Third-quarter 2022 earnings report

27 October 2022

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
BHKP (USD/t) average price	1,366.3	1,136.2	*20.3%*	1,241.3	*10.1%*	1,253.8	966.8	*29.7%*
Average exchange rate (USD/€)	1.01	1.18	*(14.1%)*	1.07	*(5.2%)*	1.06	1.20	*(11.1%)*
BHKP (€/t) average price	1,347.7	962.1	*40.1%*	1,160.6	*16.1%*	1,178.9	808.4	*45.8%*
Average pool price (€/MWh)	146.2	118.2	*23.7%*	182.8	*(20.0%)*	185.8	82.7	*124.6%*

Source: Bloomberg & OMIE

Operating Metrics	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Pulp production (t)	**171,533**	**264,780**	***(35.2%)***	**266,954**	***(35.7%)***	**637,421**	**758,688**	***(16.0%)***
Pulp sales (t)	**189,214**	**259,230**	***(27.0%)***	**287,600**	***(34.2%)***	**676,273**	**756,996**	***(10.7%)***
Average sales pulp price (€/t)	832.6	613.3	*35.8%*	723.9	*15.0%*	732.7	516.0	*42.0%*
Cash cost (€/t)	568.4	380.2	*49.5%*	489.5	*16.1%*	518.4	377.4	*37.4%*
Operating margin per ton (€/t)	264.2	233.1	*13.4%*	234.4	*12.7%*	214.3	138.6	*54.6%*
Renewable Energy sales volume (MWh)	**366,723**	**344,787**	***6.4%***	**382,440**	***(4.1%)***	**1,189,847**	**1,002,242**	***18.7%***
Average sales price (€/MWh)	137.2	68.9	*99.2%*	128.3	*7.0%*	138.7	88.7	*56.3%*
Remuneration for investment (€ m)	10.2	8.8	*16.1%*	10.2	-	30.7	29.3	*4.8%*

P&L € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Revenue from Pulp business	173.8	183.9	*(5.5%)*	221.5	*(21.6%)*	553.8	471.8	*17.4%*
Revenue from Renewable Energy business	60.6	32.8	*84.9%*	99.1	*(38.8%)*	235.8	118.8	*98.5%*
Consolidation adjustments	(1.0)	(0.5)		(1.0)		(2.5)	(2.1)	
Total revenue	**233.4**	**216.1**	*8.0%*	**319.6**	*(27.0%)*	**787.1**	**588.5**	*33.7%*
Pulp business EBITDA	41.4	30.5	*35.8%*	49.0	*(15.5%)*	111.2	71.4	*55.6%*
Renewable Energy business EBITDA	17.7	(3.6)	*n.s.*	52.9	*(66.5%)*	96.3	14.4	*n.s.*
EBITDA	**59.1**	**26.9**	*120.1%*	**101.9**	*(42.0%)*	**207.5**	**85.8**	*141.8%*
Depreciation, amortisation and forestry depletion	(27.7)	(21.4)	*29.5%*	(22.9)	*21.3%*	(71.6)	(72.2)	*(0.8%)*
Impairment of and gains/(losses) on fixed-asset disposals	(1.7)	(1.7)	*(0.1%)*	(36.6)	*(95.4%)*	(39.0)	(191.4)	*(79.6%)*
Other non-ordinary results of operations	0.1	-	*n.s.*	(0.1)	*n.s.*	-	5.0	*(100.0%)*
EBIT	**29.8**	**3.8**	*n.s.*	**42.4**	*(29.6%)*	**96.9**	**(172.8)**	*n.s.*
Net finance cost	(5.6)	(7.1)	*(20.9%)*	(8.2)	*(31.5%)*	(19.3)	(17.7)	*9.0%*
Other finance income/(cost) results	1.4	1.6	*(7.0%)*	1.6	*(11.0%)*	3.8	3.4	*11.1%*
Profit before tax	**25.6**	**(1.8)**	*n.s.*	**35.8**	*(28.4%)*	**81.3**	**(187.1)**	*n.s.*
Income tax	(3.8)	(1.3)	*181.8%*	(5.1)	*(26.3%)*	(12.5)	(10.9)	*14.7%*
Consolidated Net income	**21.9**	**(3.1)**	*n.s.*	**30.7**	*(28.7%)*	**68.8**	**(198.0)**	*n.s.*
Non-controlling interests	0.4	5.3	*(92.4%)*	0.9	*(52.8%)*	(1.8)	4.9	*n.s.*
Atributable Net Income	**22.3**	**2.2**	*n.s.*	**31.6**	*(29.4%)*	**67.0**	**(193.1)**	*n.s.*
Earnings per share (Basic EPS)	0.09	0.01	*n.s.*	0.13	*(29.4%)*	0.28	(0.79)	*n.s.*

Cash flow € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
EBITDA	**59.1**	**26.9**	*120.1%*	**101.9**	*(42.0%)*	**207.5**	**85.8**	*141.8%*
Change in working capital	59.2	(22.3)	*n.s.*	4.9	*n.s.*	62.6	(46.1)	*n.s.*
Maintenance capex	(3.9)	(3.1)	*26.3%*	(0.3)	*n.s.*	(14.9)	(10.6)	*40.4%*
Net interest Payment	(4.5)	(2.8)	*60.9%*	(7.6)	*(40.5%)*	(17.6)	(13.0)	*35.4%*
Income tax received/(paid)	(0.0)	(6.6)	*(100.0%)*	(4.4)	*(100.0%)*	(4.3)	(6.4)	*(31.9%)*
Normalised free cash flow	109.9	(7.9)	*n.s.*	94.5	*16.2%*	233.2	9.7	*n.s.*
Energy regulation adjustment (regullatory collar)	**6.9**	**27.8**	*n.s.*	**(13.8)**	*n.s.*	**33.4**	**28.9**	*15.3%*
Other collection (payments) and non cash adjustments	4.4	8.7	*n.s.*	3.7	*16.6%*	2.4	8.6	*(72.0%)*
Efficiency and expansion capex	(3.1)	(4.8)	*(35.2%)*	(11.3)	*(72.5%)*	(17.6)	(33.8)	*(47.9%)*
Sustainability capex and other	(1.7)	(4.1)	*(59.5%)*	(2.2)	*(26.2%)*	(6.4)	(15.1)	*(57.7%)*
Disposals	0.1	-	*n.s.*	0.0	*n.s.*	0.5	0.4	*18.3%*
Free cash flow	**116.4**	**19.6**	*n.s.*	**71.0**	*64.0%*	**245.4**	**(1.3)**	*n.s.*
Dividends from the parent	(31.6)	-	*n.s.*	(13.1)	-	(44.7)	-	*n.s.*

Net debt € m	Sep-22	Dec-21	Δ%
Net financial debt Pulp business	(74.6)	(19.5)	*n.s.*
Net financial debt Renewable Energy business	2.6	121.2	*(97.8%)*
Net financial debt	**(72.0)**	**101.7**	*n.s.*

	9M22	9M21	Δ%
ROCE LTM *	**10.6%**	**0.5%**	*n.s.*

* ROCE LTM = EBIT LTM / Average (Equity + Net Debt)

- ✓ **Ence generated a net profit of €22m in the third quarter, lifting its 9M22 earnings to €67m, despite the temporary suspension of operations in Pontevedra.**
- ✓ **Pontevedra biomill is expected to initiate its ramp-up process around the second week of November, combining an innovative solution that we are testing for drought situations and minimizing the river water consumption. The ramp-up process will take place gradually, once the necessary permits have been obtained and the maintenance and repair works on the water collection infrastructure are finalized following its downtime. Its normalized production rate is expected to be reached by the second week of December.**
- ✓ **Third-quarter free cash flow amounted to €116m (9M22: €245m) to leave the Group with a net cash of €72m at the September close, compared to a net debt of €102m at year-end 2021. That net cash position includes balances pending payment to the electricity market watchdog in the amount of €70m.**
- ✓ **In line with the new dividend policy, the Board has agreed to pay out a third interim dividend totalling €22m, or €0.09 per share (before tax withholdings), on 15 November, in addition to the €32m already distributed in August the €13m paid out in May.**
- ✓ **The rise in pulp prices, coupled with favourable exchange rate trends, continued to boost the business's profitability, mitigating the effect of the suspension of operations in Pontevedra and offsetting the widespread inflation affecting raw material costs. As a result, EBITDA in the Pulp business amounted to €41m in 3Q22 and €111m in 9M22.**
- ✓ **Stripping out the effect of the suspension of operations in Pontevedra, the 9M22 cash cost would have been €503/tonne.**
- ✓ **Elsewhere, the growth in generation volumes, together with higher average sales prices, continued to lift EBITDA in the Renewable Energy business, specifically to €18m in 3Q22 and €96m in 9M22, including the reversal of the €40m regulatory collar provision recognised in 2Q22.**
- ✓ **These results already include the estimated impact of the change in regulatory parameters applicable to the remuneration of energy generated from renewable sources in 2022 and top the guidance provided at the Capital Markets Day, which, out of precaution, had anticipated a broadly similar scenario.**
- ✓ **The Supreme Court has pushed back the date scheduled for voting on the first appeal presented against the National Court sentences that annulled the Pontevedra concession so that it can vote and rule on similar appeals. It is foreseeable that it will rule on those appeals in the coming months.**
- ✓ **The Group's financial strength, marked by a net cash position, gives it full flexibility to take advantage of any growth opportunities that may arise in either business.**
- ✓ **Through its subsidiary, Magnon Green Energy, Ence has a pipeline of 140 MW of biomass projects and 673 MW of photovoltaic projects, as well as other opportunities under analysis. In December 2021, Magnon agreed to sell 373 MW of its photovoltaic projects under development for up to €62m. Of that portfolio, 240 MW already have the corresponding environmental and administrative permits and their sale is expected in 2023. The full permitting and sale of the remaining 133 MW is expected to complete in 2024. In addition, Magnon has another 300 MW of photovoltaic projects in southern Spain at an earlier stage of development.**
- ✓ **As for the biomass pipeline, 90 MW already have the corresponding environmental permits and the remaining 50 MW are expected to obtain them in 2023. In the first biomass auction, held on 25 October, auctioning off 140 MW of capacity, Magnon took a cautious approach in the current context of widespread inflation in raw materials. Another two biomass capacity auctions, encompassing combined capacity of 240 MW, are slated for 2023 and 2025 and the National Energy Plan includes another 415 MW before 2030.**
- ✓ **Back in the Pulp business, Ence continues to execute the "Navia Excellence" project to boost the sales of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.**
- ✓ **In addition, at the end of June, Ence and the regional government of Galicia announced a new project in As Pontes, Coruña, for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made by Ence. The pertinent studies are underway.**
- ✓ **More recently, Ence has set up a subsidiary to analyse the potential for producing and selling biogas from organic waste. This is a new business line based on the circular bioeconomy principles that already underpin its two core businesses. The growth potential for this business in Spain is significant and this endeavour fits well with the Group's renewable energy diversification strategy.**
- ✓ **Ence remains the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 91/100 in 2022.**

2. PULP BUSINESS

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

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

2.1. Legal status of the Pontevedra concession

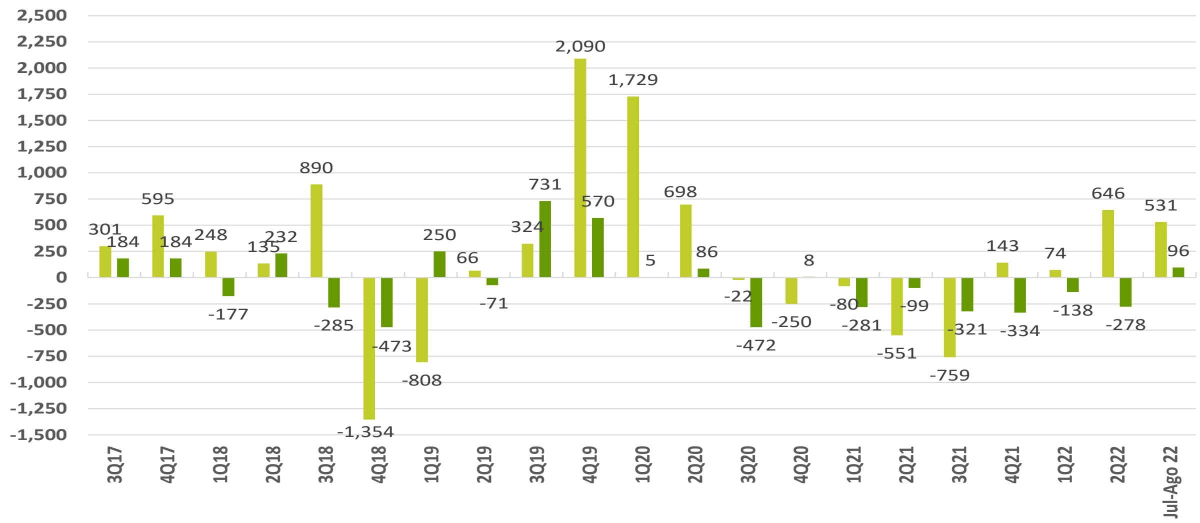
Three sentences issued by Spain's National Court in July and October 2021 annulled the extension of the concession over the public-domain land on which ENCE's biomill in Pontevedra is located until 2073. Ence lodged appeals against all three sentences before the Supreme Court, which agreed to hear two of those appeals in February and March 2022 and suspended the third case until after it rules on the first two appeals. It is foreseeable that it will rule on those appeals in the coming months.

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

2.2. Pulp market trends

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

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



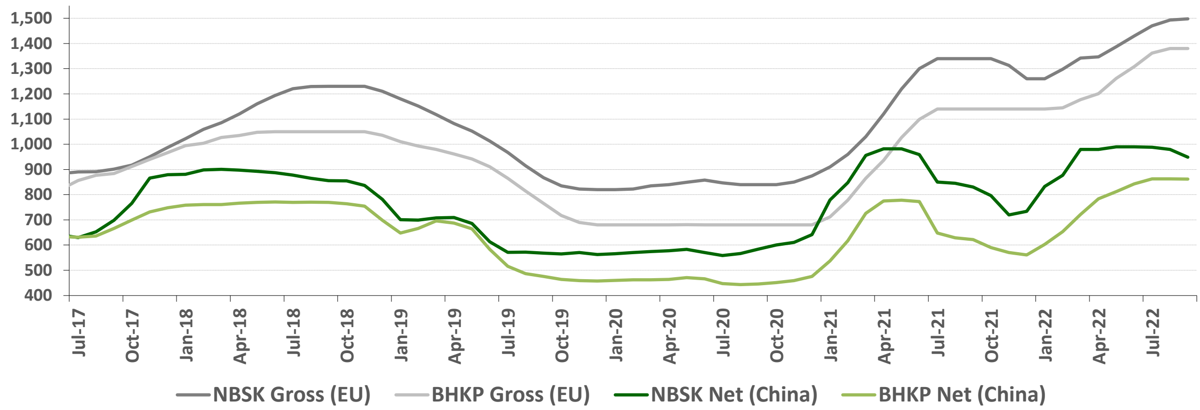
Source: PPPC–G100

Growth in demand for pulp remained robust throughout the first eight months of 2022. Specifically, demand for pulp increased by 2.8% year-on-year (the equivalent of 1.2 million tonnes), with all markets sustaining growth except for China, where demand contracted by 2.8% year-on-year (0.4 million tonnes), affected by logistics and COVID-related restrictions. In Europe, demand for pulp jumped 5.1% (0.6 million tonnes), compared to growth of 3.1% in North America (0.1 million tonnes), with demand in the rest of the world 8.5% (0.9 million tonnes) higher.

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

Growth in demand, coupled with supply-side friction and widespread increases in production and transportation costs, continued to drive hardwood pulp (BHKP) prices higher, to $1,380 per tonne (gross) in Europe as of the third quarter, and above $860 (net) in China.

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



Source: FOEX

2.3. Revenue from pulp sales

Pulp sales volumes declined by 27% year-on-year in 3Q22 to 189,214 tonnes, due to the temporary suspension of operations at the Pontevedra biomill from 20 July as a result of the reduction in the river flow, from which the facility sources its water, to below its environmentally-safe level. In 9M22, pulp sales volumes therefore declined by 10.7% year-on-year to 676,273 tonnes.

Average sales prices improved by 35.8% year-on-year, to €832.6 per tonne, thanks to the increase in average benchmark prices in Europe and favourable euro-dollar exchange rate trends. In 9M22, average sales prices improved by 42% year-on-year, to €732.7 per tonne.

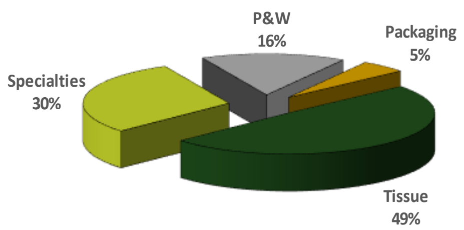
	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Pulp sales (t)	**189,214**	**259,230**	*(27.0%)*	**287,600**	*(34.2%)*	**676,273**	**756,996**	*(10.7%)*
Average sales price (€/t)	832.6	613.3	*35.8%*	723.9	*15.0%*	732.7	516.0	*42.0%*
Pulp sales revenue (€ m)	**157.5**	**159.0**	*(0.9%)*	**208.2**	*(24.3%)*	**495.5**	**390.6**	*26.9%*

The combination of the two factors resulted in flat revenue from pulp sales by comparison with 3Q21 (-0.9%), at €157.5m, and year-on-year growth of 26.9% to €495.5m in 9M22.

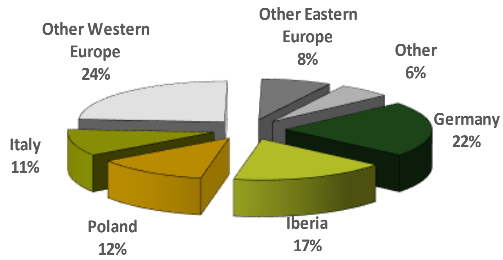
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 18% of 9M22 sales, compared to 15% in 9M21.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 49% of revenue from pulp sales in 9M22, followed by the specialty paper segment, at 30%. The printing and writing paper segment accounted for 16% of sales and packaging, the remaining 5%.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



By geography, most of the pulp produced by Ence is sold in Europe, namely 94% of revenue from pulp sales in 9M22. Germany and Iberia accounted for 22% and 17% of total revenue, respectively, followed by Poland (12%), and Italy (11%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 8%.

2.4. Pulp production and cash cost

Pulp sales production declined by 35.2% year-on-year in 3Q22 to 171,533 tonnes, due to the temporary suspension of operations at the Pontevedra biomill from 20 July as a result of the reduction in the river flow. 9M22 production therefore fell by 16% year-on-year to 637,421 tonnes, with the impact of the 20-day national transportation strike in March exacerbated by the temporary downtime in Pontevedra.

Ence has developed an innovative solution to enable it to regenerate its own wastewater as well as the wastewater from the treatment facility adjacent to the biomill for use in its pulp production process in drought situations.

The bio-mill is expected to initiate its ramp-up process around the second week of November, combining this innovative solution in its testing phase and minimizing the river water consumption. The ramp-up process will take place gradually, once the necessary permits have been obtained and the maintenance and repair works on the water collection infrastructure are finalized following its downtime period. Its normalized production rate is expected to be reached by the second week of December.

	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Navia pulp production	149,757	152,629	*(1.9%)*	154,786	*(3.2%)*	419,258	435,221	*(3.7%)*
Pontevedra pulp production	21,776	112,151	*(80.6%)*	112,168	*(80.6%)*	218,163	323,466	*(32.6%)*
Pulp production (t)	**171,533**	**264,780**	*(35.2%)*	**266,954**	*(35.7%)*	**637,421**	**758,688**	*(16.0%)*

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

Figures in €/t	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Total cash cost	568.4	380.2	*49.5%*	489.5	*16.1%*	518.4	377.4	*37.4%*
Operating margin	**264.2**	**233.1**	*13.4%*	**234.4**	*12.7%*	**214.3**	**138.6**	*54.6%*

The 3Q22 cash cost increased by 49.5% year-on-year to €568.4/tonne due to the widespread inflation in raw material and transportation prices, compounded by the impact of the suspension of operations in Pontevedra. For those same reasons, the 9M22 cash cost increased by 37.4% year-on-year to €518.4/tonne.

The temporary suspension of operations in Pontevedra had an estimated impact on the 3Q22 cash cost of €55/tonne. Stripping out that effect, the 3Q22 cash cost would have been €513/tonne and the 9M22 average, €503/tonne.

Nevertheless, the growth in pulp prices continued to lift unit operating profit in the Pulp business to €264.2/tonne in 3Q22 and to €214.3 tonne in 9M22, compared to €233.1/tonne and €138.6/tonne in the same periods of 2021, respectively, and an average of €149/tonne during the last five years (2017-2021).

2.5. Other income

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

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	**3Q22**	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Revenues from energy sales linked to pulp (€ m)	14.8	23.7	*(37.6%)*	10.2	*45.5%*	50.6	66.9	*(24.3%)*
Forestry and other revenue (€ m)	1.5	1.2	*19.6%*	3.2	*(54.0%)*	7.7	14.3	*(46.5%)*
Other income	**16.2**	**24.9**	*(34.8%)*	**13.3**	*21.7%*	**58.3**	**81.2**	*(28.2%)*

Starting this year, Ence only sells surplus energy to the grid, whereas before it used to sell all its output. As a result of that change, revenue from energy sales in the Pulp business decreased by 37.6% year-on-year in 3Q22 and by 24.3% in 9M22.

The year-on-year reduction in revenue from the sale of wood to third parties in 9M22 is attributable to internal consumption of some of that wood.

2.6. Statement of profit or loss

Higher pulp prices and more favourable exchange rates mitigated the impact of the temporary suspension of operations at the Pontevedra biomill in 3Q22 when EBITDA came to €41.4m, year-on-year growth of 35.8% (9M22: €111.2m, up 55.6% YoY).

Figures in € m	**3Q22**	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Pulp sales revenue	157.5	159.0	*(0.9%)*	208.2	*(24.3%)*	495.5	390.6	*26.9%*
Other income	16.2	24.9	*(34.8%)*	13.3	*21.7%*	58.3	81.2	*(28.2%)*
Total net revenue	**173.8**	**183.9**	*(5.5%)*	**221.5**	*(21.6%)*	**553.8**	**471.8**	*17.4%*
EBITDA	**41.4**	**30.5**	*35.8%*	**49.0**	*(15.5%)*	**111.2**	**71.4**	*55.6%*
Depreciation and amortisation	(11.1)	(10.8)	*2.7%*	(10.9)	*1.8%*	(31.5)	(37.9)	*(16.8%)*
Depletion of forestry reserves	(1.2)	(2.1)	*(44.1%)*	(2.3)	*(47.4%)*	(5.2)	(8.5)	*(39.6%)*
Impairment of and gains/(losses) on fixed-asset disp.	(1.7)	(1.6)	*3.7%*	(0.3)	*n.s.*	(2.7)	(191.0)	*(98.6%)*
Other non-recurring gains/(losses)	0.1	-	*n.s.*	(0.1)	*n.s.*	-	5.0	*(1.0) p.p.*
EBIT	**27.5**	**15.9**	*72.9%*	**35.5**	*(22.4%)*	**71.8**	**(161.0)**	*n.s.*
Net finance cost	(1.9)	(4.2)	*(55.1%)*	(3.5)	*(46.1%)*	(6.4)	(8.9)	*(27.7%)*
Other financial results	1.5	1.1	*28.2%*	1.5	*(0.8%)*	3.5	2.6	*35.0%*
Profit before tax	**27.1**	**12.9**	*110.5%*	**33.5**	*(18.9%)*	**68.9**	**(167.2)**	*n.s.*
Income tax	(3.5)	(5.1)	*(30.3%)*	(1.4)	*146.3%*	(4.9)	(18.6)	*(73.8%)*
Net Income	**23.6**	**7.8**	*201.6%*	**32.0**	*(26.3%)*	**64.0**	**(185.9)**	*n.s.*

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a cash outflow of €5.2m in 3Q22 and of €16.5m in 9M22, compared to inflows €0m and €3m in the same periods of 2021, respectively. For the fourth quarter of 2022, Ence has arranged hedges over a notional amount of $39m with a weighted average ceiling of $/€1.16 and a weighted average floor of $/€1.13.

FX Hedges	4Q22	1Q23	2Q23	3Q23
Nominal hedged (USD Mn)	**39.0**	25.0	15.0	15.0
Average cap (USD / EUR)	**1.16**	1.14	1.12	1.08
Average floor (USD / EUR)	**1.13**	1.11	1.03	1.00

2021 was also affected by pulp price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €21.3m and €31.4m in 3Q21 and 9M21, respectively.

Lastly, the effect of the regulatory collar on energy sales implied the recognition of a provision (with no impact on cash flows in either period) of €4m in 3Q22 and €19.1m in 9M22.

Below the EBITDA line, depreciation and amortisation charges declined by 16.8% year-on-year to €31.5m in 9M22, due mainly to the impairment losses recognised against assets associated with the Pontevedra biomill in 2Q21; forest reserve depletion charges decreased by 39.6% to €5.2m.

"Impairment of and gains/(losses) on fixed asset disposals", in the amount of €2.7m in 9M22, mainly reflects the impairment of maintenance-related investments recognised at the Pontevedra biomill, whereas the €191m recognised in 9M21 included the impairment charges and provisions recognised in the wake of the National Court sentences annulling the extension of the Pontevedra biomill concession until 2073.

Net finance costs decreased by 55.1% year-on-year in 3Q22 to €1.9m and by 27.7% year-on-year to €6.4m in 9M22, driven by interest savings derived from convertible bond buybacks (52%). Other finance income presents the effect of movements in exchange rates on working capital during the period: a net gain of €3.5m in 9M22, up 35% year-on-year.

Lastly, tax expense amounted to just €4.9m in 9M22, compared to €18.6m in 9M21, thanks to the utilisation of tax credits related with the impairment losses recognised in the Pontevedra biomill in 2021.

As a result, the Pulp business reported a net profit of €23.6m in 3Q22 and of €64m in 9M22, compared to a net loss of €185.9m in 9M21, shaped largely by the impairment losses and provisions recognised last year in connection with the biomill in Pontevedra.

2.7. Cash flow analysis

Operating cash flow totalled €74m in 3Q22 and €118.9m in 9M22, compared to €36.4m in 3Q21 and €49.7m in 9M21. In the third quarter, the growth in EBITDA was complemented by a lower working capital required derived from the temporary suspension of operations in Pontevedra.

Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
EBITDA	**41.4**	**30.5**	*35.8%*	**49.0**	*(15.6%)*	**111.2**	**71.4**	*55.6%*
Energy regulation adjustment (regullatory collar)	3.7	10.9	*(65.8%)*	7.8	*(52.4%)*	18.1	10.8	*67.4%*
Other adjustments	4.5	7.6	*(40.4%)*	4.2	*8.1%*	1.7	4.4	*(61.8%)*
Change in working capital	26.5	(10.4)	*n.s.*	(22.7)	*n.s.*	(4.7)	(30.9)	*(84.7%)*
Income tax received / (paid)	-	-	*n.s.*	(1.9)	*(100.0%)*	(1.9)	-	*n.s.*
Net interest received / (paid)	(2.1)	(2.2)	*(2.5%)*	(1.1)	*97.1%*	(5.4)	(6.0)	*(10.1%)*
Net cash flow from operating activities	**74.0**	**36.4**	*103.4%*	**35.3**	*109.8%*	**118.9**	**49.7**	*139.1%*

Working capital movements implied a net cash inflow of €26.5m in 3Q22, driven mainly by the drop in trade receivables as a result of the temporary suspension of operations in Pontevedra, partially offset by the increase in inventories. In 9M22, working capital movements implied a net cash outflow of just €4.7m, compared to an outflow of €30.9m in 9M21, driven by the impact of higher pulp prices on the trade receivables balance. In addition, accounts payable reflects the accumulation of balances due payment to the electricity market watchdog, pending publication of the corresponding ministerial order, in the amount of €19.2m.

Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Inventories	(16.4)	(4.1)	*n.s.*	8.3	*n.s.*	(7.8)	2.2	*n.s.*
Trade and other receivables	22.5	(9.7)	*n.s.*	(48.1)	*n.s.*	(6.3)	(40.7)	*(84.4%)*
Financial and other current assets	0.5	1.3	*(58.4%)*	0.6	*(15.5%)*	1.2	1.4	*(18.4%)*
Trade and other payables	19.8	2.2	*n.s.*	16.4	*20.8%*	8.2	6.1	*34.4%*
Change in working capital	**26.5**	**(10.4)**	*n.s.*	**(22.7)**	*n.s.*	**(4.7)**	**(30.9)**	*(84.7%)*

At 30 September 2022, the Pulp business had drawn down €49.5m under its non-recourse receivable discounting facilities, down from €53.7m at year-end 2021.

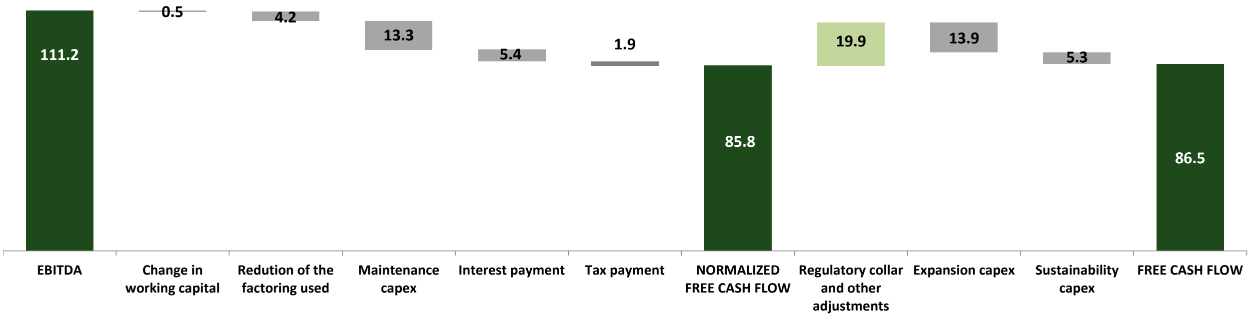
Ence has also arranged several reverse factoring facilities, which were drawn down by €78.6m at the September close, compared to €79.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not entail financial cost.

Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Maintenance capex	(3.4)	(2.6)	*31.6%*	(5.4)	*(37.4%)*	(13.3)	(7.8)	*69.8%*
Sustainability capex and other	(1.2)	(3.0)	*(58.7%)*	(2.1)	*(39.9%)*	(5.3)	(12.7)	*(58.3%)*
Efficiency and expansion capex	(2.4)	(2.5)	*(3.1%)*	(3.7)	*(35.2%)*	(13.9)	(24.9)	*(44.3%)*
Financial investments	(0.0)	0.0	*n.s.*	(0.0)	*(56.7%)*	(0.0)	(0.0)	*46.4%*
Investments	**(7.0)**	**(8.1)**	*(12.6%)*	**(11.2)**	*(37.2%)*	**(32.5)**	**(45.5)**	*(28.5%)*
Disposals	0.1	-	*n.s.*	0.0	*n.s.*	0.1	0.4	*(74.6%)*
Net cash flow used in investing activities	**(6.9)**	**(8.1)**	*(13.8%)*	**(11.2)**	*(38.1%)*	**(32.4)**	**(45.1)**	*(28.1%)*

Maintenance capex amounted to €3.4m in 3Q22 and €13.3m in 9M22, while sustainability capex was lower year-on-year at €1.2m in 3Q22 and €5.3m in 9M22. The sustainability investments were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term.

Investments in efficiency and growth amounted to €2.4m in 3Q22 and €13.9m in 9M22. Those investments are mainly related to the final payments for the capacity added in 2019 and the purchase of new equipment to increase wood-cutting capacity in Galicia.

As a result, normalised free cash flow in the Pulp business amounted to €85.9m in 9M22, while free cash flow net of the restatement for the regulatory collar and efficiency, growth and sustainability capex came in at €86.5m.



2.8. Change in net debt

The Pulp business ended September with net cash of €74.6m, compared to net cash of €19.5m at year-end 2021. The main movements during the period included dividend payments totalling €44.7m and partial repayment to the Pulp business of an intragroup loan by the Renewable Energy business in the amount of €19.5m.

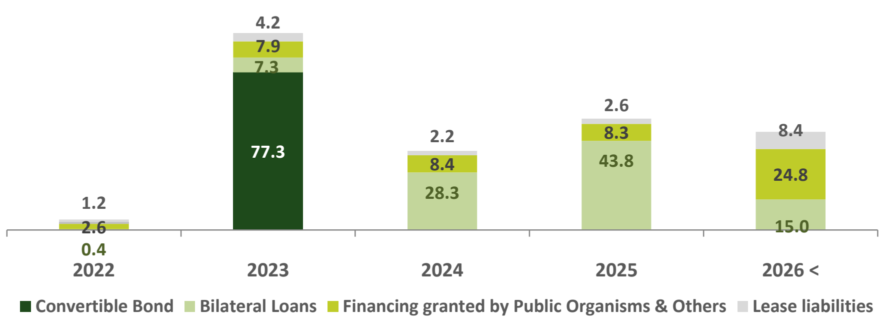
Figures in € m	Sep-22	Dec-21	Δ%
Non-current financial debt	130.9	276.5	*(52.7%)*
Current financial debt	93.2	12.6	*n.s.*
Gross financial debt	**224.1**	**289.1**	*(22.5%)*
Non-current lease contracts	14.2	12.8	*10.9%*
Current lease contracts	4.3	3.6	*19.8%*
Financial liabilities related to lease contracts	**18.6**	**16.4**	*12.8%*
Cash and cash equivalents	311.9	318.5	*(2.1%)*
Short-term financial investments	5.4	6.6	*(17.8%)*
Net financial debt Pulp business	**(74.6)**	**(19.5)**	*n.s.*

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 €317.3m. That balance includes balances due payment to the electricity market watchdog, pending publication of the corresponding ministerial order, in the amount of €19.2m.

Ence prepaid €10m of bilateral loans, reduced its use of receivable discounting lines by €4.2m and repurchased €51.3m of convertible bonds during the first nine months of the year, having repurchased €82.6m to date.

The gross debt of €242.7m at 30 September 2022 corresponds mainly to the €77.3m of convertible bonds (adjusted for the value of the equity component and the bonds bought back) due March 2023, the outstanding balance of €94.9m on bilateral loans and a series of loans totalling €51.9m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. Finance lease liabilities stood at €18.6m at the September close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



3. RENEWABLE ENERGY BUSINESS (MAGNON GREEN ENERGY)

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

Additionally, Magnon has a pipeline of 140 MW of biomass projects and 673 MW of photovoltaic projects, as well as other opportunities under analysis. In December 2021, Magnon agreed to sell 373 MW of its photovoltaic projects under development for up to €62m. Of that portfolio, 240 MW already have the corresponding environmental and administrative permits and their sale is expected in 2023. The full permitting and sale of the remaining 133 MW is expected to complete in 2024. In addition, Magnon has another 300 MW of photovoltaic projects in southern Spain at an earlier stage of development.

As for the biomass pipeline, 90 MW already have the corresponding environmental permits and the remaining 50 MW are expected to obtain them in 2023. In the first biomass auction, held on 25 October, auctioning off 140 MW of capacity, Magnon took a cautious approach in the current context of widespread inflation in raw materials. Another two biomass capacity auctions, encompassing combined capacity of 240 MW, are slated for 2023 and 2025 and the National Energy Plan includes another 415 MW before 2030.

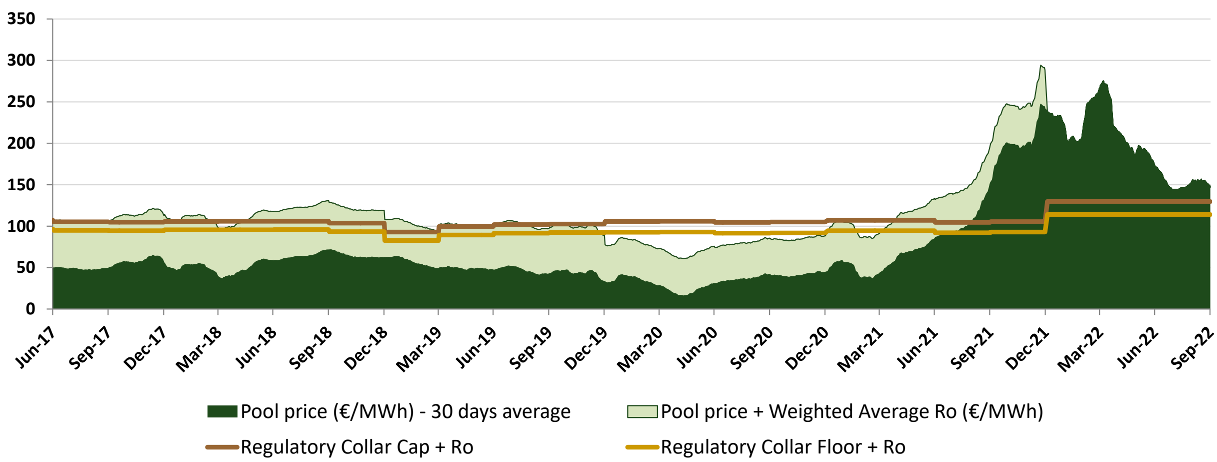
3.1. Electricity market trends

Electricity pool prices averaged €146.2/MWh in 3Q22 and €205.6/MWh in 9M22, which is 23.7% and 124.6% above the 3Q21 and 9M21 levels.

Market figures	**3Q22**	3Q21	*Δ%*	2Q22	*Δ%*	9M22	9M21	*Δ%*
Average pool price (€/MWh)	146.2	118.2	*23.7%*	182.8	*(20.0%)*	185.8	82.7	*124.6%*

Source: OMIE

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



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

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

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

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

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

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

Ence's 9M22 results already factor in the estimated impact of those measures, specifically management's current estimate that the pool price estimated by the regulator for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh; since that price is higher than the cost of operating a standard facility, the remuneration for operations parameter will not apply.

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

3.3. Revenue from energy sales

Energy sales volumes amounted to 366,723 MWh in 3Q22 and 1,198,847 MWh in 9M22, year-on-year growth of 6.4% and 18.7%, respectively, boosted by a favourable comparison due to the breakdown of the 50-MW turbine in Huelva in 2021.

However, energy sales volumes declined by 4.1% year-on-year in the third quarter, mainly as a result of reduced availability of olive pomace due to the impact of higher gas prices at the co-generation facilities where it is produced. It is likely that the current situation of scarcity could continue for the coming months.

Operating figures	**3Q22**	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Huelva 41 MW - Biomass	39,160	52,860	*(25.9%)*	44,786	*(12.6%)*	136,110	138,701	*(1.9%)*
Jaén 16 MW - Biomass	19,103	23,284	*(18.0%)*	21,302	*(10.3%)*	66,556	66,915	*(0.5%)*
Ciudad Real 16 MW - Biomass	18,772	25,843	*(27.4%)*	23,484	*(20.1%)*	67,495	75,326	*(10.4%)*
Córdoba 27 MW - Biomass	24,359	49,290	*(50.6%)*	37,223	*(34.6%)*	109,923	143,899	*(23.6%)*
Huelva 50 MW - Biomass	91,026	-	*n.s.*	88,684	*2.6%*	274,880	39,336	*n.s.*
Mérida 20 MW - Biomass	36,597	41,726	*(12.3%)*	30,273	*20.9%*	108,416	112,978	*(4.0%)*
Huelva 46 MW - Biomass	67,315	75,793	*(11.2%)*	67,194	*0.2%*	209,896	212,217	*(1.1%)*
Ciudad Real 50 MW - Biomass	70,392	75,992	*(7.4%)*	69,494	*1.3%*	216,571	212,871	*1.7%*
Energy sales (MWh)	**366,723**	**344,787**	*6.4%*	**382,440**	*(4.1%)*	**1,189,847**	**1,002,242**	*18.7%*
Average sales price - Pool + Collar + Ro (€/MWh)	137.2	68.9	*99.2%*	128.3	*7.0%*	138.7	88.7	*56.3%*
Remuneration for investment (€m)	10.2	8.8	*16.1%*	10.2	-	30.7	29.3	*4.8%*
Revenue (€ m)	**60.6**	**32.8**	*84.9%*	**59.4**	*2.0%*	**196.2**	**118.8**	*65.1%*

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

Average sales prices jumped by 99.2% and 56.3% year-on-year in 3Q22 and 9M22 to €137.2/MWh and by €138.7/MWh, respectively, driven by higher pool prices fetched by the plants that are not subject to the regulatory collar ceiling, as well as the updated remuneration parameters applicable in 2022. Moreover, average sales prices in the same periods of 2021 were adversely affected by the electricity price hedges arranged exceptionally in 2020, during the pandemic.

As a result, revenue from energy sales, factoring in remuneration for investment, increased by 84.9% year-on-year to €60.6m in 3Q22 and by 65.1% to €196.2m in 9M22.

3.4. Statement of profit or loss

The growth in generation volumes together with higher average sales prices continued to lift EBITDA in the Renewable Energy business, to €17.7m in 3Q22 and €96.3m in 9M22, including the reversal of the €39.6m regulatory collar provision recognised in 2Q22. Recall that settlement of the electricity price hedges arranged exceptionally during the pandemic had a negative impact of €15.1m in 3Q21 and of €19.7m in 9M21.

At the June 2022 close, in order to test them for impairment, the Group assessed the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount (Huelva-41 MW, Jaen 16-MW, Ciudad Real 16-MW and Cordoba 14-MW) as a result of recovering most of their regulatory value via existing and estimated pool prices in 2022. As a result, the Group recognised impairment charges of €35.5m against the plants' carrying amount, which were offset by reversal of €39.6m of the regulatory collar provided for, none of which had any impact on cash flow generation during the period.

Figures in € m	**3Q22**	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Revenues from energy sales	60.6	32.8	*84.9%*	59.4	*2.0%*	196.2	118.8	*65.1%*
Reversal of the regulatory collar provision	-	-	*n.s.*	39.6	*(100.0%)*	39.6	-	*n.s.*
Total revenue	**60.6**	**32.8**	*84.9%*	**99.1**	*(38.8%)*	**235.8**	**118.8**	*98.5%*
EBITDA	**17.7**	**(3.6)**	*n.s.*	**52.9**	*(66.5%)*	**96.3**	**14.4**	*n.s.*
Depreciation and amortisation	(15.5)	(9.0)	*71.8%*	(10.0)	*55.6%*	(35.5)	(27.9)	*27.3%*
Impairment of and gains/(losses) on fixed-asset disposals	-	(0.1)	*(100.0%)*	(37.0)	*(100.0%)*	(37.0)	(0.3)	*n.s.*
EBIT	**2.2**	**-12.7**	*n.s.*	**5.9**	*(62.6%)*	**23.8**	**(13.9)**	*n.s.*
Net finance cost	(3.8)	(3.1)	*22.8%*	(4.7)	*(20.6%)*	(12.9)	(8.9)	*46.2%*
Other finance income/(cost)	(0.0)	0.5	*n.s.*	0.2	*n.s.*	0.3	0.8	*(64.6%)*
Profit before tax	**(1.5)**	**(15.2)**	*(89.8%)*	**1.4**	*n.s.*	**11.1**	**(22.0)**	*n.s.*
Income tax	(0.2)	3.8	*n.s.*	(3.6)	*(94.7%)*	(7.5)	4.4	*n.s.*
Net Income	**(1.7)**	**(11.5)**	*(84.8%)*	**(2.3)**	*(23.2%)*	**3.6**	**(17.6)**	*n.s.*
Non-controlling interests	(0.9)	(0.1)	*n.s.*	0.2		0.1	(0.7)	*n.s.*
Atributable Net Income	**(2.6)**	**(11.6)**	*(77.4%)*	**(2.1)**	*27.1%*	**3.7**	**(18.4)**	*n.s.*

Depreciation charges increased by 71.8% and 27.3% year-on-year to €15.5m and €35.5m, respectively, following the adjustment of the estimated useful lives of certain plants in light of current and forecast electricity prices in the pool market in 2022 and beyond.

The year-on-year increase in net finance costs (of 22.8% to €3.8m in 3Q22 and of 46.2% to €12.9m in 9M22) mainly reflects the unwind of the regulatory collar provision, with no impact on cash flow.

Income tax of €7.5m in 9M22 includes the tax effect of the above-mentioned impairment losses.

As a result, the Renewable Energy business posted a net profit of €3.7m in 9M22, compared to a loss of €18.4m in 9M21.

3.5. Cash flow analysis

Operating cash flow totalled €51.4m in 3Q22 and €165m in 9M21, compared to €4.7m in 3Q21 and €8.2m in 9M21. On top of the growth in EBITDA, the business's working capital requirement fell sharply as a result of the balances pending settlement to the electricity market watchdog.

Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
EBITDA	**17.7**	**(3.6)**	*n.s.*	**52.9**	*(66.5%)*	**96.3**	**14.4**	*n.s.*
Energy regulation adjustment (regulatory collar)	3.1	16.9	*(81.4%)*	(21.6)	*n.s.*	15.2	18.1	*(15.9%)*
Other adjustments	0.3	1.1	*(75.6%)*	(0.4)	*n.s.*	0.8	4.3	*(82.3%)*
Change in working capital	32.7	(11.9)	*n.s.*	27.6	*18.2%*	67.3	(15.2)	*n.s.*
Income tax received / (paid)	-	(6.6)	*(100.0%)*	(2.5)	*(100.0%)*	(2.5)	(6.4)	*(61.5%)*
Net interest received / (paid)	(2.4)	(0.6)	*n.s.*	(6.5)	*(63.1%)*	(12.2)	(7.0)	*75.0%*
Net cash flow from operating activities	**51.4**	**(4.7)**	*n.s.*	**49.5**	*3.8%*	**165.0**	**8.2**	*n.s.*

The difference between actual and regulated electricity prices (the regulatory collar), which does not impact the statement of profit or loss but does affect the statement of cash flows, had a positive impact of €3.1m in 3Q22 and of €15.2m in 9M22, compared inflows of €16.9m and €18.1m in 3Q21 and 9M21, respectively.

Working capital movements implied a cash inflow of €32.7m in 3Q22 and of €67.3m in 9M22, mainly due to the increase in accounts payable as a result of the accumulation of balances payable to the electricity market watchdog, in the amount of €51.3m as of the close, pending publication of the corresponding ministerial order.

Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Inventories	(0.2)	(0.2)	*6.6%*	(2.3)	*(91.5%)*	(1.4)	(6.6)	*(79.0%)*
Trade and other receivables	(4.2)	1.0	*n.s.*	(7.8)	*(46.3%)*	6.0	6.4	*(6.4%)*
Current financial and other assets	(2.0)	(0.1)	*n.s.*	-	*n.s.*	(2.0)	(0.1)	*n.s.*
Trade and other payables	39.1	(12.6)	*n.s.*	37.7	*3.6%*	64.7	(14.9)	*n.s.*
Change in working capital	**32.7**	**(11.9)**	*n.s.*	**27.6**	*18.2%*	**67.3**	**(15.2)**	*n.s.*

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

The Company has also arranged several non-recourse reverse factoring facilities, which were drawn down by €21m at the September close, compared to €18.1m at year-end 2021. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not entail financial cost.

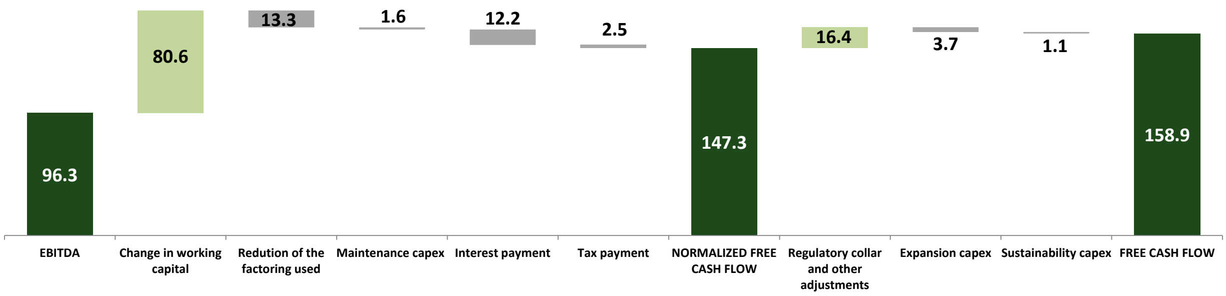
Figures in € m	3Q22	3Q21	Δ%	2Q22	Δ%	9M22	9M21	Δ%
Maintenance capex	(0.5)	(0.5)	*0.5%*	(0.4)	*21.6%*	(1.6)	(2.8)	*(41.9%)*
Sustainability capex and other	(0.4)	(1.1)	*(61.8%)*	(0.3)	*44.5%*	(1.1)	(2.4)	*(54.2%)*
Efficiency and expansion capex	(0.7)	(2.3)	*(70.0%)*	(1.9)	*(63.6%)*	(3.7)	(8.9)	*(58.1%)*
Financial investments	-	-	*n.s.*	0.0	*(100.0%)*	-	(0.1)	*(100.0%)*
Investments	**(1.6)**	**(3.9)**	*(58.3%)*	**(2.6)**	*(37.5%)*	**(6.4)**	**(14.2)**	*(54.5%)*
Disposals	-	-	*n.s.*	-	*n.s.*	0.4	-	*n.s.*
Net cash flow from investing activities	**(1.6)**	**(3.9)**	*(58.3%)*	**(2.6)**	*(37.5%)*	**(6.1)**	**(14.2)**	*(57.2%)*

Maintenance capex was flat at €0.5m in 3Q22 and declined to €1.6m in 9M22, while sustainability capex was lower year-on-year at €0.4m in 3Q22 and €1.1m in 9M22.

Lastly, investments in efficiency and growth declined to €0.7m in 3Q22 and €3.7m in 9M22 and mainly related to small investments designed to render the various plants more efficient, as well as other projects under development.

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

As a result, normalised free cash flow in the Renewable Energy business amounted to €147.3m in 9M22, while free cash flow, after the regulatory collar and efficiency, growth and sustainability capex, came in at €158.9m.



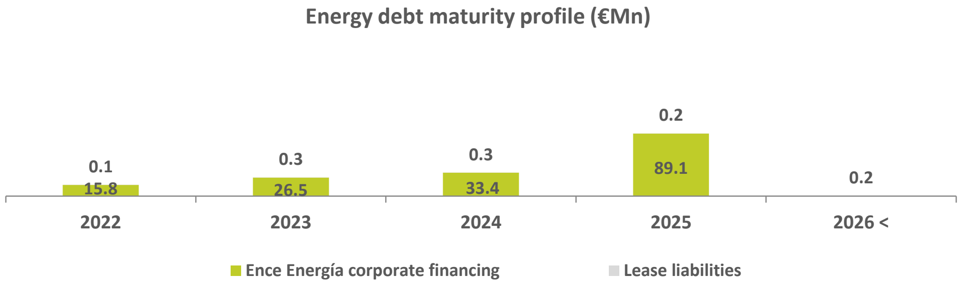
3.6. Change in net debt

Net debt in the Renewable Energy business decreased by €118.6m from year-end 2021 to €2.6m at the September close, following the partial repayment of intragroup borrowings in the amount of €38.5m.

Figures in € m	Sep-22	Dec-21	Δ%
Non-current financial debt	134.1	162.2	*(17.3%)*
Current financial debt	30.7	29.4	*4.5%*
Gross financial debt	**164.8**	**191.6**	*(14.0%)*
Non-current lease contracts	0.7	0.7	*(6.8%)*
Current lease contracts	0.5	0.4	*29.4%*
Financial liabilities related to lease contracts	**1.2**	**1.1**	*5.4%*
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	151.4	61.5	*146.2%*
Short-term financial investments	2.0	0.0	
Net financial debt Renewable Energy business	**2.6**	**121.2**	*(97.8%)*

Gross debt in this business ended the third quarter at €166m and was all non-current.

At the reporting date, the Renewable Energy business had cash and cash equivalents of €163.4m. That balance includes balances due payment to the electricity market watchdog, pending publication of the corresponding ministerial order, in the amount of €51.3m.



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

	9M22				9M21			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**553.8**	**235.8**	**(2.5)**	**787.1**	**471.8**	**118.8**	**(2.1)**	**588.5**
Other income	15.9	6.0	(0.8)	21.1	8.4	6.8	(1.2)	14.0
Foreign exchange hedging operations results	(16.5)	-	-	(16.5)	(41.9)	-	-	(41.9)
Cost of sales and change in inventories of finished products	(249.2)	(76.2)	2.5	(322.8)	(207.3)	(50.8)	2.0	(256.1)
Personnel expenses	(54.9)	(12.9)	-	(67.9)	(52.3)	(9.9)	-	(62.2)
Other operating expenses	(137.8)	(56.4)	0.8	(193.4)	(107.2)	(50.6)	1.2	(156.6)
EBITDA	**111.2**	**96.3**	**-**	**207.5**	**71.4**	**14.4**	**-**	**85.8**
Depreciation and amortisation	(31.5)	(35.5)	0.6	(66.4)	(37.9)	(27.8)	2.1	(63.6)
Depletion of forestry reserves	(5.2)	(0.0)	-	(5.2)	(8.5)	(0.1)	-	(8.7)
Impairment of and gains/(losses) on fixed-asset disposals	(2.7)	(37.0)	0.7	(39.0)	(191.0)	(0.3)	-	(191.4)
Other non-ordinary operating gains/(losses)	-	-	-	-	5.0	-	-	5.0
EBIT	**71.8**	**23.8**	**1.3**	**96.9**	**(161.0)**	**(13.9)**	**2.1**	**(172.8)**
Net finance cost	(6.4)	(12.9)	-	(19.3)	(8.9)	(8.9)	-	(17.7)
Other finance income/(costs)	3.5	0.3	-	3.8	2.6	0.8	-	3.3
Profit before tax	**68.9**	**11.1**	**1.3**	**81.3**	**(167.2)**	**(22.0)**	**2.1**	**(187.1)**
Income tax	(4.9)	(7.5)	(0.1)	(12.5)	(18.6)	4.4	3.4	(10.9)
Net Income	**64.0**	**3.6**	**1.2**	**68.8**	**(185.9)**	**(17.6)**	**5.5**	**(198.0)**
Non-controlling interests	-	0.1	-1.9	(1.8)	-	(0.7)	5.7	4.9
Atributable Net Income	**64.0**	**3.7**	**(0.7)**	**67.0**	**(185.9)**	**(18.4)**	**11.1**	**(193.1)**
Earnings per Share (EPS)	0.26	0.02	-	0.28	(0.76)	(0.08)	0.05	(0.79)

4.2. Statement of financial position

	Sep - 22				Dic. - 21			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	13.1	35.3	(12.9)	35.6	13.2	38.1	(13.3)	37.9
Property, plant and equipment	431.8	394.3	(8.7)	817.4	436.9	456.3	(9.6)	883.6
Biological assets	57.7	0.1	-	57.8	59.6	0.1	-	59.7
Non-current investments in Group companies	112.5	0.0	(112.5)	0.0	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	18.6	-	(18.6)	-	38.3	-	(38.3)	-
Non-current financial assets	15.3	4.6	-	19.9	14.6	1.9	-	16.5
Deferred tax assets	19.4	23.5	3.2	46.2	20.1	22.1	3.3	45.6
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
Total non-current assets	**668.3**	**468.0**	**(149.4)**	**986.9**	**695.2**	**528.5**	**(170.4)**	**1,053.3**
Inventories	62.9	12.8	-	75.6	53.6	12.1	-	65.7
Trade and other accounts receivable	77.9	37.6	(22.8)	92.7	70.2	42.2	(17.5)	94.9
Income tax	1.5	0.2	-	1.8	1.5	0.3	-	1.8
Other current assets	15.9	0.9	-	16.9	10.7	(0.0)	-	10.7
Current financial investments in Group companies	0.2	0.0	(0.2)	0.0	-	0.0	-	0.0
Current financial investments	5.4	2.0	-	7.4	6.6	0.0	-	6.6
Cash and cash equivalents	311.9	151.4	-	463.2	318.5	61.5	-	380.0
Total current assets	**475.7**	**205.0**	**(23.0)**	**657.7**	**461.1**	**116.1**	**(17.5)**	**559.7**
TOTAL ASSETS	**1,144.1**	**672.9**	**(172.4)**	**1,644.6**	**1,156.2**	**644.6**	**(187.9)**	**1,613.0**
Equity	**555.5**	**226.5**	**(130.9)**	**651.2**	**539.0**	**218.6**	**(132.1)**	**625.5**
Non-current borrowings	145.2	134.8	-	279.9	289.4	162.9	-	452.3
Non-current loans with Group companies and associates	-	36.4	(18.6)	17.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	-	-	2.2	-	2.2
Deferred tax liabilities	0.3	0.1	-	0.4	-	-	-	-
Non-current provisions	51.9	0.6	-	52.5	51.1	0.1	-	51.2
Other non-current liabilities	43.4	79.7	-	123.1	23.7	68.0	-	91.8
Total non-current liabilities	**240.8**	**251.5**	**(18.6)**	**473.7**	**364.2**	**308.4**	**(38.3)**	**634.2**
Current borrowings	97.5	31.2	-	128.7	16.2	29.8	-	46.0
Current derivatives	9.7	(0.1)	-	9.7	7.0	2.6	-	9.6
Trade and other account payable	220.2	150.3	(22.8)	347.7	213.7	81.3	(17.5)	277.5
Short-term debts with group companies	0.0	0.4	(0.2)	0.2	0.0	1.3	-	1.3
Income tax	3.8	10.6	-	14.4	0.0	0.1	-	0.1
Current provisions	16.6	2.3	-	18.9	16.1	2.7	-	18.8
Total current liabilities	**347.7**	**194.9**	**(23.0)**	**519.6**	**253.0**	**117.7**	**(17.5)**	**353.2**
TOTAL EQUITY AND LIABILITIES	**1,144.1**	**672.9**	**(172.4)**	**1,644.6**	**1,156.2**	**644.6**	**(187.9)**	**1,613.0**

4.3. Statement of cash flows

	9M22				9M21			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	**68.9**	**11.1**	**1.3**	**81.3**	**(167.2)**	**(22.0)**	**2.1**	**(187.1)**
Depreciation and amortisation	36.7	35.5	(0.6)	71.6	46.4	27.9	(2.1)	72.2
Changes in provisions and other deferred expense	1.5	0.9	-	2.4	(0.8)	4.6	-	3.8
Impairment of gains/(losses) on disposals intangible asset	2.7	37.0	(0.7)	39.0	191.0	0.3	-	191.4
Net finance result	3.9	12.6	-	16.6	6.9	8.1	-	15.0
Energy regulation adjustment (regulatory collar)	18.1	15.2	-	33.4	10.8	18.1	-	28.9
Government grants taken to income	(0.4)	(0.1)	-	(0.5)	(0.5)	(0.2)	-	(0.7)
Adjustments to profit	**62.6**	**101.2**	**(1.3)**	**162.4**	**253.9**	**58.8**	**(2.1)**	**310.6**
Inventories	(7.8)	(1.4)	-	(9.2)	2.2	(6.6)	-	(4.4)
Trade and other receivables	(6.3)	6.0	5.2	4.9	(40.7)	6.4	-	(34.3)
Current financial and other assets	1.2	(2.0)	-	(0.8)	1.4	(0.1)	-	1.3
Trade and other payables	8.2	64.7	(5.2)	67.6	6.1	(14.9)	-	(8.8)
Changes in working capital	**(4.7)**	**67.3**	**-**	**62.6**	**(30.9)**	**(15.2)**	**-**	**(46.1)**
Interest paid	(5.4)	(12.2)	-	(17.6)	(6.0)	(7.0)	-	(13.0)
Dividends received	-	-	-	-	0.0	(0.0)	-	0.0
Income tax received/(paid)	(1.9)	(2.5)	-	(4.3)	-	(6.4)	-	(6.4)
Other collections/(payments)	(0.4)	-	-	(0.4)	-	-	-	(0.0)
Other cash flows from operating activities	**(7.8)**	**(14.6)**	**-**	**(22.4)**	**(6.0)**	**(13.4)**	**-**	**(19.4)**
Net cash flow from operating activities	**118.9**	**165.0**	**-**	**283.9**	**49.7**	**8.2**	**-**	**57.9**
Property, plant and equipment	(30.3)	(6.3)	-	(36.6)	(44.1)	(14.0)	-	(58.1)
Intangible assets	(2.1)	(0.2)	-	(2.3)	(1.3)	(0.1)	-	(1.4)
Other financial assets	(0.0)	-	-	(0.0)	(0.0)	(0.1)	-	(0.1)
Disposals	0.1	0.4	-	0.5	0.4	-	-	0.4
Net cash flow used in investing activities	**(32.4)**	**(6.1)**	**-**	**(38.5)**	**(45.1)**	**(14.2)**	**-**	**(59.2)**
Free cash flow	**86.5**	**158.9**	**-**	**245.4**	**4.7**	**(6.0)**	**-**	**(1.3)**
Buyback/(disposal) of own equity instruments	1.1	-	-	1.1	(2.4)	-	-	(2.4)
Proceeds from and repayments of financial liabilities	(49.5)	(68.0)	-	(117.5)	(143.8)	(17.0)	-	(160.8)
Dividends payments	(44.7)	(1.0)	-	(45.7)	-	(0.6)	-	(0.6)
Net cash flow from/ (used in) financing activities	**(93.1)**	**(69.0)**	**-**	**(162.2)**	**(146.2)**	**(17.6)**	**-**	**(163.8)**
Net increase/(decrease) in cash and cash equivalents	**(6.6)**	**89.9**	**-**	**83.3**	**(141.5)**	**(23.6)**	**-**	**(165.1)**

5. KEY DEVELOPMENTS

Temporary suspension of operations at the Pontevedra biomill

Operations at Ence's biomill in Pontevedra were halted on 20 July when the flow of the Lérez River fell below environmentally-safe levels (as notified in an 'other relevant information' notice filed on 22 July under #17506).

Ence has developed an innovative solution to enable it to regenerate its own wastewater as well as the wastewater from the treatment facility adjacent to the biomill (in Placeres) for use in its pulp production process in drought situations.

The bio-mill is expected to initiate its ramp-up process around the second week of November, combining this innovative solution in its testing phase and minimizing the river water consumption. The ramp-up process will take place gradually, once the necessary permits have been obtained and the maintenance and repair works on the water collection infrastructure are finalized following its downtime period. Its normalized production rate is expected to be reached by the second week of December.

The impact of the temporary suspension of operations in Pontevedra on third-quarter EBITDA is estimated at €30.6m. Assuming the gradual ramp-up of the biomill from the second week of November, an additional impact on fourth-quarter EBITDA of €32m is expected, including the additional production cost for using the new solution.

Note that those impacts are being mitigated by the increase in pulp prices and more favourable exchange rate trends in the second half, such that second-half EBITDA in the Pulp business is expected to be similar to the first half.

Spain's Supreme Court delays its scheduled ruling on the appeals lodged against the National Appellate Court rulings annulling the extension of the concession in Pontevedra until 2073

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

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

On 12 July 2022, the Supreme Court notified the various parties that it planned to vote and rule on the first appeal on 4 October 2022. However, subsequently it announced its decision to delay that ruling so as to vote and rule on similar appeals. It is foreseeable that it will rule on those appeals in the coming months.

Third interim dividend against 2022 profit

On 27 October, the Board agreed to pay out a third interim dividend from 2022 profits totalling €22m, or €0.09 per share (before tax withholdings), on 15 November 2022, in addition to the €32m paid out in August and the €13m already distributed in May (equivalent to €0.184 per share).

Under the Group's dividend policy, Ence will pay out a final dividend from 2022 earnings which will be determined at the Annual General Meeting, initially scheduled for 31 March 2023.

Creation of a new subsidiary for the production and selling of biogas

More recently, Ence has set up a subsidiary to analyse the potential for obtaining biogas from organic waste for subsequent sale.

This is a new business line based on the circular bioeconomy principles that already underpin its two core businesses. The growth potential for this business in Spain is significant and this endeavour fits well with the Group's renewable energy diversification strategy.

Project for the production of recycled fibre in As Pontes

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

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

The project consists of a fibre recovery line with annual capacity of 100,000 tonnes, a certified biomass co-generation facility that would cover the factory’s heat and electricity requirements and a line for the manufacture of 30,000 tonnes of paper products.

The idea would be to build the three components in phases. The project would entail total investment of €355m (€125m for the fibre recovery line; €155m for the biomass co-generation plant; and €75m for the paper product line).

Capital Markets Day 2022

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

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

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

2022 Annual General Meeting

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

- ✓ Approval of the 2021 financial statements, management report and sustainability report and of the motion for the appropriation of profit for 2021
- ✓ Approval of the Board of Directors’ performance and the Director Remuneration Policy for 2022, 2023 and 2024
- ✓ Re-election of Irene Hernández Álvarez as independent director
- ✓ Re-election of Fernando Abril-Martorell as external director
- ✓ Re-election of José Guillermo Zubía Guinea as external director
- ✓ Appointment of Ángel Agudo Valenciano as proprietary director, in representation of Asua Inversiones S.L.
- ✓ Appointment of Carmen Aquerreta Ferraz as independent director

- ✓ Appointment of Rosalía Gil- Albarellos Marcos as independent director
- ✓ Amendment of the Bylaws and General Meeting Regulations
- ✓ Authorisation of the Board of Directors to buy back own shares and debt instruments

APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

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

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

1. People and values

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

In terms of the generation of **quality work**, note that as of September 2022, 93.49% of Ence employees had indefinite employment contracts and 98.35% were working full time.

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

On the **talent development** front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. In 3Q22, it promoted 52 professionals, 16 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 nine months of 2022, the Company imparted 14,976 hours of training, adapting the formats to make them compatible with remote working arrangements. It is currently focusing strategically on training in the areas of compliance, leadership development with a focus on empowerment and autonomy, health and safety and digital transformation.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by over 3.21% so far in 2022 to account for 25.07% of the workforce as of the September close. Moreover, so far in 2022, 49% of new positions have been covered by women.

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

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

Note that the current situation at the Pontevedra biomill has prompted the negotiation of a furlough scheme covering that place of work.

2. Climate action

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

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills. In 2021, the Company implemented the measures established in those plans, beginning with the replacement of fossil fuel (coke) with biomass at the Pontevedra biomill and consolidation of operation of the photovoltaic facilities put in place to enable self-generation at the Merida and Huelva plants. As a result, the Group managed to lower its scope 1 GHG emissions by 9% year-on-year in 2021. However, so far in 2022, that positive trend has reversed due to the exceptional circumstances shaping the energy market as a result of the war in Ukraine. Specifically, the surge in natural gas prices and the potential risk of supply disruption prompted Ence to decide in December 2021 to switch the fuel used to feed the lime kilns at the Navia biomill from natural gas to fuel-oil. That decision has ensured the economic viability of the plant’s operations but the replacement of gas with fuel-oil has led to an increase in GHG emissions, which are expected to rise by 33% in 2022 by comparison with the 2021 readings. The increase is circumstantial and exceptional and the plant will revisit its standard emission levels once the energy markets return to normal. In parallel, Ence has continued to work in 2022 on the roadmap devised for decarbonising the biomill, making progress on the engineering details for the projects for replacing fossil fuels with renewable sources.

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

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

3. Safe and eco-friendly operations

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

On the **health and safety** front, the third quarter was punctuated by the first lost-time injuries so far this year in the Pulp and Forest Assets units. However, the Pulp, Forestry Purchases and Forest Assets units' 9M22 accident metrics are better year-on-year. Those same readings deteriorated slightly at the Independent Energy Plants and Biomass Supply units. Overall, in the first nine months of the year, the lost-time injury frequency rate has worsened year-on-year, but the severity rate is 29% better than last year. What that means is that the number of accidents involving lost time has increased but those accidents have been less serious.

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

As for its **environmental performance**, it is worth highlighting the trend in the key performance indicators in Navia, which reduced its odour emissions by 64% year-on-year in 9M22, which is remarkable considering the fact that 2021 was already a record year for the Pulp business in this respect. Also noteworthy is the fact that both biomills are managing to reduce their unit water consumption ratios year-on-year (by 11% in Navia and 1.5% in Pontevedra).

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

As for its **circular economy** transition, Ence continues to present high waste recovery and recycling readings - above 90% of all waste -, enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). In the third quarter, the Lucena plant obtained AENOR certification. Certification of the Group's remaining seven out of eight industrial facilities was renewed and the plan is to have the Huelva operations centre certified by the end of 2022. Also within the circular economy thrust, the Company has set up a specific waste recovery unit focused on recovering flying ash and the ash that settles at the bottom of the furnace to make fertilisers and repair degraded soil.

As for the effort to implement environmental management systems across the Renewable Energy business, the external audit recently concluded favourably so that all Magnon facilities are expected to have their systems externally certified in the near future.

4. Rural and forest development

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

Indeed, Ence has cemented itself as a benchmark in **sustainable forest management** in Spain, applying internationally-recognised standards of excellence, such as the FSC® (Forest Stewardship Council®, with license numbers FSC®-C099970 and FSC®-C081854) and PEFC™ (Program for the Endorsement of Forest Certification, with licence numbers PEFC/14-22-00010 and PEFC/14-33-00001) schemes, to the forest assets it manages and encouraging their adoption by its supply chain. As of September 2022, over 83% of its forest assets were certified under one or other of those standards and nearly 72% of the wood that entered its biomills during the period from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted biodiversity analyses encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. So far in 2022, the Group has continued that effort, completing new fauna and flora biodiversity studies. Thirty-five areas of owned forest last were monitored in 9M22.

As for the **generation of value for forest owners and suppliers**, Ence goes to lengths to support smaller-sized firms: in 9M22, 93% of wood suppliers and 74% of forest owners were small players. In 9M22, the Company purchased almost €33 million worth of wood from over 1,300 forest owners. As for biomass, Ence mobilised over 236,000 tonnes, worth almost €10 million, through its biomills. In its Independent Plants, Ence has purchased over 1,250,000 tonnes so far this year, generating over €60m of value for its biomass supply chain in rural areas.

Ence also strives to **contribute to development** in the areas in which it operates. To that end it encourages the purchase of local raw materials; in 9M22, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint.

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

Over 84.6% of the agricultural biomass used in 9M22 was compliant with the 10-Point Plan criteria, ahead of the target of 80% for all of 2022. In industrial biomass, compliance stands at 81.5%.

As for implementation of the SURE certification scheme in order to comply with its requirements under Directive (EU) 2018/2001 (RED II), having renewed certification at the independent plants and biomills in early 2022, work has begun on certification of the Group's suppliers: 74 suppliers are already SURE-certified for the purposes of the Independent Plants and a further 16 are certified for the Biomills. Turning to the use of certified biomass, 42.54% of the Independent Plants' incoming biomass was certified in 9M22, compared to 84% at the Biomills.

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

5. Sustainable products

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

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

In order to transparently 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 (LCA) and Environmental Product Declaration (EPD) (ACV) so that the results are comparable with those of similar products. The EDPs for the pulp made in Pontevedra, ENCELL, TCF and Naturcell, were published on Environdec's website in 2021, making them **the first pulp products in the market to obtain an Environmental Product Declaration**. This year the new PCR(1) and the revised and updated EDPs(2) have been available for consultation since March and August, respectively.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set sales targets for Naturcell, Powercell and Naturcell Zero for 2022. Sales of those products accounted for 18% of total pulp sales in 9M22.

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

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

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

6. Community commitment

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

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

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

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

Facility	Type of facility	MW	Original Remuneration for investment in P&L (Ri; €/MW) *	Annual Remuneration for investment in FCF (Ri; €/MW) *	Type of fuel	Remuneration for operation 2021 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34,6	- 55.311	- 36.363	Lignin Agroforestry biomass	- 0,0	- -	2032
Navia	Biomass co-generation Biomass generation	40,3 36,2	- 230.797	- 160.824	Lignin Agroforestry biomass	- (0,0)	- 7.500	2034
Huelva 41MW	Biomass generation	41,0	246.279	124.762	Agroforestry biomass	0,1	7.500	2025
Jaen 16MW	Biomass generation	16,0	261.021	149.173	Olive Pulp	0,1	7.500	2027
Ciudad Real 16MW	Biomass generation	16,0	261.021	149.173	Olive Pulp	0,1	7.500	2027
Cordoba 27MW	Biomass generation Gas co-generation	14,3 12,8	229.592 -	149.173 -	Olive Pulp Natural Gas	0,1 86,7	7.500 -	2031 2030
Huelva 50MW	Biomass generation	50,0	266.460	203.307	Agroforestry biomass	0,1	7.500	2037
Mérida 20MW	Biomass generation	20,0	293.586	232.189	Agroforestry biomass	0,1	7.500	2039
Huelva 46 MW	Biomass generation	46,0	-	-	Agroforestry biomass	0,1	7.500	2044
Ciudad Real 50 MW	Biomass generation	50,0	-	-	Agroforestry biomass	0,1	7.500	2044

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

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

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

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

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

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

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

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

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

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

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

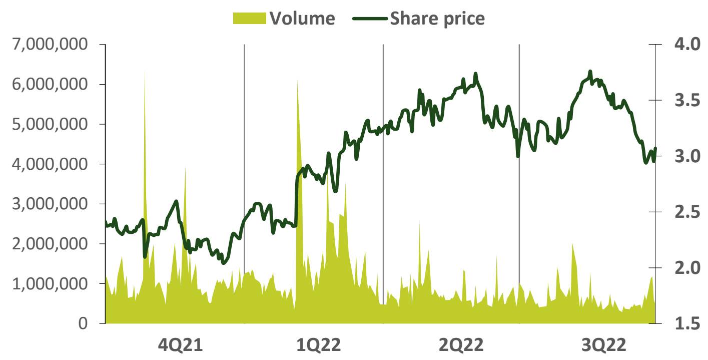
It is important to stress that these measures do not have a negative impact on the forecasts provided at the Capital Markets Day held on 17 March 2022, which, out of precaution, had factored in a similar scenario, specifically assuming electricity prices of €48/MWh from April and no cash inflow as a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

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

APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence’s share price ended September at €3.07, a gain of 35.8% from year-end 2021. Over the same timeframe, the Company's peers' share prices corrected by 10.8% on average.



Source: Bloomberg

SHARES	4Q21	1Q22	2Q22	3Q22
Share price at the end of the period	2.26	3.19	3.26	3.07
Market capitalization at the end of the period	557.6	786.6	803.3	756.1
Ence quarterly evolution	(5.0%)	41.1%	2.1%	(5.9%)
Daily average volume (shares)	1,220,887	1,457,945	793,780	657,916
Peers quarterly evolution *	4.1%	3.3%	(1.0%)	(8.6%)

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

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

CONVERTIBLE BOND	4Q21	1Q22	2Q22	3Q22
Bond price at the end of the period (ask)	99.15	100.28	100.20	100.03
Yield to worst at the end of the period*	1.515%	0.945%	0.947%	0.882%

*Yield to maturity

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

EBITDA

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

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

Below is a reconciliation between EBITDA and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric 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	71.8	23.8	1.3	96.9	(161.0)	(13.9)	2.1	(172.8)
Depreciation and amortisation charges	€ m	P&L	31.5	35.5	(0.6)	66.4	37.9	27.8	(2.1)	63.6
Depletion of forest reserve	€ m	P&L	5.2	0.0	-	5.2	8.5	0.1	-	8.7
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	2.7	37.0	(0.7)	39.0	191.0	0.3	-	191.4
Other non-recurring items	€ m	APM	-	-	-	-	(5.0)	-	-	(5.0)
EBITDA	€ m		**111.2**	**96.3**	**-**	**207.5**	**71.4**	**14.4**	**-**	**85.8**

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

No balances were included under this heading in 9M22. In 9M21, it included changes in the provisions derived from the National Appellate Court rulings annulling the concession in Pontevedra. More specifically, it included the reversal of the provision accumulated as of the June 2021 close to cover the Company's commitments under the Pontevedra Environmental Pact in the amount of €14m; a €2.9m provision to cover the potential devaluation of spare parts at the biomill; a €6m provision to cover the termination of contracts outstanding following the potential discontinuation of operations at the biomill; and a €0.9m provision to cover other liabilities of smaller amount.

HEDGE SETTLEMENT

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a gain of €16.5m in 9M22, compared to a gain of €3m in 9M21.

Elsewhere, in 2020, Ence took the exceptional decision of locking in a price of $773/tonne for the sale of 247,200 tonnes of pulp in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Settlement of those hedges implied an outflow of €31.4m in 9M21. Spurred on by that same uncertainty, Ence decided to lock in an average price of €44.5/MWh for the sale of 732,063 MWh in 2021 by arranging financial hedges and fixed-price agreements. Settlement of those hedges implied an outflow of €19.7m in 9M21.

Below is a reconciliation between the above amounts and the amounts presented in the financial statements for the first nine months of 2021 and the comparison with the 9M21 figures. The criteria used were the same in both periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2022 Renewable Energy	9M 2022 CONSOLIDATED TOTAL	9M 2021 Pulp	9M 2021 Renewable Energy	9M 2021 CONSOLIDATED TOTAL
Foreing exchange hedges	€ m		(16.5)		(16.5)	3.0	-	3.0
Pulp and energy hedges	€ m		-		-	(31.4)	(19.7)	(51.1)
HEDGES SETTLEMENT	€ m		**(16.5)**		**(16.5)**	**(28.4)**	**(19.7)**	**(48.1)**

CASH COST

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

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

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

Below is a reconciliation between the cash cost and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2021 Pulp
Revenue from pulp sales	€ m	P&L	495.5	390.6
EBITDA	€ m	APM	(111.2)	(71.4)
Total costs (Revenue - EBITDA)	€ m		384.3	319.1
Gains/(losses) on hedging transactions	€ m	APM	(16.5)	(28.4)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		(19.1)	(10.8)
Depletion of forest reserve	€ m	P&L	5.2	8.5
Change in inventories	€ m	P&L	(15.0)	1.8
Other income and expenses	€ m		(4.8)	(4.1)
ADJUSTED CASH COST	€ m		334.0	286.3
Production costs	€ m		272.1	240.0
No. of tonnes produced	Unit		637,421	758,688
RELATED PRODUCTION COSTS	€/tonne		**426.9**	**316.3**
Sales and logistics costs			61.9	46.3
No. of tonnes sold	Unit		676,273	756,996
	€/tonne		**91.5**	**61.1**
TOTAL SALES AND LOGISTICS COSTS				
CASH COST	€/tonne		**518.4**	**377.4**

OPERATING PROFIT PER TONNE OF PULP

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

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

Below is a reconciliation between operating profit per tonne of pulp and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2021 Pulp
Revenue from pulp sales	€ m	P&L	495.5	390.6
No. of tonnes sold	Unit		676,273	756,996
Average sales price per tonne (Revenue / # tonnes)	€/tonne		732.7	516.0
Cash cost (€)	€/tonne	APM	518.4	377.4
TOTAL OPERATING PROFIT PER TONNE OF PULP	€/tonne		**214.3**	**138.5**

NET FINANCE COST AND OTHER FINANCIAL ITEMS

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

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used were the same in both periods:

	Unit	Source Financial Statement (*)	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	1.9	0.1	(0.9)	1.2	3.6	1.4	(0.9)	4.2
Finance costs	€ m	P&L	(8.3)	(13.1)	0.9	(20.5)	(12.5)	(10.3)	0.9	(21.9)
NET FINANCE COST	€ m		**(6.4)**	**(12.9)**	**-**	**(19.3)**	**(8.9)**	**(8.9)**		**(17.7)**
Change in fair value of financial instruments	€ m	P&L	-	0.3	-	0.3	-	0.8		0.8
Exchange differences	€ m	P&L	3.5	(0.0)	-	3.5	2.6	(0.0)	-	2.6
OTHER FINANCIAL ITEMS	€ m		**3.5**	**0.3**	**-**	**3.8**	**2.6**	**0.8**	**-**	**3.4**
TOTAL NET FINANCE INCOME/(COST)	€ m	P&L	(2.9)	(12.7)	-	(15.6)	(6.3)	(8.1)	-	(14.4)

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of the capital expenditure included in its statement of cash flows for each of its business units in sections 1, 2.7 and 3.4, 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 Company's assets. Efficiency and growth capex, meanwhile, are investments designed to increase those assets' capacity and productivity. Lastly, sustainability capex covers investments made to enhance quality standards and raise occupational health and safety and environmental performance. Financial investments correspond to payments for investments in financial assets.

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

Below is a reconciliation between these headings and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used were the same in both reporting periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2022 Renewable Energy	9M 2022 CONSOLIDATED TOTAL	9M 2021 Pulp	9M 2021 Renewable Energy	9M 2021 CONSOLIDATED TOTAL
Maintenance capex	€ m		(13.3)	(1.6)	(14.9)	(7.8)	(2.8)	(10.6)
Efficiency and growth capex	€ m		(5.3)	(1.1)	(6.4)	(12.7)	(2.4)	(15.1)
Sustainability capex	€ m		(13.9)	(3.7)	(17.6)	(24.9)	(8.9)	(33.8)
Financial assets	€ m	SCF	(0.0)	-	(0.0)	(0.0)	(0.1)	(0.1)
TOTAL PAYMENTS FOR INVESTMENTS	€ m	SCF	**(32.5)**	**(6.4)**	**(38.9)**	**(45.5)**	**(14.2)**	**(59.6)**

OPERATING CASH FLOW

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

Below is a reconciliation between this heading and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2022 Renewable Energy	9M 2022 Adjustments & Eliminations	9M 2022 CONSOLIDATED TOTAL	9M 2021 Pulp	9M 2021 Renewable Energy	9M 2021 Adjustments & Eliminations	9M 2021 CONSOLIDATED TOTAL
EBITDA	€ m	APM	111.2	96.3		207.5	71.4	14.4		85.8
Other non-recurring items	€ m	APM	-	-		-	5.0	-		5.0
Adjustments to reconcile profit before tax to net cash flows:										
Changes in provisions and other deferred expense	€ m	SCF	1.5	0.9		2.4	(0.8)	4.6		3.8
Adjustments for tariff shortfall/surplus (electricity	€ m	SCF	18.1	15.2		33.4	10.8	18.1		28.9
Grants taken to profit and loss	€ m	SCF	(0.4)	(0.1)		(0.5)	(0.5)	(0.2)		(0.7)
Exchange differences with an impact on cash	€ m		1.0	(0.0)		1.0	5.7	(0.0)		5.7
Change in working capital	€ m	SCF	(4.7)	67.3		62.6	(30.9)	(15.2)		(46.1)
Interest paid, net (including right-of-use assets)	€ m	SCF	(5.4)	(12.2)		(17.6)	(6.0)	(7.0)		(13.0)
Dividends received	€ m	SCF	-	-		-	0.0	(0.0)		0.0
Income tax paid	€ m	SCF	(1.9)	(2.5)		(4.3)	-	(6.4)		(6.4)
Other collections/(payments)	€ m	SCF	(0.4)	-		(0.4)	-	-		(0.0)
OPERATING CASH FLOW			**118.9**	**165.0**		**283.9**	**49.7**	**8.2**		**57.9**

FREE CASH FLOW

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

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

Below is a reconciliation between free cash flow and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	9M 2022 Pulp	9M 2022 Renewable Energy	9M 2022 CONSOLIDATED TOTAL	9M 2021 Pulp	9M 2021 Renewable Energy	9M 2021 CONSOLIDATED TOTAL
Net cash flows from operating activities	€ m	SCF	118.9	165.0	283.9	49.7	8.2	57.9
Net cash flows used in investing activities	€ m	SCF	(32.4)	(6.1)	(38.5)	(45.1)	(14.2)	(59.2)
FREE CASH FLOW	€ m		**86.5**	**158.9**	**245.4**	**4.7**	**(6.0)**	**(1.3)**

NORMALISED FREE CASH FLOW

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

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

Below is a reconciliation between this heading and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

			9M 2022				9M 2021			
	Unit	Source Financial Statement (*)	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	111.2	96.3		207.5	71.4	14.4		85.8
Changes in working capital:										
Inventories	€ m	SCF	(7.8)	(1.4)		(9.2)	2.2	(6.6)		(4.4)
Trade and other receivables	€ m	SCF	(6.3)	6.0		4.9	(40.7)	6.4		(34.3)
Short-term investments	€ m	SCF	1.2	(2.0)		(0.8)	1.4	(0.1)		1.3
Trade payables, other payables and other liabilities	€ m	SCF	8.2	64.7		67.6	6.1	(14.9)		(8.8)
Maintenance capex	€ m	APM	(13.3)	(1.6)		(14.9)	(7.8)	(2.8)		(10.6)
Interest paid, net (including right-of-use assets)	€ m	SCF	(5.4)	(12.2)		(17.6)	(6.0)	(7.0)		(13.0)
Income tax paid	€ m	SCF	(1.9)	(2.5)		(4.3)	-	(6.4)		(6.4)
NORMALISED FREE CASH FLOW	€ m		**85.8**	**147.3**		**233.2**	**26.6**	**(17.0)**		**9.6**

NET DEBT / (CASH)

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

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

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

Below is a reconciliation between this heading and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

			Sep. 2022				Dec. 2021			
	Unit	Source Financial Statement (*)	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Non-current financial debt-										
Bonds and other maketable securities	€ m	BS	-	78.4		78.4	125.6	92.1		217.7
Bank borrowings	€ m	BS	87.5	55.7		143.2	99.3	70.0		169.4
Other financial liabilities	€ m	BS	57.7	0.7		58.4	64.5	0.7		65.2
Current financial debt-	€ m									
Bonds and other maketable securities	€ m	BS	77.6	0.9		78.4	0.8	-		0.8
Bank borrowings	€ m	BS	7.1	29.9		37.0	5.4	29.4		34.8
Other financial liabilities	€ m	BS	12.8	0.5		13.3	10.0	0.4		10.4
Cash and cash equivalents	€ m	BS	311.9	151.4		463.2	318.5	61.5		380.0
Current financial assets - Other financial investments	€ m		5.4	2.0		7.4	6.6	0.0		6.6
Cash reserve for debt service	€ m		-	10.0		10.0	-	10.0		10.0
NET DEBT/(CASH)	€ m		**(74.6)**	**2.6**		**(72.0)**	**(19.5)**	**121.2**		**101.7**

ROCE

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

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

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

Below is a reconciliation between this heading and the amounts presented in the financial statements for the first nine months of 2022 and the comparison with the 9M21 figure. The criteria used to determine this metric were the same in both periods:

			9M 2022				9M 2021			
	Unit	**Source Financial Statement (*)**	**Pulp**	**Renewable Energy**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**	**Pulp**	**Renewable Energy**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**
EBIT for the last 12 months	€ m	P&L	74.3	17.5	1.9	93.8	10.6	(8.8)	3.1	4.9
Average capital employed during 12 months					-					
Average of equity	€ m	BS	607.8	230.4	-	838.2	508.1	274.1	-	782.2
Average of net debt	€ m	BS	(22.6)	68.2	-	45.6	104.1	154.0	-	258.1
ROCE	**%**		**12.7%**	**5.9%**	**n.s.**	**10.6%**	**1.7%**	**-2.1%**	**n.s.**	**0.5%**

For ROCE calculation purposes, adjustments have been made for the impairment losses and provisions recognised in 2021 in the wake of the National Court sentences annulling the extension of the Pontevedra biomill concession until 2073; specifically 1Q21 EBIT was adjusted by €184m and 1Q21 equity by €200m.

DISCLAIMER

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

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

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