 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 €38.5m at the June close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



## 2.8. Growth and diversification opportunities

Ence's strategy in the Pulp business encompasses growth, decarbonisation and diversification into new types of pulp and specialty products, leveraging its competitive advantages in the European market.

In 2022, Ence launched its "Navia Excellence" plan, designed to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by cutting its annual GHG emissions by 50,000 tonnes. That project entails investments of an estimated €105m between 2024 and 2027, with a projected return on capital employed (ROCE) of over 12%.

Last year, Ence and the regional government of Galicia also announced a new project that is currently under analysis in the local town of As Pontes for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence.

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 that project, which could be commissioned in 2027, consists of a production line with annual capacity of 100,000 tonnes, entailing an estimated investment of €125m and a projected ROCE of over 12%.

### 3. RENEWABLES BUSINESS

Ence's Renewables business comprises the generation of renewable energy from biomass at independent plants that have no relation with the pulp production process, the development of photovoltaic power generation facilities and incipient new businesses related with the generation of biomethane and renewable industrial heating.

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

Magnon has also developed a pipeline of 373 MW of photovoltaic facilities in Jaen, Huelva, Seville and Granada. In December 2021, it agreed to sell those assets as they obtain the required permits for up to €62m. The sale of one 100-MW capacity facility under construction in Jaen closed in March 2023, generating revenue of €29.6m and EBITDA of €22.8m in 1Q23. The sale of the rest of the assets is expected to close between the second half of 2023 and 2024, generating additional EBITDA of an estimated €27m.

#### 3.1. Electricity market trends

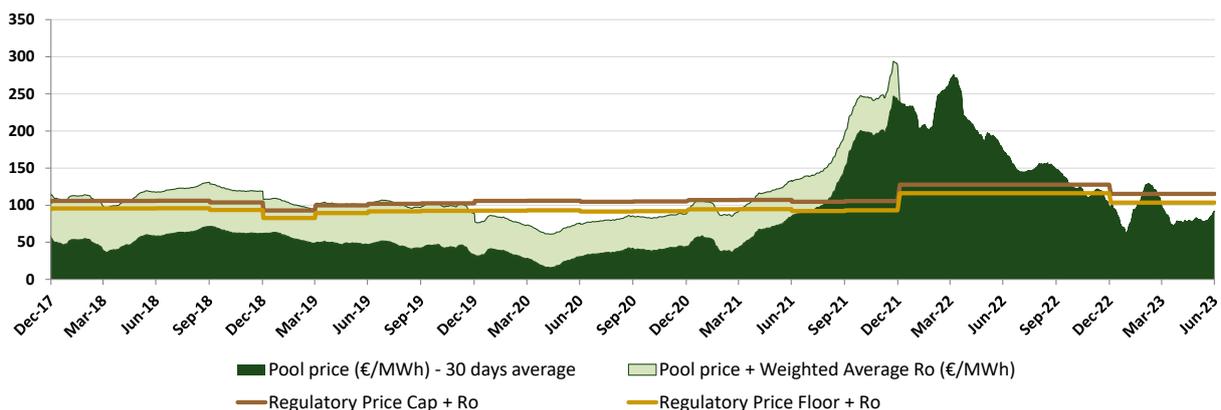
The average price on the day-ahead market (pool price) declined by 56.1% year-on-year to €80.3/MWh in 2Q23 and by 56.7% year-on-year to €88.9/MWh in 1H23.

Market figures	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Average pool price (€/MWh)	80.3	182.8	(56.1%)	97.6	(17.7%)	88.9	205.6	(56.7%)

Source: OMIE

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

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



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

The regulatory price for 2023 has been set at €109.31/MWh, compared to the price of €207.88/MWh published in the draft Order dated 28 December 2022, which is now void.

Application of the new regulatory price to the Group's plants' remuneration parameters will imply an increase in annual remuneration for investment of €9.4m to €24.8m from this year on.

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

### 3.2. Revenue from energy sales

Ence sold 250,145 MWh of energy in 2Q23 (-34.6% year-on-year) and 555,753 MWh in 1H23 (-32.5% year-on-year) due mainly to a relatively longer maintenance stoppage at the 50-MW Huelva plant, which is carried out every four years and took place this year in the second quarter, coupled with the stoppage of the 16-MW Ciudad Real plant during the entire first half due to the reduced availability of olive pomace and the drop in pool prices.

Operating figures	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%				
Huelva 41 MW - Biomass	34,319	44,786	(23.4%)	34,712	(1.1%)	69,031	96,950	(28.8%)	
Jaén 16 MW - Biomass	18,972	21,302	(10.9%)	16,836	12.7%	35,807	47,453	(24.5%)	
Ciudad Real 16 MW - Biomass	-	23,484	(100.0%)	-	n.s.	-	48,723	(100.0%)	
Córdoba 27 MW - Biomass	35,885	37,223	(3.6%)	29,122	23.2%	65,007	85,564	(24.0%)	
Huelva 50 MW - Biomass	-	88,684	(100.0%)	79,306	(100.0%)	79,306	183,855	(56.9%)	
Mérida 20 MW - Biomass	29,345	30,273	(3.1%)	31,852	(7.9%)	61,197	71,819	(14.8%)	
Huelva 46 MW - Biomass	64,751	67,194	(3.6%)	62,431	3.7%	127,182	142,581	(10.8%)	
Ciudad Real 50 MW - Biomass	66,873	69,494	(3.8%)	51,350	30.2%	118,222	146,179	(19.1%)	
<b>Energy sales (MWh)</b>	<b>250,145</b>	<b>382,440</b>	<b>(34.6%)</b>	<b>305,608</b>	<b>(18.1%)</b>	<b>555,753</b>	<b>823,124</b>	<b>(32.5%)</b>	
Average sales price - (€/MWh)	148.1	128.3	15.4%	151.4	(2.2%)	149.9	139.4	7.5%	
Remuneration for investment (€m)	6.2	10.2	(39.1%)	6.2	1.1%	12.4	20.5	(39.4%)	
<b>Revenue from energy sales (€ m)</b>	<b>43.3</b>	<b>59.3</b>	<b>(27.0%)</b>	<b>52.4</b>	<b>(17.5%)</b>	<b>95.7</b>	<b>135.2</b>	<b>(29.2%)</b>	

The update of the remuneration parameters applicable to the renewable energy plants results in a reduction of €88.2/MWh in the average sales price and a €2.4m increase in the remuneration for investment in 1Q23 compared to the previously reported figures.

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

The sales price averaged €148.1/MWh in 2Q23 and €149.9/MWh in 1H23 following application of the new regulatory price published in June 2023. These sales prices are 15.4% and 7.5% higher year-on-year thanks to the additional contribution made by the back-up services provided to the electricity system, coupled with the complementary remuneration for operation (Ro) of the gas co-generation plant in Cordoba.

Although the update of the plants' remuneration parameters had an accounting impact of €39.5m on first-half revenue from energy sales, the impact on cash was positive thanks to the collection of €9.4m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half revenue from energy sales would have been €135.2m.

Year-on-year, remuneration for investment decreased by 39.4%, due to the cumulative effect of the adjustments for deviations between the pool price and the regulatory price in 2022.

In all, revenue from energy sales amounted to €43.3m in 2Q23 and €95.7m in 1H23, down 27% and 29.2% year-on-year, respectively.

### 3.3. Statement of profit or loss

The update of the regulatory energy price, the increase in generation costs and the fixed costs associated with the new businesses under development weighed on the Renewable business EBITDA, which decreased to €4.2m in 2Q23, from €27.4m in 1Q23, which included a €22.8m contribution from the sale of a 100-MW photovoltaic development under construction in Jaén.

As a result, first-half EBITDA amounted to €31.6m, compared to €78.6m in 1H22, which included the reversal of the regulatory collar provided for at the time by €39.6m, offset by an impairment charge below the EBITDA line of €35.5m.

Although the update of the plants' remuneration parameters had an accounting impact of €39.5m on first-half EBITDA, the impact on cash was positive thanks to the collection of €9.4m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half EBITDA would have been €71.1m.

Figures in € m	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%	Δ%			
Revenue from energy sales	43.3	59.3	(27.0%)	52.4	(17.5%)	95.7	135.2	(29.2%)	
Other revenues	0.4	39.8	(99.0%)	29.6	(98.6%)	30.0	40.0	(25.1%)	
<b>Total revenue</b>	<b>43.7</b>	<b>99.1</b>	<b>(55.9%)</b>	<b>82.0</b>	<b>(46.7%)</b>	<b>125.7</b>	<b>175.2</b>	<b>(28.3%)</b>	
EBITDA from energy sales	5.4	52.9	(89.8%)	27.4	(80.4%)	32.8	78.6	(58.2%)	
EBITDA from new businesses	(1.2)	-		-		(1.2)	-		
<b>EBITDA</b>	<b>4.2</b>	<b>52.9</b>	<b>(92.1%)</b>	<b>27.4</b>	<b>(84.7%)</b>	<b>31.6</b>	<b>78.6</b>	<b>(59.8%)</b>	
Depreciation and amortisation	(8.7)	(10.0)	(12.9%)	(8.8)	(1.7%)	(17.5)	(20.0)	(12.3%)	
Impairment of and gains/(losses) on fixed-asset disp.	0.3	(37.0)	n.s.	(0.0)	n.s.	0.3	(37.0)	n.s.	
<b>EBIT</b>	<b>(4.3)</b>	<b>5.9</b>	<b>n.s.</b>	<b>18.6</b>	<b>n.s.</b>	<b>14.3</b>	<b>21.6</b>	<b>(33.6%)</b>	
Net finance cost	(3.3)	(4.7)	(29.8%)	(3.1)	6.1%	(6.4)	(9.2)	(30.0%)	
Other finance income/(cost)	(0.0)	0.2	n.s.	0.0	n.s.	-	0.3	(100.0%)	
<b>Profit before tax</b>	<b>(7.6)</b>	<b>1.4</b>	<b>n.s.</b>	<b>15.5</b>	<b>n.s.</b>	<b>7.9</b>	<b>12.7</b>	<b>(37.7%)</b>	
Income tax	1.8	(3.6)	n.s.	(0.6)	n.s.	1.2	(7.3)	n.s.	
<b>Net Income</b>	<b>(5.8)</b>	<b>(2.3)</b>	<b>154.7%</b>	<b>14.9</b>	<b>n.s.</b>	<b>9.1</b>	<b>5.4</b>	<b>69.5%</b>	
Non-controlling interests	-	0.2	(100.0%)	(1.2)		(1.2)	1.0	n.s.	
<b>Attributable Net Income</b>	<b>(5.8)</b>	<b>(2.1)</b>	<b>179.8%</b>	<b>13.7</b>	<b>n.s.</b>	<b>7.9</b>	<b>6.4</b>	<b>24.2%</b>	

The update of the remuneration parameters applicable to the renewable energy plants results in a reduction of €24.6m in the revenue from energy sales and €18.4m in net income in 1Q23 compared to the previously reported figures.

Below the EBITDA line, depreciation charges decreased to €8.7m in 2Q23 and €17.5m in 1H23 following the asset impairments recognised in 2022.

Recall that Ence recognised an impairment loss of €35.5m in 1H22 against the plants (the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants) for which it was estimated that the remuneration for investment parameter in 2023 would be zero or scantily material as a result of high pool prices that year.

Finance costs fell to €3.3m in 2Q23 and to €6.4m in 1H23, due mainly to the lower gross debt balance.

Lastly, tax income amounted to €1.8m in 2Q23 and €1.2m in 1H23.

In all, the net profit attributable to the Renewables business amounted to €7.9m in the first half, a year-on-year growth of 24.2%.

### 3.4. Cash flow analysis

The Renewables business used €31.8m of cash in operating activities in 2Q23 and €76.3m in 1H23, due mainly to the reimbursement of the surplus remuneration for operations (Ro) collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	Proforma			Proforma			1H23	1H22	Δ%
	2Q23	2Q22	Δ%	1Q23	Δ%	Δ%			
<b>EBITDA</b>	<b>4.2</b>	<b>52.9</b>	<b>(92.1%)</b>	<b>27.4</b>	<b>(84.7%)</b>	<b>31.6</b>	<b>78.6</b>	<b>(59.8%)</b>	
Energy regulation adjustment (regulatory collar)	(4.1)	(21.6)	(81.1%)	(4.0)	2.0%	(8.1)	12.1	n.s.	
Other cash adjustments	0.9	(0.4)	n.s.	0.8	8.3%	1.6	0.5	238.4%	
Change in working capital	(18.0)	27.6	n.s.	(66.9)	(73.1%)	(84.9)	34.6	n.s.	
Income tax received / (paid)	(10.2)	(2.5)	n.s.	0.0	n.s.	(10.1)	(2.5)	n.s.	
Net interest received / (paid)	(4.6)	(6.5)	(29.6%)	(1.8)	150.5%	(6.4)	(9.8)	(34.2%)	
<b>Net cash flow from operating activities</b>	<b>(31.8)</b>	<b>49.5</b>	<b>n.s.</b>	<b>(44.5)</b>	<b>(28.5%)</b>	<b>(76.3)</b>	<b>113.5</b>	<b>n.s.</b>	

The update of the remuneration parameters applicable to the renewable energy plants has no impact on the cash flow from operating activities generated in 1Q23 compared to the previously reported figures.

Working capital movements implied a cash outflow of €18m in 2Q23 and of €84.9m in 1H23, due mainly the reduction in trade payables, which includes the reimbursement of the surplus remuneration for operations (Ro) collected in the wake of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Inventories	(5.5)	(2.3)	141.8%	(0.5)	n.s.	(6.0)	(1.2)	n.s.
Trade and other receivables	13.8	(7.8)	n.s.	(0.1)	n.s.	13.8	10.2	34.7%
Current financial and other assets	-	-	n.s.	-	n.s.	-	-	n.s.
Trade and other payables	(26.3)	37.7	n.s.	(66.3)	(60.3%)	(92.6)	25.6	n.s.
<b>Change in working capital</b>	<b>(18.0)</b>	<b>27.6</b>	<b>n.s.</b>	<b>(66.9)</b>	<b>(73.1%)</b>	<b>(84.9)</b>	<b>34.6</b>	<b>n.s.</b>

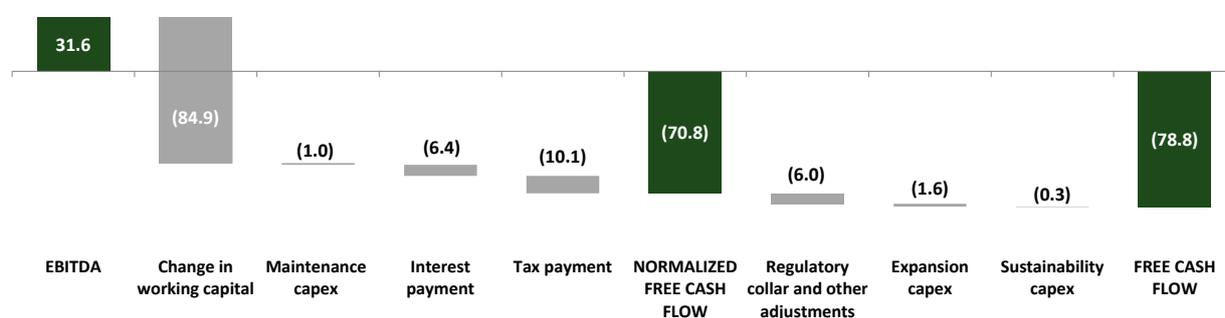
The Renewables business has not made any drawdown under its receivable discounting lines. Ence has arranged several non-recourse reverse factoring facilities, which were drawn down by €21.9m at the June close, compared to €23m at year-end 2022. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Maintenance capex	(0.5)	(0.4)	4.3%	(0.6)	(19.2%)	(1.0)	(1.1)	(8.6%)
Sustainability capex and other	(0.1)	(0.3)	(70.8%)	(0.2)	(56.2%)	(0.3)	(0.7)	(57.5%)
Efficiency and expansion capex	(1.0)	(1.9)	(46.2%)	(0.6)	68.6%	(1.6)	(3.0)	(46.7%)
Financial investments	0.4	0.0	n.s.	-	n.s.	0.4	-	n.s.
<b>Investments</b>	<b>(1.2)</b>	<b>(2.6)</b>	<b>(55.8%)</b>	<b>(1.4)</b>	<b>(14.8%)</b>	<b>(2.5)</b>	<b>(4.8)</b>	<b>(47.8%)</b>
Disposals	-	-	n.s.	-	n.s.	-	0.4	(100.0%)
<b>Net cash flow from investing activities</b>	<b>(1.2)</b>	<b>(2.6)</b>	<b>(55.8%)</b>	<b>(1.4)</b>	<b>(14.8%)</b>	<b>(2.5)</b>	<b>(4.4)</b>	<b>(43.3%)</b>

Capital expenditure decreased to €1.2m in 2Q23 and €2.5m in 1H23. Maintenance capex declined to €0.5m in 2Q23 and €1m in 1H23, sustainability capex amounted to €0.1m in 2Q23 and €0.3m in 1H23 and investments in efficiency and growth came to €1m in 2Q23 and €1.6m in 1H23.

The investments in efficiency and growth corresponded to small investments designed to boost efficiency across a number of plants.

As a result, normalised free cash flow in the Renewables business was negative by €70.8m in 1H23, and free cash flow, after the adjustment of electricity regulations and efficiency, growth and sustainability capex, was negative by €78.8m.



### 3.5. Change in net debt

Net debt in the Renewables business increased by €80.5m from year-end 2022 to €86.6m.

Figures in € m	Jun-23	Dic-22	Δ%
Non-current financial debt	109.8	121.9	(9.9%)
Current financial debt	24.7	27.1	(8.7%)
<b>Gross financial debt</b>	<b>134.6</b>	<b>149.0</b>	<b>(9.7%)</b>
Non-current lease contracts	1.6	1.0	55.4%
Current lease contracts	0.9	0.7	32.4%
<b>Financial liabilities related to lease contracts</b>	<b>2.5</b>	<b>1.7</b>	<b>46.4%</b>
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	40.4	134.5	(70.0%)
<b>Net financial debt Renewable Energy business</b>	<b>86.6</b>	<b>6.1</b>	<i>n.s.</i>

Gross debt, due by 2025, stood at €134.6m at the June close, while lease liabilities amounted to €2.5m. The Renewables business had €86.6m of cash at 30 June 2023.



### 3.6. Growth and diversification opportunities

In 2022, Ence created a new subsidiary, Ence Biogas, to develop and operate biomethane and fertiliser plants, underpinned by a model based on sustainable and circular management of organic waste (agricultural, breeding and industrial waste).

Ence Biogas plans to develop 20 plants in the next five years with the capacity to supply more than 1 TWh of biomethane a year. To do so, it already has a pipeline of 15 projects under development in Spain and in 1Q23 it hired Sener to perform the conceptual engineering work for six of those facilities, which are expected to be commissioned between the end of 2025 and 2026.

The Group also has a 140-MW portfolio of rights with which it can participate in upcoming biomass capacity auctions and is working with potential industrial customers in Spain to replace fossil-fuel heating with renewable heating.

## 4. CONSOLIDATED FINANCIAL STATEMENTS

### 4.1. Statement of profit or loss: Reported 1Q23 and 2Q23

Figures in € m	1Q23 Reported				2Q23			
	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
<b>Total revenue</b>	<b>190.8</b>	<b>106.6</b>	<b>(1.4)</b>	<b>296.1</b>	<b>144.3</b>	<b>19.1</b>	<b>(0.6)</b>	<b>162.7</b>
Other income	4.8	1.3	(0.3)	5.8	10.0	2.0	(0.3)	11.7
Foreign exchange hedging operations results	(0.9)	-	-	(0.9)	0.1	-	-	0.1
Cost of sales and change in inventories of finished produ	(87.0)	(32.7)	1.4	(118.3)	(92.3)	(14.7)	0.6	(106.3)
Personnel expenses	(22.5)	(4.2)	-	(26.7)	(20.7)	(5.9)	-	(26.6)
Other operating expenses	(48.4)	(19.0)	0.3	(67.1)	(44.5)	(20.9)	0.3	(65.1)
<b>EBITDA</b>	<b>36.9</b>	<b>52.1</b>	<b>-</b>	<b>88.9</b>	<b>(3.1)</b>	<b>(20.4)</b>	<b>-</b>	<b>(23.5)</b>
Depreciation and amortisation	(13.2)	(8.8)	0.4	(21.7)	(13.0)	(8.7)	0.4	(21.3)
Depletion of forestry reserves	(2.3)	-	-	(2.3)	(2.7)	-	-	(2.7)
Impairment of and gains/(losses) on fixed-asset disposals	(0.2)	(0.0)	-	(0.2)	(0.3)	0.3	-	(0.0)
Other non-ordinary operating gains/(losses)	-	-	-	-	(6.6)	-	-	(6.6)
<b>EBIT</b>	<b>21.1</b>	<b>43.2</b>	<b>0.4</b>	<b>64.8</b>	<b>(25.7)</b>	<b>(28.9)</b>	<b>0.4</b>	<b>(54.1)</b>
Net finance cost	(2.3)	(3.1)	-	(5.4)	(4.3)	(3.3)	-	(7.6)
Other finance income/(costs)	(0.4)	0.0	-	(0.4)	(2.1)	(0.2)	-	(2.3)
<b>Profit before tax</b>	<b>18.5</b>	<b>40.1</b>	<b>0.4</b>	<b>59.0</b>	<b>(30.0)</b>	<b>(32.2)</b>	<b>0.4</b>	<b>(61.8)</b>
Income tax	(4.8)	(6.7)	-	(11.6)	7.7	7.9	-	15.6
<b>Net Income</b>	<b>13.7</b>	<b>33.3</b>	<b>-</b>	<b>47.4</b>	<b>(22.3)</b>	<b>(24.2)</b>	<b>-</b>	<b>(46.1)</b>
Non-controlling interests	0.0	(1.2)	(15.7)	(16.9)	(0.0)	-	11.6	11.5
<b>Atributable Net Income</b>	<b>13.7</b>	<b>32.1</b>	<b>(15.4)</b>	<b>30.4</b>	<b>(22.3)</b>	<b>(24.2)</b>	<b>11.9</b>	<b>(34.6)</b>
Earnings per Share (EPS)	0.06	0.13	(0.06)	0.13	(0.09)	(0.10)	0.05	(0.14)

### 4.2. Summarised statement of profit or loss for 1H23

Figures in € m	1H23				1H22			
	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
<b>Total revenue</b>	<b>335.1</b>	<b>125.7</b>	<b>(2.0)</b>	<b>458.8</b>	<b>380.0</b>	<b>175.2</b>	<b>(1.5)</b>	<b>553.7</b>
Other income	14.8	3.3	(0.6)	17.5	8.2	3.8	(0.5)	11.4
Foreign exchange hedging operations results	(0.7)	-	-	(0.7)	(11.3)	-	-	(11.3)
Cost of sales and change in inventories of finished produ	(179.2)	(47.4)	2.0	(224.6)	(178.8)	(55.3)	1.5	(232.5)
Personnel expenses	(43.3)	(10.1)	-	(53.3)	(36.7)	(8.6)	-	(45.3)
Other operating expenses	(92.9)	(39.9)	0.6	(132.2)	(91.6)	(36.6)	0.5	(127.6)
<b>EBITDA</b>	<b>33.8</b>	<b>31.6</b>	<b>-</b>	<b>65.4</b>	<b>69.8</b>	<b>78.6</b>	<b>-</b>	<b>148.4</b>
Depreciation and amortisation	(26.2)	(17.5)	0.8	(43.0)	(20.4)	(20.0)	0.5	(39.9)
Depletion of forestry reserves	(5.0)	-	-	(5.0)	(4.0)	(0.0)	-	(4.0)
Impairment of and gains/(losses) on fixed-asset disposals	(0.5)	0.3	-	(0.3)	(1.1)	(37.0)	-	(37.3)
Other non-ordinary operating gains/(losses)	(6.6)	-	-	(6.6)	(0.1)	-	-	(0.1)
<b>EBIT</b>	<b>(4.5)</b>	<b>14.3</b>	<b>0.8</b>	<b>10.6</b>	<b>44.2</b>	<b>21.6</b>	<b>1.2</b>	<b>67.1</b>
Net finance cost	(6.6)	(6.4)	-	(13.0)	(4.5)	(9.2)	-	(13.7)
Other finance income/(costs)	(0.4)	-	-	(0.4)	2.0	0.3	-	2.3
<b>Profit before tax</b>	<b>(11.5)</b>	<b>7.9</b>	<b>0.8</b>	<b>(2.8)</b>	<b>41.7</b>	<b>12.7</b>	<b>1.2</b>	<b>55.6</b>
Income tax	2.9	1.2	(0.1)	4.0	(1.4)	(7.3)	-	(8.7)
<b>Net Income</b>	<b>(8.6)</b>	<b>9.1</b>	<b>-</b>	<b>1.2</b>	<b>40.4</b>	<b>5.4</b>	<b>1.2</b>	<b>46.9</b>
Non-controlling interests	-	(1.2)	(4.2)	(5.4)	-	1.0	(3.2)	(2.2)
<b>Atributable Net Income</b>	<b>(8.6)</b>	<b>7.9</b>	<b>(3.5)</b>	<b>(4.2)</b>	<b>40.4</b>	<b>6.4</b>	<b>(2.1)</b>	<b>44.7</b>
Earnings per Share (EPS)	(0.04)	0.03	(0.01)	(0.02)	0.17	0.03	(0.01)	0.18

### 4.3. Summarised statement of financial position

Figures in € m	Jun-23				Dec-22			
	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Intangible assets	16.5	34.4	(12.4)	38.5	15.6	35.0	(12.7)	37.9
Property, plant and equipment	601.4	377.9	(8.0)	971.3	603.4	389.0	(8.5)	983.9
Biological assets	60.2	0.2	-	60.3	60.4	0.2	-	60.5
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	19.4	-	(19.4)	-	18.6	-	(18.6)	-
Non-current financial assets	23.6	10.0	-	33.7	20.8	5.4	-	26.1
Deferred tax assets	32.8	21.5	3.1	57.4	30.5	19.4	3.2	53.1
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
<b>Total non-current assets</b>	<b>866.5</b>	<b>454.0</b>	<b>(149.2)</b>	<b>1,171.3</b>	<b>861.8</b>	<b>459.0</b>	<b>(149.1)</b>	<b>1,171.6</b>
Inventories	82.3	22.5	-	104.8	80.5	21.9	-	102.3
Trade and other accounts receivable	56.7	34.8	(2.4)	89.1	59.4	40.5	(29.2)	70.6
Income tax	6.8	1.3	-	8.0	6.8	1.3	-	8.0
Other current assets	6.5	2.5	-	9.0	7.5	0.4	-	7.9
Hedging derivatives	1.2	3.7	-	4.9	0.0	2.6	-	2.6
Current financial investments in Group companies	0.3	0.1	(0.4)	0.0	0.4	0.0	(0.4)	0.0
Current financial investments	3.4	0.0	-	3.4	4.2	0.0	-	4.3
Cash and cash equivalents	323.3	41.1	-	364.4	278.4	134.5	-	412.9
<b>Total current assets</b>	<b>480.5</b>	<b>106.0</b>	<b>(2.8)</b>	<b>583.8</b>	<b>437.1</b>	<b>201.2</b>	<b>(29.6)</b>	<b>608.7</b>
<b>TOTAL ASSETS</b>	<b>1,347.0</b>	<b>560.0</b>	<b>(152.0)</b>	<b>1,755.0</b>	<b>1,298.9</b>	<b>660.2</b>	<b>(178.8)</b>	<b>1,780.3</b>
<b>Equity</b>	<b>572.3</b>	<b>234.2</b>	<b>(129.8)</b>	<b>676.6</b>	<b>719.8</b>	<b>228.9</b>	<b>(130.6)</b>	<b>818.2</b>
Non-current borrowings	367.6	111.4	-	479.0	163.2	122.9	-	286.1
Non-current loans with Group companies and associates	-	37.2	(19.4)	17.8	-	36.4	(18.6)	17.8
Non-current derivatives	0.1	-	-	0.1	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	28.9	0.1	-	29.0	27.9	0.1	-	28.0
Other non-current liabilities	40.8	72.3	-	113.1	38.2	75.8	-	114.0
<b>Total non-current liabilities</b>	<b>437.3</b>	<b>221.1</b>	<b>(19.4)</b>	<b>639.1</b>	<b>229.2</b>	<b>235.3</b>	<b>(18.6)</b>	<b>445.9</b>
Current borrowings	82.9	25.6	-	108.5	83.3	27.8	-	111.1
Current derivatives	0.0	-	-	0.0	0.4	-	-	0.4
Trade and other account payable	218.4	75.0	(2.4)	291.0	226.4	164.4	(29.2)	361.6
Short-term debts with group companies	0.1	0.5	(0.4)	0.3	0.0	0.7	(0.4)	0.4
Income tax	0.0	0.9	-	0.9	0.0	-	-	0.0
Current provisions	36.0	2.7	-	38.7	39.8	3.0	-	42.8
<b>Total current liabilities</b>	<b>337.4</b>	<b>104.8</b>	<b>(2.8)</b>	<b>439.4</b>	<b>349.9</b>	<b>196.0</b>	<b>(29.6)</b>	<b>516.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,347.0</b>	<b>560.0</b>	<b>(152.0)</b>	<b>1,755.0</b>	<b>1,298.9</b>	<b>660.2</b>	<b>(178.8)</b>	<b>1,780.3</b>

### 4.4. Statement of cash flows for 1H23

Figures in € m	1H23				1H22			
	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
<b>Consolidated profit/(loss) for the period before tax</b>	<b>(11.5)</b>	<b>7.9</b>	<b>0.8</b>	<b>(2.8)</b>	<b>41.7</b>	<b>12.7</b>	<b>1.2</b>	<b>55.7</b>
Depreciation and amortisation	31.3	17.5	(0.8)	48.0	24.4	20.0	(0.5)	43.9
Changes in provisions and other deferred expense	12.9	1.7	-	14.7	(2.4)	0.6	-	(1.8)
Impairment of gains/(losses) on disposals intangible assets	0.6	(0.3)	-	0.3	1.1	37.0	(0.7)	37.3
Net finance result	6.5	6.4	-	12.9	2.9	8.9	-	11.7
Energy regulation adjustment (regulatory collar)	(2.5)	(8.1)	-	(10.6)	14.4	12.1	-	26.5
Government grants taken to income	(0.4)	(0.1)	-	(0.5)	(0.3)	(0.1)	-	(0.3)
<b>Adjustments to profit</b>	<b>48.4</b>	<b>17.3</b>	<b>(0.8)</b>	<b>64.8</b>	<b>40.1</b>	<b>78.5</b>	<b>(1.2)</b>	<b>117.3</b>
Inventories	(9.6)	(6.0)	-	(15.7)	8.6	(1.2)	-	7.4
Trade and other receivables	(1.2)	13.8	(26.8)	(14.3)	(23.2)	(1.3)	-	(24.5)
Current financial and other assets	0.8	0.0	-	0.8	0.6	(0.0)	-	0.6
Trade and other payables	(10.9)	(92.6)	26.8	(76.7)	(17.3)	37.2	-	19.9
<b>Changes in working capital</b>	<b>(20.9)</b>	<b>(84.9)</b>	<b>-</b>	<b>(105.8)</b>	<b>(31.2)</b>	<b>34.6</b>	<b>-</b>	<b>3.4</b>
Interest paid	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Dividends received	-	-	-	-	-	-	-	-
Income tax received/(paid)	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
Other collections/(payments)	-	-	-	-	-	-	-	-
<b>Other cash flows from operating activities</b>	<b>(8.4)</b>	<b>(16.6)</b>	<b>-</b>	<b>(25.0)</b>	<b>(5.2)</b>	<b>(12.2)</b>	<b>-</b>	<b>(17.4)</b>
<b>Net cash flow from operating activities</b>	<b>7.5</b>	<b>(76.3)</b>	<b>-</b>	<b>(68.7)</b>	<b>45.4</b>	<b>113.5</b>	<b>-</b>	<b>158.9</b>
Property, plant and equipment	(24.5)	(2.626)	-	(27.2)	(23.8)	(4.7)	-	(28.5)
Intangible assets	(2.5)	(0.285)	-	(2.8)	(1.6)	(0.1)	-	(1.7)
Other financial assets	(0.1)	0.400	0.3	0.6	(0.0)	-	-	(0.0)
Disposals	(0.5)	-	0.4	(0.1)	0.0	0.4	-	0.4
<b>Net cash flow used in investing activities</b>	<b>(27.6)</b>	<b>(2.511)</b>	<b>0.7</b>	<b>(29.4)</b>	<b>(25.5)</b>	<b>(4.4)</b>	<b>-</b>	<b>(29.9)</b>
<b>Free cash flow</b>	<b>(20.1)</b>	<b>(78.8)</b>	<b>0.7</b>	<b>(98.2)</b>	<b>19.9</b>	<b>109.1</b>	<b>-</b>	<b>129.0</b>
Buyback/(disposal) of own equity instruments	5.9	-	-	5.9	1.4	-	-	1.4
Proceeds from and repayments of financial liabilities	199.7	(14.6)	(0.7)	184.3	(55.0)	(28.6)	-	(83.6)
Dividends payments	(140.6)	-	(0.0)	(140.6)	(13.1)	-	-	(13.1)
<b>Net cash flow from/ (used in) financing activities</b>	<b>65.0</b>	<b>(14.6)</b>	<b>(0.7)</b>	<b>49.7</b>	<b>(66.7)</b>	<b>(28.6)</b>	<b>-</b>	<b>(95.3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>44.9</b>	<b>(93.4)</b>	<b>-</b>	<b>(48.5)</b>	<b>(46.8)</b>	<b>80.5</b>	<b>-</b>	<b>33.7</b>

## 5. KEY DEVELOPMENTS

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

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

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

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

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

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

The last available option would be to bring an appeal before the Constitutional Court of Spain; however, the Company believes there are no legal grounds for a successful appeal.

### **Dividend payments**

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

### **Update of the regulatory energy prices applicable in 2023 – 2025**

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

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

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

The Company estimates that application of these new regulatory prices to the remuneration parameters applicable to the Group's plants will imply an increase in cash generation this year of approximately €26m and a decrease in accounting profit attributable to equity holders of the parent of approximately €52m, to be offset during the remaining regulatory useful lives of the plants via higher profit attributable to equity holders of the parent.

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

The results for the first half of 2023 have been prepared in keeping with these updates to the regulatory prices.

### **Sale of the first photovoltaic development under construction**

On 28 March 2023, Magnon Green Energy closed the sale of one of its photovoltaic solar facilities under construction in the town of Andújar (Jaen), with capacity of 100 MW, generating proceeds of €27.7m.

That transaction is part of the agreement entered into with Naturgy Renovables SLU in December 2021 for the sale of the photovoltaic pipeline in Jaen, Huelva, Seville and Granada for up to €62m.

The sale of the remaining photovoltaic assets is expected to be closed between 2H23 and 2024.

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

On 28 March 2023, Ence Biogas mandated Sener to perform the conceptual engineering work for six biomethane plants in Spain, which are expected to be commissioned between the end of 2025 and 2026.

Ence Biogas is planning to develop 20 biomethane plants in the next five years and already has a portfolio of 15 under development in Spain, including the six mentioned above.

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

On 6 March 2023, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in 2018 and has arranged in 1H23 a number of bilateral loans with several financial institutions, raising €268m of new financing due in 2030 at the latest.

### **2023 Annual General Meeting**

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

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

## APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Business Plan. The Plan constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. Ence has started work on updating that plan, which terminates this year, in order to build a new sustainability roadmap for the coming years. That work includes a double-materiality assessment in order to identify the material matters on which to focus and help pin down the next universe of targets.

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

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2023, Sustainalytics gave Ence an overall ESG score of 90 points out of 100, ranking it as a global leader in the pulp and paper sector for the third year running. The Company has been part of the prestigious FTSE4Good Index Series since 2021. In addition, in June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance.

### 1. People and values

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

In terms of the generation of **quality work**, note that as of June 2023, 92.6% of Ence employees had indefinite employment contracts and 98.1% were working full time. Moreover, the headcount increased by 8.7% in the first half of 2023.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, in 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 1H23, it promoted 29 professionals, 11 of whom are women.

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

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

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

In the first half of 2023, the Company imparted 11,737 hours of training, adapting the formats to make them compatible with remote working arrangements. The training effort focused on health and safety, O&M services, compliance, leadership skills, 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 13% so far in 2023 to account for 27.1% of the workforce as of the June close. Moreover, so far in 2023, 46% of new positions have been covered by women.

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

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. It is currently in the process of renegotiating the collective bargaining agreement in place at the Pontevedra biomill. It is also in the course of negotiating the Company's 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 decarbonisation plans based on continuous improvement and the substitution of fossil fuels at the biomills. The Company began to implement the measures established in those plans in 2021, 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 total GHG emissions by 11% year-on-year in 2022. In 2023, Ence continues to work on the roadmap devised for decarbonising its biomills, making progress on the engineering details for the project for replacing fossil fuels with renewable sources in Navia, which will cut annual GHG emissions by around 50,000 tonnes.

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.

In 2023, Ence is working to analyse the financial impacts of the main climate risks to which it is exposed.

### 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.

Magnon had a strong first half from the **health and safety** standpoint, as it did not record any lost-time injuries at any of its power plants, marking the third quarter in a row of zero lost-time injuries. The pulp biomills, meanwhile, continue to report accident metrics that are almost four times below the sector average. There is room for improvement in the forestry area, however, as its accident metrics deteriorated somewhat during the first six months of the year.

As for Ence's **environmental performance**, the pulp biomills made further progress in 1H23, cutting monthly odour emissions by 71% year-on-year in Navia and by 56% in Pontevedra, with both biomills continuing to mark new records in that respect. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 4.7% in Navia and 7.2% in Pontevedra, similarly recording new lows.

In the Renewables business, this year the Group has continued to execute and monitor its plans for delivering specific unit water consumption targets across its plants, eking out overall savings across the Huelva, Merida, Jaen and Puertollano plants of 5.8% in 1H23 compared to the 2022 average.

As for its circular economy transition, Ence continues to present high waste recovery and recycling readings (above 90% of all waste at year-end 2022), enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). As of 2023, all of the Group's facilities boast that certification.

At Magnon, it is worth highlighting the improved management of fine materials returned to the soil, at the sites from which the biomass was originally sourced whenever possible. That initiative returns a natural material of value in combatting desertification and soil degradation. In 1H23, 67% of the fine materials produced at the plants in Huelva, Puertollano and Merida were processed so as to enable their return to the original farming land.

In terms of environmental performance, the pulp biomills successfully completed their ISO 14001, ISO 45001, ISO 50001 and Zero Waste certification renewal audits. They also verified their compliance with European Community eco-management and audit scheme (EMAS) and renewed SURE certification for their sustainable management of biomass.

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

### 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. As of June 2023, over 80% of its forest assets were certified under one or other of those standards and over 71% of the wood that entered its biomills during the period from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted studies to analyse biodiversity encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. Further progress is planned for 2023 in the form of new fauna and flora biodiversity studies at more than 50 forest tracts owned by Ence.

In order to **create value** for land owners and suppliers, Ence lends particular support to smaller sized companies. In 1H23, the Company purchased over €25 million worth of wood from more than 980 forest owners.

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

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

Some 92.3% of the agricultural biomass used in 1H23 was compliant with the 10-Point Plan criteria, so far ahead of the target of 80% for this year. In industrial biomass, compliance stands at 90%, which is likewise ahead of target.

As for implementation of the SURE scheme to comply with RED II, the energy plants and biomills completed the audits for renewing their certifications during the second quarter of 2023. **In addition to renewing its own facilities' certifications, Ence is working to get its entire supply chain certified. By the June 2023 close, more than 150 of its suppliers were SURE certified.** Turning to the use of certified biomass, around 95% of the energy plants' biomass was certified in 1H23, compared to 98% at the biomills.

Elsewhere, Ence continued to apply its supply chain supervision procedures, an effort that extends to the **certification** of wood and agricultural biomass producers, with certification levels of over 98% as of June 2023.

## 5. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019, the result of years of R&D and industrial and product development work. Under the umbrella of that platform, Ence is working to develop **products with a lower carbon footprint** as alternatives to hardwood pulp (which has a 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, but also the GHG emissions derived from its life cycle are offset by credits purchased on the voluntary market. All sales of Naturcell made in Pontevedra in 2022 involved the carbon-neutral product, Naturcell Zero, topping the related sustainability target set by the Company for last year.

On the carbon footprint front, the Company is currently working on a project to enable its pulp customers obtain information about the GHG emissions derived from the products they purchase, from raw material supply through manufacture and delivery. This information will be available directly from Ence's website.

In June, **Ecovadis** awarded Ence its platinum medal, this entity's highest accolade. The Ecovadis platform assesses the non-financial global performance of organisations. It has grown to become the world's largest and most trusted provider of business sustainability ratings, analysing more than 100,000 business worldwide around a wide range of non-financial criteria.

In its assessment, Ecovadis highlighted Ence's performance in terms of environmental sustainability, labour practices & human rights, sustainable procurement and ethics, the areas where Ecovadis' analysts awarded Ence their highest scores. The score obtained by Ence puts it at the global forefront in sustainability matters. Specifically, Ence ranked in the 99<sup>th</sup> percentile, ahead of all of its peers, evidencing the work being done by the Company to lead the way and become the best possible partner for its customers.

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

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set new and very ambitious sales targets for Naturcell, Powercell and Naturcell Zero for 2023. Sales of those products accounted for 19.1% of total pulp sales in 2Q23 (16.9% in 1H23).

In parallel, in 2023, Ence continues to work to have pulp manufacturing at both of its biomills certified for food safety purposes under ISO 22000.

(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. Notably in 1H23, the Company called a new tender for the Ence Pontevedra Community Plan, endowed with €3 million at each call. That Community Plan is one of the largest of its kind for a private company in Spain. The Company also awarded the aid provided under the scope of its collaboration agreement with the San Juan del Puerto town council, which encompassed a total of 24 initiatives, focused on providing support for vulnerable groups, quality education and social well-being and helping reduce the digital divide, among other matters.

In addition to the above community investments, in 1H23 Ence continued to roll out specific community relations plans with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted almost 1,000 visits to the facilities in Navia, Pontevedra, Huelva and Puertollano in the first half of 2023. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects such as the Iberdrola-Galicia Business Owners Seminar, "What is your industry decarbonisation plan?", in Vigo and participation in the international Expobiomasa trade fair, the sector's largest showcase in Europe, in Valladolid. In Asturias, the Company participated in Asturforesta, the benchmark forestry sector trade fair in north-eastern Spain, which took place in Tineo. At that event, Ence told sector professionals about its commitments around operational safety, sustainable forest management and the creation of business and jobs in rural areas through the recovery of timber and biomass.

Elsewhere, in the first half of the year, the Company organised over 20 meetings with representatives of different stakeholders in order to keep communication flowing with all of them. Framed by that same line of engagement and commitment to its surroundings, in 2Q23, in collaboration with the town council of Navia, Company employees participated in an environmental awareness event in which school-goers helped plant trees near the Veiga de Arenas beach in Navia, an area of high ecological value.

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.

In the first half of the year, Ence approved its Whistleblower Policy in order to adapt its internal regulations for the new Law 2/2023 (20 February 2023), transposing Directive (EU) 2019/1937 into Spanish law and regulating the protection of persons who report breaches of law and other anti-corruption matters. This legislation obliges companies to design and implement internal communication channels in order to protect the persons who, in the context of their work-related activities, detect potential breaches. Also, and as contemplated in the new Policy, Ence has approved its Whistleblower Procedure in order to guarantee that if any Ence stakeholder presents information, including reasonable suspicions, about actual or potential breaches of the law or of the Company's body of in-house rules and regulations, that information is handled professionally and confidentially, safeguarding the whistleblower's anonymity if he or she so desires.



### Safe & efficient operations

**Protecting Health and Safety**

- ✓ 9 months without sick leave accidents in the energy plants and biomass supply chain

**Water footprint reduction**

- ✓ Water use reduction in both biomills (-4,7% in Navia vs. 2022 and -7,2% in Pontevedra vs. 2022) and energy plants\* (-5,8%)

**Advancing towards a circular economy**

- ✓ High levels of waste recovery, in line with 2022 results (>98%)
- ✓ 100% plants ZERO WASTE certified

**Odour reduction (vs 2022)**

- ✓ -70,5% odour minutes in Navia and -56,2% in Pontevedra

\*Huelva, Mérida, Jaén and Puertollano



### Climate action

**Committed to mitigate climate change**

- ✓ -10% total GHG emissions (2022 vs. 2021)
- ✓ Ongoing climate risk analysis following TCFD Recommendations



### Sustainable products

**Differentiated products with higher added value**

- ✓ 19,1% of total sales. Products with higher and growing margins
- ✓ 1st Pulp EPD\* published: Encell TCF and Naturcell
- ✓ 1st Carbon neutral product (Naturcell Zero)

\*EPD: Environmental Product Declaration



### People & Values

**Talent as a competitive advantage**

- ✓ Great Place to Work certification for the third year in a row
- ✓ Offering quality jobs: 93% permanent contracts
- ✓ +13% female employees vs 2022



### Commitment to communities

**Adding value to society:**

- ✓ Launch of the Ence Pontevedra 2023 Social Plan, endowed with 3 million euros
- ✓ 52 sponsorship actions in Q2



### Sustainable agroforestry

**Certified supply chain**

- ✓ 86% of managed land certified
- ✓ >71% of supplied wood certified
- ✓ >99% wood & biomass suppliers homologated
- ✓ 100% plants SURE System certified (Sustainable biomass)



### Corporate governance

- ✓ Adaptation of Ence's internal regulations to the new Law 2/2023, regulating the protection of people who report on regulatory violations and the fight against corruption. Approval of the Internal Information System Policy and the internal information channel Procedure

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

Facility	Type of facility	MW	2023 Remuneration for investment in P&L (Ri; €/MW) *	Type of fuel	Remuneration for operation 2023 (Ro; €/MWh)	Sale hours limit under regulated price	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	-	6,500	2032
	Biomass generation		46,362	Agroforestry biomass	-		
Navia	Biomass co-generation	40.3	-	Lignin	-	6,500	2034
	Biomass generation	36.2	210,395	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	39,759	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	123,610	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	66,232	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	184,086	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	286.1	6,537	2030
Huelva 50MW	Biomass generation	50.0	242,587	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	267,374	Agroforestry biomass	-	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	-	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	-	7,500	2044

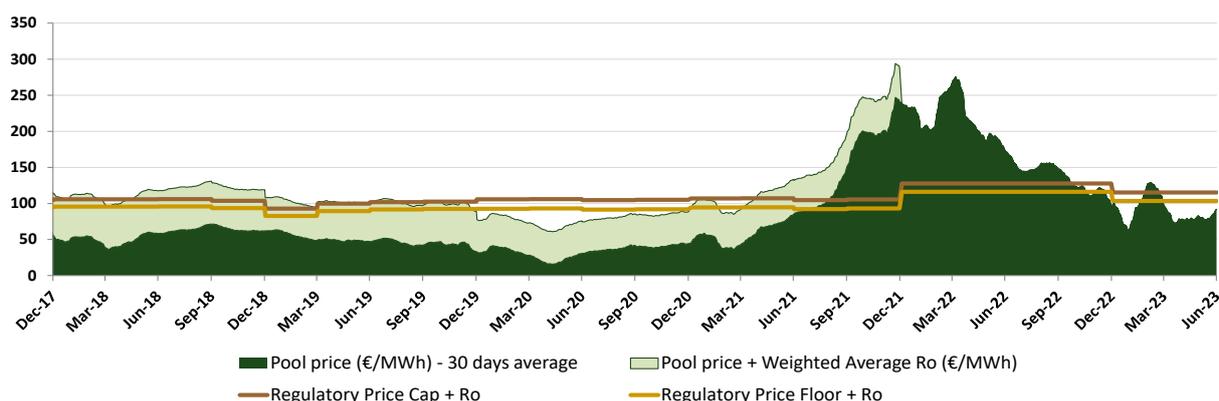
Power plants fuelled by renewable sources of energy, combined heat and power (CHP) systems or waste are regulated by Spanish Royal Decree 413/2014. These plants are remunerated via two concepts, one fixed and the other variable, in order to ensure a reasonable return:

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

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

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

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



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

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

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

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

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

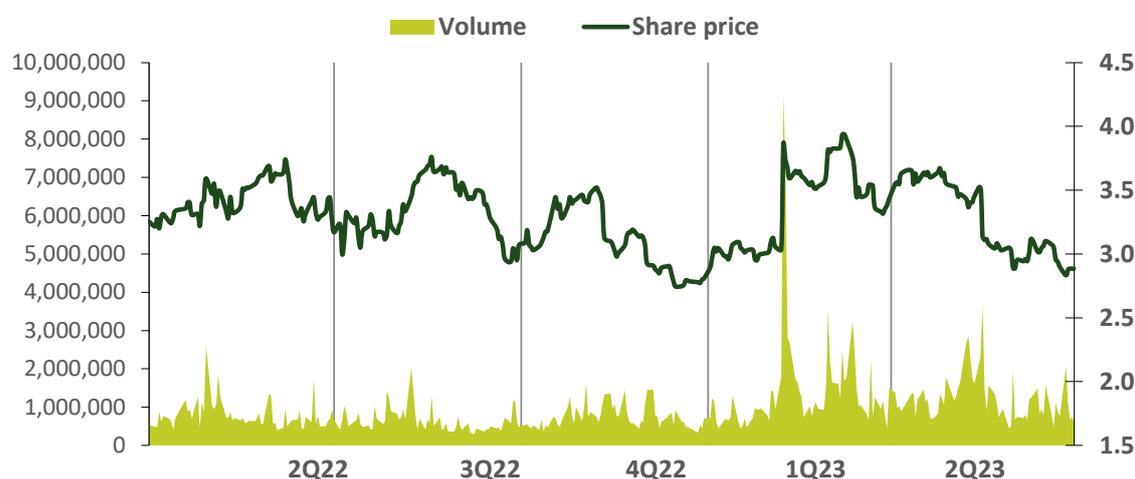
## APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence's share price ended June at €2.89, a gain of 2.7% from year-end 2022, or 23.3% adjusting for the two interim dividends of €0.29 per share paid out on each of 16 March and 18 May 2023.

Over the same timeframe, the Company's peers' share prices corrected by 10.5% on average.

On 7 February 2023, Spain's Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. That day the Company's share price jumped 27%.



SHARES	2Q22	3Q22	4Q22	1Q23	2Q23
<b>Share price at the end of the period</b>	3.26	3.07	2.81	3.43	2.89
<b>Market capitalization at the end of the period</b>	803.3	756.1	692.0	844.7	710.7
<b>Ence quarterly evolution</b>	2.1%	(5.9%)	(8.5%)	22.1%	(15.9%)
<b>Daily average volume (shares)</b>	793,780	657,916	745,786	1,455,322	1,222,432
<b>Peers quarterly evolution *</b>	(1.0%)	(8.6%)	(4.0%)	(10.5%)	(4.4%)

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

Source: Bloomberg

## APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

### EBITDA

EBITDA is a metric used in the statements of profit or loss presented in this report, in sections 1, 2.5, 2.6, 3.3, 3.4, 4.1 and 4.2, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and other non-operating items that undermine the comparability of the numbers.

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	(4.5)	14.3	0.8	10.6	44.2	21.6	1.2	67.1
Depreciation and amortisation charges	€ m	P&L	26.2	17.5	(0.8)	43.0	20.4	20.0	(0.5)	39.9
Depletion of forest reserve	€ m	P&L	5.0	-	-	5.0	4.0	0.0	-	4.0
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	0.5	(0.3)	-	0.3	1.1	37.0	-	37.3
Other non-operating items	€ m	APM	6.6	-	-	6.6	0.1	-	-	0.1
<b>EBITDA</b>	<b>€ m</b>		<b>33.8</b>	<b>31.6</b>	<b>-</b>	<b>65.4</b>	<b>69.8</b>	<b>78.6</b>	<b>-</b>	<b>148.4</b>

**Other non-operating items**, presented in sections 1, 2.5, 4.1 and 4.2 of this report, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable. The balance of €6.6m recognised in 1H23 relates to inventory impairment allowances, as net pulp prices were below the amount at which the Group's inventories were carried as at the June close.

### CASH COST

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

The cash cost includes all of the costs directly related with the production and sale of pulp that impact cash flows. 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 deviations in electricity market prices (the regulatory collar), forest depletion charges and the change in inventories. To calculate the cash cost, the related production costs are divided by the volume of tonnes produced, while overhead and sales and logistics costs are divided by the volume of tonnes sold.

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23	1H22
			Pulp	Pulp
Revenue from pulp sales	€ m	P&L	306.6	338.0
EBITDA	€ m	APM	(33.8)	(69.8)
Total costs (Revenue - EBITDA)	€ m		272.8	268.1
Gains/(losses) on hedging transactions	€ m	APM	(0.7)	(11.3)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		2.5	(14.4)
Depletion of forest reserve	€ m	P&L	5.0	4.0
Change in inventories	€ m	P&L	4.3	(9.0)
Other income and expenses	€ m		(4.7)	(2.8)
ADJUSTED CASH COST	€ m		279.3	234.6
Pulp production costs	€ m		236.8	192.6
No. of tonnes produced	Unit		478,003	465,888
PRODUCTION-RELATED COSTS PER TONNE	€/tonne		495.4	413.3
Overhead, sales and logistics costs			42.5	42.1
No. of tonnes sold	Unit		461,493	487,059
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE	€/tonne		92.0	86.4
CASH COST	€/tonne		587.4	499.7

“Other income and expenses” includes the gain/(loss) on the sale of wood to third parties (-€0.4m in 1H23 and -€0.4m in 1H22), nursery costs (-€0.4m in 1H23 and -€0.3m in 1H22), long-term remuneration and termination benefits (-€1.4m in 1H23 and -€1.3m in 1H22), receivables impairment allowances (-€0.8m in 1H23) and bank charges (-€0.7m in 1H23 and -€0.7m in 1H22). The remaining items implied costs of €1.1m in 1H23.

#### OPERATING PROFIT PER TONNE OF PULP

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

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23	1H22
			Pulp	Pulp
Revenue from pulp sales	€ m	P&L	306.6	338.0
No. of tonnes sold	Unit		461,493	487,059
Average sales price per tonne (Revenue / # tonnes)	€/tonne		664.4	693.9
Cash cost (€)	€/tonne	APM	587.4	499.7
<b>TOTAL OPERATING PROFIT PER TONNE OF PULP</b>	<b>€/tonne</b>		<b>77.0</b>	<b>194.2</b>

#### NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.5, 3.3, 4.1 and 4.2. 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 this APM and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	1.8	0.5	(0.3)	2.0	2.2	0.1	(0.7)	1.6
Finance costs	€ m	P&L	(8.4)	(6.9)	0.3	(14.9)	(6.7)	(9.3)	0.7	(15.3)
<b>NET FINANCE COST</b>	<b>€ m</b>		<b>(6.6)</b>	<b>(6.4)</b>	<b>-</b>	<b>(13.0)</b>	<b>(4.5)</b>	<b>(9.2)</b>	<b>(0.0)</b>	<b>(13.7)</b>
Change in fair value of financial instruments	€ m	P&L	-	-	-	-	-	0.3	-	0.3
Exchange differences	€ m	P&L	(0.5)	-	-	(0.5)	2.1	(0.0)	-	2.0
<b>OTHER FINANCIAL ITEMS</b>	<b>€ m</b>		<b>(0.5)</b>	<b>-</b>	<b>-</b>	<b>(0.5)</b>	<b>2.1</b>	<b>0.3</b>	<b>-</b>	<b>2.4</b>
<b>NET FINANCE INCOME/(COST)</b>	<b>€ m</b>	<b>P&amp;L</b>	<b>(7.0)</b>	<b>(6.4)</b>	<b>-</b>	<b>(13.4)</b>	<b>(2.5)</b>	<b>(8.9)</b>	<b>-</b>	<b>(11.4)</b>

## MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

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

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

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(4.2)	(1.0)	-	(5.2)	(9.9)	(1.1)	-	(11.0)
Efficiency and growth capex	€ m		(11.0)	(0.3)	-	(11.3)	(4.1)	(0.7)	-	(4.7)
Sustainability capex	€ m		(11.9)	(1.6)	-	(13.5)	(11.4)	(3.0)	-	(14.5)
Financial investments	€ m		(0.1)	0.4	0.3	0.6	(0.0)	-	-	(0.0)
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>€ m</b>		<b>(27.1)</b>	<b>(2.5)</b>	<b>0.3</b>	<b>(29.4)</b>	<b>(25.5)</b>	<b>(4.8)</b>	<b>-</b>	<b>(30.3)</b>

## OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.6 and 3.4 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.4. 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 both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	33.8	31.6	-	65.4	69.8	78.6	-	148.4
Other non-recurring items	€ m	APM	(6.6)	-	-	(6.6)	(0.1)	-	-	(0.1)
Adjustments to reconcile profit before tax to net cash flows:										
Changes in provisions and other deferred expense (net)	€ m	CF	12.9	1.7	-	14.7	(2.4)	0.6	-	(1.8)
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	(2.5)	(8.1)	-	(10.6)	14.4	12.1	-	26.5
Grants taken to profit and loss	€ m	CF	(0.4)	(0.1)	-	(0.5)	(0.3)	(0.1)	-	(0.3)
Exchange differences with an impact on cash	€ m		(0.5)	(0.0)	(0.0)	(0.5)	0.4	(0.0)	-	0.3
Change in working capital	€ m		(20.9)	(84.9)	0.0	(105.8)	(31.2)	34.6	-	3.4
Interest paid, net (including right-of-use assets)	€ m	CF	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
Other collections/(payments)	€ m	CF	-	-	-	-	-	-	-	-
<b>OPERATING CASH FLOW</b>			<b>7.5</b>	<b>(76.3)</b>	<b>-</b>	<b>(68.7)</b>	<b>45.4</b>	<b>113.5</b>	<b>-</b>	<b>158.9</b>

## FREE CASH FLOW

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

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	7.5	(76.3)	-	(68.7)	45.4	113.5	-	158.9
Net cash flows from/(used in) investing activities	€ m	CF	(27.6)	(2.5)	-	(29.4)	(25.5)	(4.4)	-	(29.9)
<b>FREE CASH FLOW</b>	€ m		<b>(20.1)</b>	<b>(78.8)</b>	<b>-</b>	<b>(98.2)</b>	<b>19.9</b>	<b>109.1</b>	<b>-</b>	<b>129.0</b>

## NORMALISED FREE CASH FLOW

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

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

Below is a reconciliation between this APM and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	33.8	31.6	-	65.4	69.8	78.6	-	148.4
Changes in working capital:										
Inventories	€ m	CF	(9.6)	(6.0)	-	(15.7)	8.6	(1.2)	-	7.4
Trade and other receivables	€ m	CF	(1.2)	13.8	(26.8)	(14.3)	(23.2)	(1.3)	-	(24.5)
Short-term investments	€ m	CF	0.8	0.0	-	0.8	0.6	(0.0)	-	0.6
Trade payables, other payables and other liabilities	€ m		(10.9)	(92.6)	26.8	(76.7)	(17.3)	37.2	-	19.9
Maintenance capex	€ m	APM	(4.2)	(1.0)	-	(5.2)	(9.9)	(1.1)	-	(11.0)
Interest paid, net (including right-of-use assets)	€ m	CF	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Income tax paid	€ m	CF	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
<b>NORMALISED FREE CASH FLOW</b>	<b>€ m</b>		<b>0.3</b>	<b>(70.9)</b>	<b>-</b>	<b>(70.6)</b>	<b>23.4</b>	<b>99.9</b>	<b>-</b>	<b>123.3</b>

## NET DEBT / (CASH)

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

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

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	Jun. 2023				Dec. 2022			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Non-current borrowings:										
Bonds and other marketable securities	€ m	BS	-	78.6	-	78.6	-	78.4	-	78.4
Bank borrowings	€ m	BS	288.1	31.0	-	319.1	96.9	43.7	-	140.6
Other financial liabilities	€ m	BS	79.5	1.9	-	81.4	66.3	0.8	-	67.0
Current borrowings:										
Bonds and other marketable securities	€ m	BS	-	-	-	-	64.1	0.0	-	64.1
Bank borrowings	€ m	BS	76.2	25.0	-	101.2	13.0	27.2	-	40.1
Other financial liabilities	€ m	BS	6.7	0.6	-	7.3	6.3	0.6	-	6.9
Cash and cash equivalents	€ m	BS	323.3	40.4	-	363.7	278.4	134.5	-	412.9
Current financial assets - Other financial investments	€ m		3.4	0.0	-	3.4	4.2	0.0	-	4.3
Cash reserve for debt service	€ m		-	10.0	-	10.0	-	10.0	-	10.0
<b>NET DEBT/(CASH)</b>	<b>€ m</b>		<b>123.7</b>	<b>86.6</b>	<b>-</b>	<b>210.4</b>	<b>(36.1)</b>	<b>6.1</b>	<b>-</b>	<b>(30.0)</b>

## 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 Renewables business.

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23				1H22			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBIT, last 12 months	€ m	P&L	35.6	21.0	1.2	57.8	62.7	2.6	2.4	67.7
Average capital employed, last 12 months					-					
Average equity	€ m	BS	564.6	236.4	-	801.0	591.7	237.6	-	829.3
Average net debt	€ m	BS	12.6	32.6	-	45.0	1.0	94.3	-	95.3
<b>ROCE</b>	%		<b>6.2%</b>	<b>7.8%</b>	<b>n.s.</b>	<b>6.8%</b>	<b>10.6%</b>	<b>0.8%</b>	<b>n.s.</b>	<b>7.3%</b>

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 4Q22, the Company reversed impairment losses and provisions with a net effect on EBIT and equity of €167m and €169m.

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