First-quarter 2020 Earnings Report

28 April 2020

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1. EXECUTIVE SUMMARY

Market figures	1Q20	1Q19	Δ%	4Q19	Δ%
BHKP (USD/t) average price	680.0	994.7	*(31.6%)*	696.7	*(2.4%)*
Average exchange rate (USD/€)	1.10	1.14	*(3.1%)*	1.11	*(0.3%)*
BHKP (€/t) average price	617.1	874.7	*(29.5%)*	630.4	*(2.1%)*
Average pool price (€/MWh)	35.9	54.8	*(34.5%)*	40.9	*(12.3%)*

Source: Bloomberg

Operating Metrics	1Q20	1Q19	Δ%	4Q19	Δ%
Pulp production (t)	**261,758**	**239,162**	***9.4%***	**185,404**	***41.2%***
Pulp sales (t)	**273,236**	**219,104**	***24.7%***	**206,193**	***32.5%***
Average sales pulp price (€/t)	418.2	604.9	*(30.9%)*	432.2	*(3.2%)*
Cash cost (€/t)	380.1	396.1	*(4.0%)*	426.6	*(10.9%)*
Renewable Energy sales volume (MWh)	**258,436**	**247,223**	***4.5%***	**263,749**	***(2.0%)***
Average sales price - Pool + Ro (€/MWh)	96.6	97.0	*(0.4%)*	87.8	*10.0%*
Remuneration for investment (€ m)	15.9	15.9	*0.0%*	15.9	*0.0%*

P&L € m	1Q20	1Q19	Δ%	4Q19	Δ%
Revenue from Pulp business	139.1	156.7	*(11.2%)*	110.0	*26.4%*
Revenue from Renewable Energy business	45.2	40.0	*12.9%*	39.3	*15.1%*
Consolidation adjustments	(0.7)	(1.1)		(1.0)	
Total revenue	**183.5**	**195.6**	*(6.2%)*	**148.3**	*23.8%*
Pulp business EBITDA	5.4	38.9	*(86.0%)*	(9.8)	*n.s.*
Margin %	**4%**	**25%**	*(20.9) p.p.*	**-9%**	*12.8 p.p.*
Renewable Energy business EBITDA	11.3	13.1	*(13.7%)*	10.3	*10.0%*
Margin %	**25%**	**33%**	*(7.7) p.p.*	**26%**	*(1.2) p.p.*
EBITDA	**16.8**	**52.0**	*(67.7%)*	**0.5**	*n.s.*
Margin %	*9%*	*27%*	*(17.4) p.p.*	*0%*	*8.8 p.p.*
Depreciation, amortisation and forestry depletion	(26.5)	(22.4)	*18.4%*	(22.9)	*16.1%*
Impairment of and gains/(losses) on fixed-asset disposals	0.5	0.6	*(28.3%)*	(0.2)	*n.s.*
Other non-ordinary results of operations	(1.3)	(1.1)	*19.0%*	(0.9)	*47.1%*
EBIT	**(10.6)**	**29.2**	*n.s.*	**(23.4)**	*(54.9%)*
Net finance cost	(6.1)	(6.7)	*(9.2%)*	(3.8)	*62.4%*
Other finance income/(cost) results	1.0	1.3	*(25.6%)*	(1.0)	*n.s.*
Profit before tax	**(15.7)**	**23.7**	*n.s.*	**(28.1)**	*(44.2%)*
Income tax	4.1	(5.6)	*n.s.*	9.5	*(56.7%)*
Net income	**(11.6)**	**18.1**	*n.s.*	**(18.6)**	*(37.8%)*
Non-controlling interests	(0.2)	(0.8)	*(74.5%)*	(0.0)	*n.s.*
Atributable Net Income	**(11.8)**	**17.3**	*n.s.*	**(18.6)**	*(36.7%)*
Earnings per share (Basic EPS)	(0.05)	0.07	*n.s.*	(0.08)	*(36.7%)*

Cash flow € m	1Q20	1Q19	Δ%	4Q19	Δ%
EBITDA	**16.8**	**52.0**	*(67.7%)*	**0.5**	*n.s.*
Change in working capital	5.3	(5.7)	*n.s.*	70.6	*(92.5%)*
Maintenance capex	(5.2)	(5.4)	*(4.1%)*	(8.2)	*(36.5%)*
Net interest Payment	(2.5)	(2.2)	*10.0%*	(5.9)	*(58.8%)*
Income tax received/(paid)	1.2	0.1	*n.s.*	(2.9)	*n.s.*
Normalised free cash flow	**15.7**	**38.7**	*(59.6%)*	**54.1**	*(71.1%)*
Financial investments and other collections / (payments)	0.4	11.5	*n.s.*	(1.1)	*n.s.*
Expansion capex OJO TRADUCCION	(22.3)	(79.6)	*(72.0%)*	(31.0)	*(28.1%)*
Sustainability capex OJO TRADUCCION	(9.3)	(6.9)	*35.6%*	(18.2)	*(48.5%)*
Disposals	0.4	0.2	*116.8%*	0.5	*(14.0%)*
Free cash flow	**(15.1)**	**(36.1)**	*(58.1%)*	**4.3**	*n.s.*
Dividends	-	-	*-*	(1.4)	*n.s*

Net debt € m	Mar-20	Dec-19	Δ%
Net financial debt Pulp business	326.0	305.7	*6.6%*
Net financial debt Renewable Energy business	207.9	207.0	*0.4%*
Net financial debt	**533.9**	**512.7**	*4.1%*

- ✓ **Prompt and rigorous application of Ence's internal protocols, as early as 24 February, for preventing and minimising COVID-19 risks for the Group's people and operations enabled it to operate *business as usual* throughout the quarter and maintain employment in full.**
- ✓ **All of Ence's activities - forestry management, pulp production and renewable power generation - are deemed 'essential' under Spanish Royal Decree 463/2020, declaring the state of alarm in Spain, and therefore should continue to be performed throughout the COVID-19 health crisis.**
- ✓ **In general, the pulp market continued to function normally throughout the quarter, despite the international spread of COVID-19 and the contention measures rolled out successively around the world. Global demand for pulp increased by 7% year-on-year in January and February 2020, which is equivalent to 0.6 million tonnes. Higher end consumption of tissue paper and hygiene products offset the incipient drop in demand for printing and writing papers.**
- ✓ **Pulp prices were flat, having fallen sharply in 2019, leaving them at their lowest levels in 10 years. Several pulp producers have announced price hikes in China in April.**
- ✓ **Pulp production at Ence increased by 9% year-on-year in 1Q20, in line with the volume of capacity added in 2019.**
- ✓ **Pulp sales rose by 25%, of which 96% went to the home and European markets (82% in 2019) and 53% went to the tissue paper segment for the production of staple consumer hygiene products. In addition, Ence's differentiated products, which are more sustainable and better adapted for replacing softwood pulp in specialty segments, accounted for 10% of sales (6% in 2019).**
- ✓ **The growth in pulp production and sales volumes contributed to a 4% year-on-year reduction in the cash cost (equivalent to €16/t), to €380/t.**
- ✓ **Against that backdrop, EBITDA in the Pulp business amounted to €5.4m in 1Q20, marking a €15.2m improvement from 4Q19 but a contraction of 86% compared to 1Q19, shaped by the 31% decrease in the average sales price.**
- ✓ **Elsewhere, the growth in the regulated Renewable Energy business is injecting greater stability into the Group's earnings. EBITDA in that business amounted to €11.3m in 1Q20, growth of 10% from 4Q19 but down 14% compared to 1Q19, due to the 11% drop in the average sales price to the floor set by the regulator.**
- ✓ **The new agricultural and forestry biomass plants in Huelva (46 MW) and Ciudad Real (50 MW) were brought on line on 31 January and 31 March 2020, respectively. These two new plants increase the Group's renewable energy generation capacity by 44%, as will be seen from the second quarter.**
- ✓ **The Group's net debt at the March close stood at €534m, €326m in the Pulp business and €208m in the Renewable Energy business. Both businesses are financed using long-term debt with no leverage-related covenants in the Pulp business.**
- ✓ **In order to maximize liquidity and ensure the sustainability of the business no matter the circumstances, Ence drew down a €70m credit line due 2023 during the quarter. Unrestricted cash stood at €281m at the March close. Of that sum, €156m corresponds to the Pulp business and €125m to the Renewable Energy business.**
- ✓ **In February, the Board of Directors decided to postpone the outstanding Strategic Plan investments contemplated for the Pulp business, framed by the commitment to keeping net debt-to-EBITDA in this business below 2.5x (assuming mid-cycle prices).**
- ✓ **Development of the 405-MW pipeline of grid-authorised renewable capacity, for which locations have been secured, is also pending implementation of the National Renewable Energy Plan.**
- ✓ **Lastly, Ence continues to defend the legality of the extension of its concession in Pontevedra until 2073 in the courts. An initial court ruling is expected in the coming months. The legal proceedings could take as long as four years, including appeals, which Ence will take to the highest possible level.**

2. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in Spain: a 685,000-tonne-capacity facility in the town of Navia, Asturias, and a 515,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally.

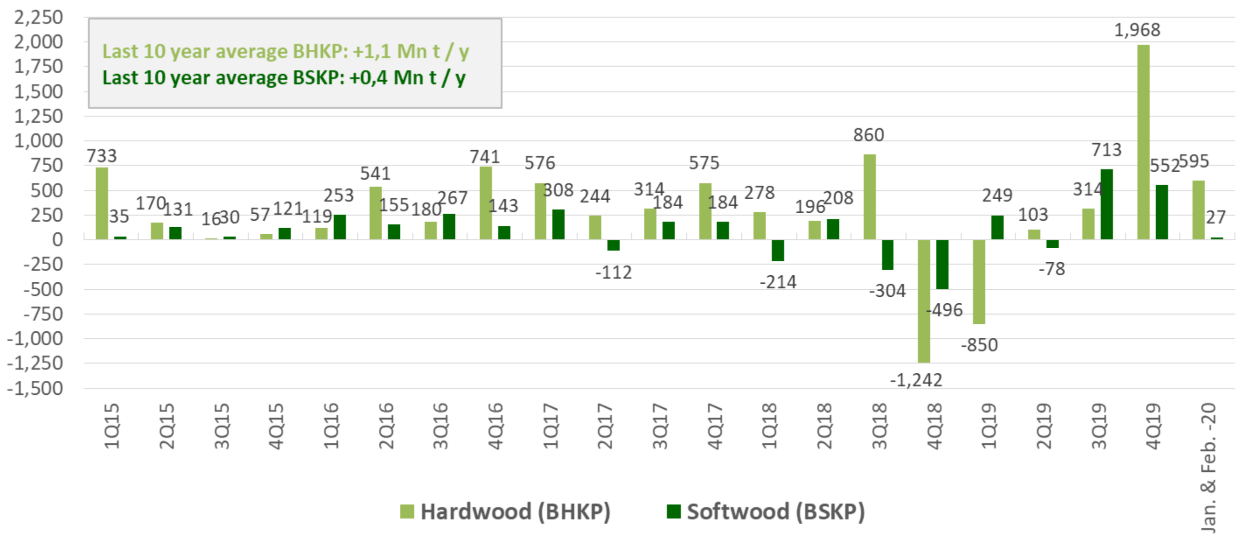
Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process,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

2.1. Pulp market trends

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material with a smaller carbon footprint than other materials such as plastics and synthetic fibres.

These demand dynamics are very consistent over the long term and contrast with the abrupt destocking observed in the paper industry at the end of 2018; inventories went to recover during the second half of 2019. As a result, demand for pulp grew by 4.8% in total in 2019 (according to the final PPPC-G100 estimate), equivalent to 3.0 million tonnes, compared to an annual average of 1.5 million tonnes over the past 10 years.

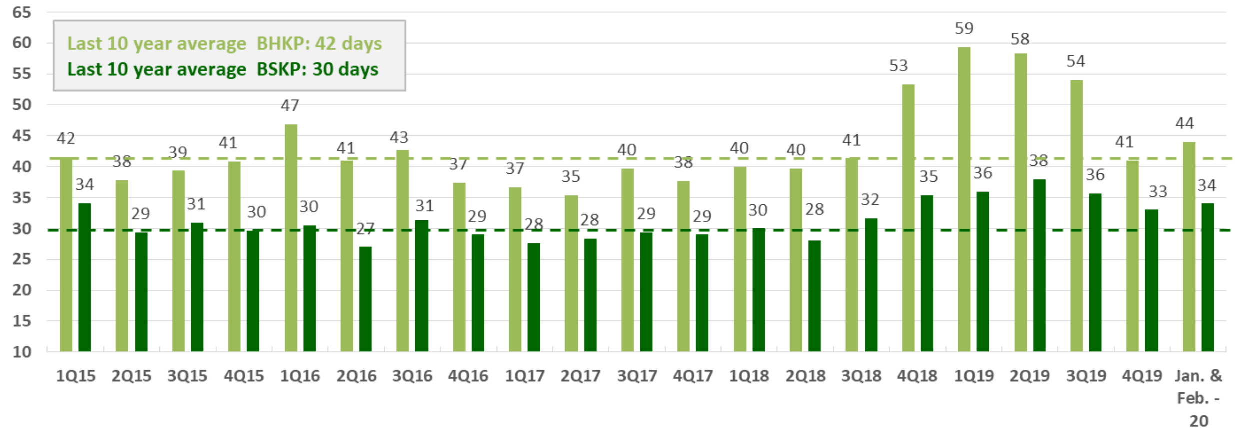
Year-on-year change in global demand for pulp, last five years (tonnes, 000)



Source: Ence, PPPC-G100

In general, the pulp market continued to function normally throughout the quarter, despite the international spread of COVID-19 and the contention measures rolled out successively around the world. Global demand for pulp increased by 7% year-on-year in the first quarter of 2010, which translates into growth of 0.6 million tonnes. Higher end consumption of tissue paper and hygiene products offset the incipient drop in demand for printing and writing papers. Note that global demand had contracted by 0.6 million tonnes in 1Q19.

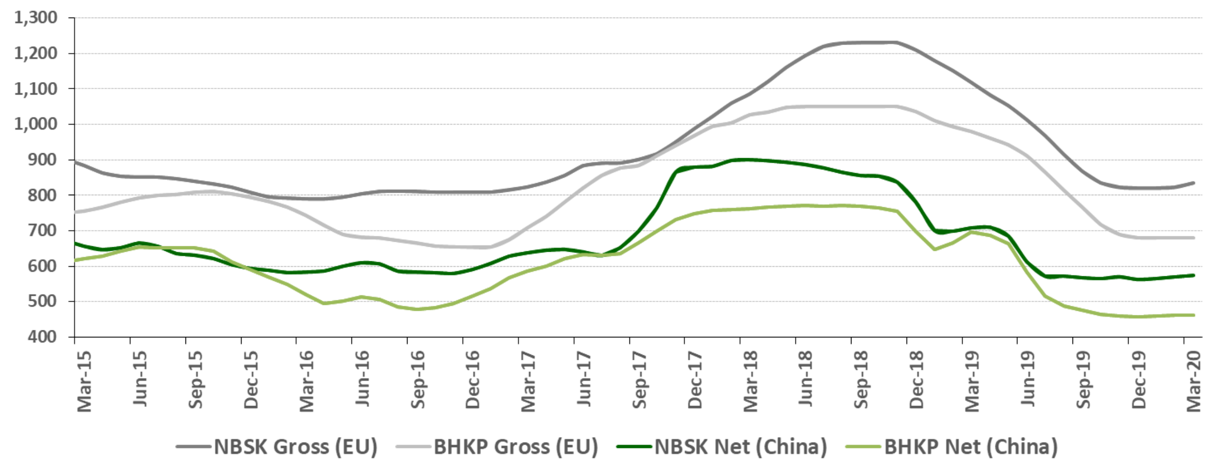
Pulp producer inventories during the last five years (quarterly average in no. of days)



Source: Ence, PPPC-G100

Pulp producer inventories remained at close to normal levels during the quarter, having contracted significantly during the previous quarter, while pulp prices were flat, after falling sharply in 2019, leaving them at their lowest levels in 10 years.

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



Source: FOEX

At the March close, hardwood pulp (BHKP) prices remained at $680/tonne (gross) in Europe and $462/tonne (net) in China, while softwood pulp (BSKP) prices had firmed by $20/tonne towards the end of the quarter to close at $840/tonne (gross) in Europe and $574/tonne (net) in China.

These net prices are around $170/tonne below the trailing 10-year average and below the estimated cash costs of the least efficient producers.

2.2. Revenue from pulp sales

	1Q20	1Q19	Δ%	4Q19	Δ%
Pulp sales (t)	**273,236**	**219,104**	*24.7%*	**206,193**	*32.5%*
Average sales price (€/t)	418.2	604.9	*(30.9%)*	432.2	*(3.2%)*
Pulp sales revenue (€ m)	**114.3**	**132.5**	*(13.8%)*	**89.1**	*28.2%*

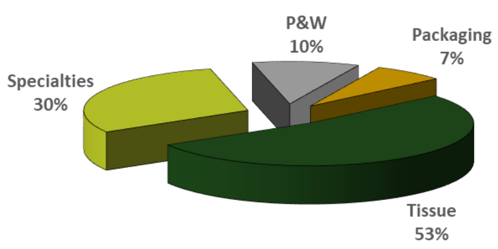
The global spread of COVID-19 and the measures taken around the world to contain it have not had a significant impact on Ence's business operations, which performed in line with expectations for the quarter.

Pulp sales volumes increased by 24.7% year-on-year in 1Q20 and by 32.5% compared to 4Q19, to 273,236 tonnes, driven by growth in output following the capacity added in 2019. The volume of pulp inventoried fell by 11,500 tonnes to 45,400 tonnes as of March; while in 1Q19, Ence had built up it stocks by over 20,000 tonnes ahead of the stoppage planned at Navia in order to add capacity.

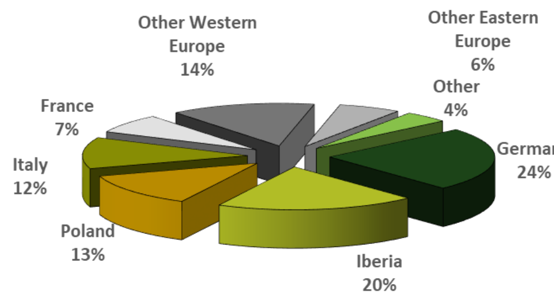
Elsewhere, Ence's average sales price decreased by 30.9% year-on-year, as a result of the downtrend in benchmark prices in Europe.

The combination of the two factors resulted in a year-on-year reduction in revenue from pulp sales of 13.8% to €114.3m in the first quarter (albeit growth of 28.2% from 4Q19).

Breakdown of revenue by end product



Breakdown of revenue by geographic market



The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 53% of revenue from pulp sales during the quarter, followed by the specialty paper segment, at 30%, and the printing and writing papers segment, at 10%. The remaining 7% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 96% of revenue from pulp sales in 1Q20. Germany and Iberia accounted for 24% and 20% of total revenue, respectively, followed by Poland (13%), Italy (12%) and France (7%). The other western European countries accounted for 14% of the total, with the rest of Eastern Europe representing 6%.

Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp in specialty segments, accounted for 10% of sales (6% in 2019).

2.3. Pulp production and the cash cost

Prompt and rigorous application of Ence's internal protocols, as early as 24 February, for preventing and minimising COVID-19 risks for the Group's people and operations enabled it to operate *business as usual* throughout the quarter and maintain employment in full.

All of Ence's activities are deemed 'essential' under Spanish Royal Decree 463/2020, declaring a state of alarm in Spain, and therefore should continue to be performed throughout the health crisis caused by the global spread of COVID-19.

Pulp production increased by 9.4% during the quarter to 261,758 tonnes, in line with the 20,000 tonnes of capacity added at the Pontevedra biomill in 1Q19 and the 80,000 tonnes added at the Navia biomill in 4Q19.

	1Q20	1Q19	Δ%	4Q19	Δ%
Navia pulp production	142,968	131,868	*8.4%*	68,971	*107.3%*
Pontevedra pulp production	118,789	107,294	*10.7%*	116,433	*2.0%*
Pulp production (t)	**261,758**	**239,162**	*9.4%*	**185,404**	*41.2%*

Capacity at the Navia biomill was increased by 80,000 tonnes over 37 days between October and November 2019, improving nearly all of the facility's industrial processes in tandem. The next maintenance stoppage is scheduled for the second quarter of 2020.

Meanwhile, the Pontevedra biomill was stopped for maintenance for 10 days in March 2019. During that stoppage, the Company expanded capacity at the biomill by 20,000 tonnes; that work included improvements to the recovery boiler, condensation turbine and evaporators. Sustainability-wise, it is worth highlighting the addition of a new water cycle. The next maintenance stoppage is scheduled for the second quarter of 2020.

Ence's cash cost was €380.1/tonne in the first quarter, down 4.0% (or €16/tonne) year-on-year and 10.9% (€46.5/tonne) quarter-on-quarter, the 4Q19 cash cost having been affected by lower dilution of fixed costs as a result of the extraordinary stoppage of the Navia biomill in order to add capacity.

Figures in €/t	1Q20	1Q19	Δ%	4Q19	Δ%
Wood cost	204.3	209.7	*(2.6%)*	205.4	*(0.6%)*
Conversion costs	117.9	118.8	*(0.7%)*	147.4	*(20.0%)*
Sales and logistic costs	31.6	31.2	*1.4%*	32.4	*(2.4%)*
Overheads	26.3	36.4	*(27.8%)*	41.3	*(36.4%)*
Total cash cost	**380.1**	**396.1**	*(4.0%)*	**426.6**	*(10.9%)*

2.4. Revenue from the sale of energy in connection with pulp production (included in the cash cost)

Ence uses the lignin and forestry biomass derived from its manufacturing activities to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biomill.

The energy generated at these power plants is sold to the grid and subsequently repurchased. **The operating profit from this activity is included in the above-mentioned conversion costs within the cash cost metric**.

	1Q20	1Q19	Δ%	4Q19	Δ%
Navia energy sales	139,405	128,542	*8.5%*	99,810	*39.7%*
Pontevedra energy sales	61,721	56,416	*9.4%*	56,174	*9.9%*
Energy sales linked to the pulp process (MWh)	**201,126**	**184,958**	*8.7%*	**155,985**	*28.9%*
Average sales price - Pool + Ro (€/MWh)	78.3	90.5	*(13.5%)*	79.9	*(1.9%)*
Remuneration for investment (€ m)	2.6	2.6	-	2.6	-
Revenues from energy sales linked to pulp (€ m)	**18.3**	**19.3**	*(5.2%)*	**15.0**	*21.9%*

The sale of energy in connection with pulp production increased by 8.7% year-on-year in 1Q20 to 201,126 MWh.

Average sales prices, on the other hand, declined by 13.5% year-on-year to €78.3/MWh, as a result of the correction in pool prices which dipped to the floor defined by the regulator.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - decreased by 5.2% year-on-year in 1Q20 to €18.3m.

2.5. Revenue from forestry and other activities

In addition to the sale of pulp and energy, the Pulp business encompasses other activities, notable among which the sale of timber to third parties.

	1Q20	1Q19	Δ%	4Q19	Δ%
Forestry and other revenue (m €)	**6.5**	**4.8**	*34.7%*	**5.9**	*10.9%*

Revenue from forestry totalled €6.5m in 1Q20, compared to €4.8m in 1Q19.

Exploitation of the eucalyptus plantations located in the south of Spain was reactivated in early 2019 following the execution last quarter of two 12-year contracts for the sale of approximately 200,000 tonnes of timber per annum.

2.6. Statement of profit or loss

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Total net revenue	**139.1**	**156.7**	*(11.2%)*	**110.0**	*26.4%*
EBITDA	**5.4**	**38.9**	*(86.0%)*	**(9.8)**	*n.s.*
EBITDA margin	*4%*	*25%*	*(20.9) p.p.*	*-9%*	*12.8 p.p.*
Depreciation and amortisation	(13.9)	(13.4)	*3.6%*	(11.6)	*19.7%*
Depletion of forestry reserves	(3.4)	(2.2)	*57.3%*	(2.8)	*23.5%*
Impairment of and gains/(losses) on fixed-asset dispos	0.9	0.7	*34.9%*	0.2	*n.s.*
Other non-recurring gains/(losses)	(1.3)	(1.1)	*19.0%*	(0.9)	*47.1%*
EBIT	**(12.2)**	**22.9**	*n.s.*	**(24.9)**	*(51.0%)*
EBIT margin	*-9%*	*15%*	*(23.4) p.p.*	*-23%*	*13.9 p.p.*
Net finance cost	(2.6)	(2.1)	*23.0%*	(2.4)	*5.8%*
Other financial results	1.0	1.3	*(25.7%)*	(1.0)	*n.s.*
Profit before tax	**(13.8)**	**22.1**	*n.s.*	**(28.2)**	*(51.2%)*
Income tax	3.4	(5.7)	*n.s.*	4.9	*(29.8%)*
Net Income	**(10.4)**	**16.5**	*n.s.*	**(23.4)**	*(55.7%)*

EBITDA in the Pulp business amounted to €5.4m in 1Q20, marking an improvement of €15.2m from 4Q19, thanks to growth of 32.5% in pulp sales volumes and a 10.9% drop in the cash cost following the addition of 80,000 tonnes of new capacity at the Navia biomill.

In comparison with 1Q19, EBITDA declined by 86% as a result of a 30.9% decrease in the average sales price, partially offset by the 4% improvement in the cash cost and growth of 24.7% in pulp sales volumes.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a loss of €4.5m in 1Q20, compared to losses of €6.5m in 4Q19 and of €5.8m in 1Q19.

In addition, EBITDA this quarter includes other expenses, net of other income, that are not included in the cash cost, of €0.5m. The income and expenses not included in the cash cost include the EBITDA generated on the sale of timber to third parties, provisions for working capital, charges for community work in the vicinity of the Group's biomills, non-recurring staff costs and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were 3.6% higher year-on-year at €13.9m in 1Q20, reflecting the capital expenditure incurred in 2019, while forest depletion charges increased by 57.3% to €3.4m as a result of higher sales of timber sourced from proprietary plantations.

Impairment and gains/(losses) on the disposal of assets, in the amount of €0.9m in 1Q20, mainly includes the reversal of the impairment charges recognized on the remaining assets in Huelva, which were transferred to the Renewable Energy business during the quarter, thus completing the full separation of the two units' assets. Other non-recurring operating charges include a €1.3m provision for expenses under Ence's Environmental Pact in Pontevedra, signed in June 2016.

Lastly, net finance cost increased by €0.5m year-on-year in 1Q20 to €2.6m, in line with the growth in gross borrowings. 'Other finance income/costs' include €1m of exchange rate gains on working capital.

As a result, the Pulp business posted a net loss of €10.4m in 1Q20, compared to a profit of €16.5m in 1Q19, albeit marking a 55.7% improvement from 4Q19.

2.7. Cash flow analysis

Operating cash flow amounted to €13.8m in 1Q20, down 68.8% year-on-year, due to the outlined decline in EBITDA, which was partially offset by a lower working capital requirement.

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
EBITDA	**5.4**	**38.9**	*(86.0%)*	**(9.8)**	*n.s.*
Non cash expenses / (income)	3.0	6.3	*(51.7%)*	0.2	*n.s.*
Other collections / (payments)	0.3	0.1	*83.1%*	(0.1)	*n.s.*
Change in working capital	6.8	0.1	*n.s.*	44.8	*(84.8%)*
Income tax received / (paid)	(0.0)	-	*n.s.*	(0.9)	*(99.7%)*
Net interest received / (paid)	(1.8)	(1.1)	*54.8%*	(2.3)	*(22.9%)*
Net cash flow from operating activities	**13.8**	**44.2**	*(68.8%)*	**31.9**	*(56.8%)*

Movements in working capital implied a cash inflow of €6.8m in 1Q20, shaped mainly by the reduction in inventories.

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Inventories	7.2	(8.7)	*n.s.*	(0.8)	*n.s.*
Trade and other receivables	(2.2)	11.5	*n.s.*	60.7	*n.s.*
Financial and other current assets	(1.7)	(0.6)	*184.5%*	(0.8)	*115.0%*
Trade and other payables	3.5	(2.1)	*n.s.*	(14.4)	*n.s.*
Change in working capital	**6.8**	**0.1**	*n.s.*	**44.8**	*(84.8%)*

As of the March close, the Group had drawn down €80.5m of non-recourse factoring facilities, compared to €74.4m at year-end 2019. Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €73.6m at the March close, compared to €82.1m at year-end.

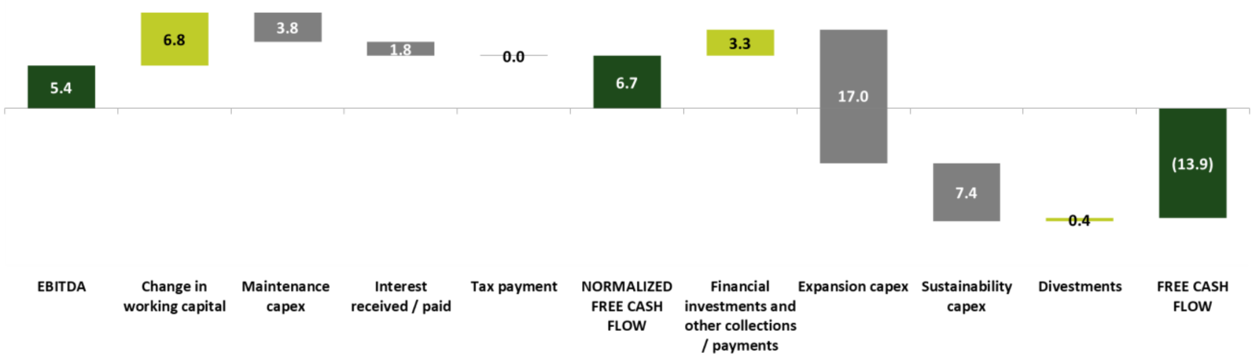
Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Maintenance capex	(3.8)	(3.7)	*1.4%*	(5.6)	*(32.5%)*
Payments for 2019 expansion investments	(17.0)	(18.5)	*(8.0%)*	(12.9)	*31.8%*
Payments for 2019 sustainability investments	(7.4)	(5.4)	*38.4%*	(16.1)	*(53.8%)*
Financial investments	0.0	0.0	*(7.4%)*	(35.0)	*n.s.*
Investments	**(28.1)**	**(27.5)**	*2.3%*	**(69.6)**	*(59.6%)*
Disposals	0.4	0.2	*116.8%*	0.4	*11.7%*
Net cash flow used in investing activities	**(27.7)**	**(27.3)**	*1.5%*	**(69.2)**	*(59.9%)*

Maintenance capex amounted to €3.8m in 1Q20, in line with the outlay of €3.7m in 1Q19.

Payments for efficiency and growth investments amounted to €17m, most of which was related to the capacity additions concluded in 2019.

Payments for sustainability-related investments amounted to €7.4m in 1Q20 and encompassed a range of initiatives mainly designed to reinforce safety and reduce odours, noise levels and water consumption. Those investments will translate into competitiveness gains for Ence in the long run.

Lastly, the proceeds from disposals mainly included the sale of a residual interest in a non-core Group investee for €0.4m.



As a result, normalised free cash flow in the Pulp business amounted to €6.7m in 1Q20, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €13.9m.

2.8. Change in net debt

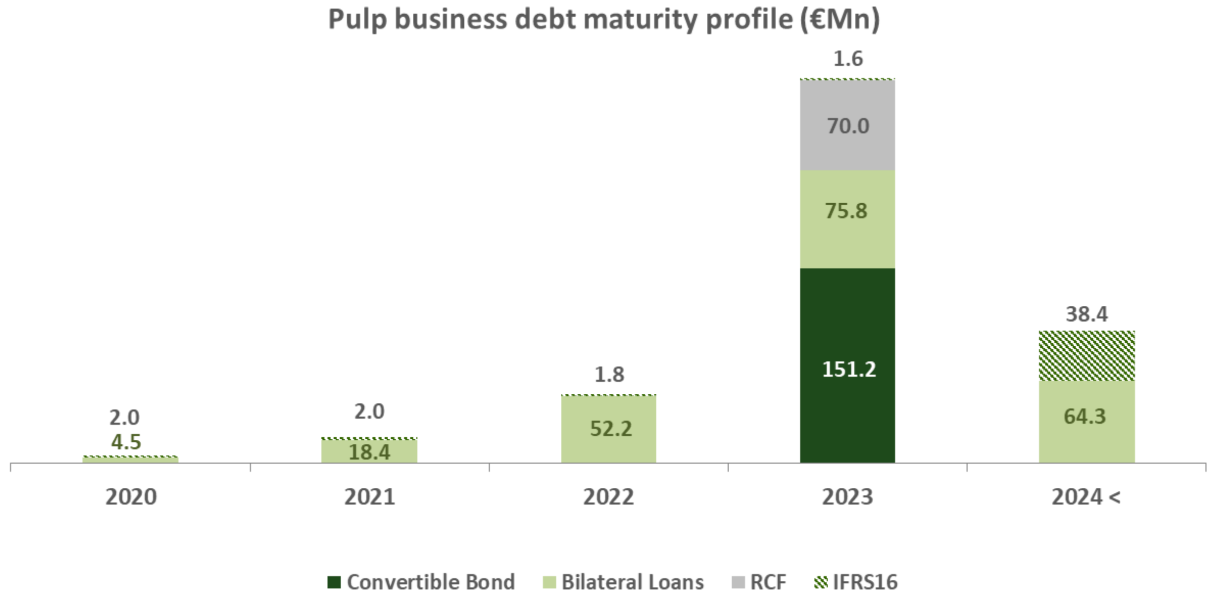
Net debt in this business increased by €20.3m from year-end 2019 to €326m, of which €45.8m corresponds to lease liabilities. Free cash flow for the quarter (negative), together with a €2.1m increase in lease liabilities, were responsible for a €16m increase in the net debt balance. The remaining €4.3m of the increase relates to annual finance lease payments, provisions for interest and other share repurchases.

The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 7.8x at the March close. Note that the financing arranged by the Pulp business is not subject to any leverage covenants.

Figures in € m	Mar-20	Dec-19	Δ%
Non-current financial debt	430.6	361.1	*19.2%*
Current financial debt	5.8	6.7	*(13.3%)*
Gross financial debt	**436.4**	**367.8**	*18.6%*
Non-current lease contracts	43.4	41.5	*4.6%*
Current lease contracts	2.3	2.1	*9.7%*
Financial liabilities related to lease contracts	**45.8**	**43.7**	*4.8%*
Cash and cash equivalents	150.0	101.3	*48.1%*
Short-term financial investments	6.1	4.4	*38.4%*
Net financial debt Pulp business	**326.0**	**305.7**	*6.6%*

In light of the uncertainty sparked by the global spread of COVID-19 and with the aim of maximising its liquidity, the Company drew down a €70 million revolving credit facility due May 2023 during the first quarter (undrawn at year-end). As a result, at the reporting date, the Pulp business had cash and cash equivalents of €156.1m.

The gross debt of €436.4m at the March close corresponds mainly to the €151.2m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €155m on its bilateral loans, including the €70m revolving credit facility, and a series of loans totalling €60.2m 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 2028. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants with aggregate installed capacity of 316 MW that have no relation to the pulp production process.

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

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

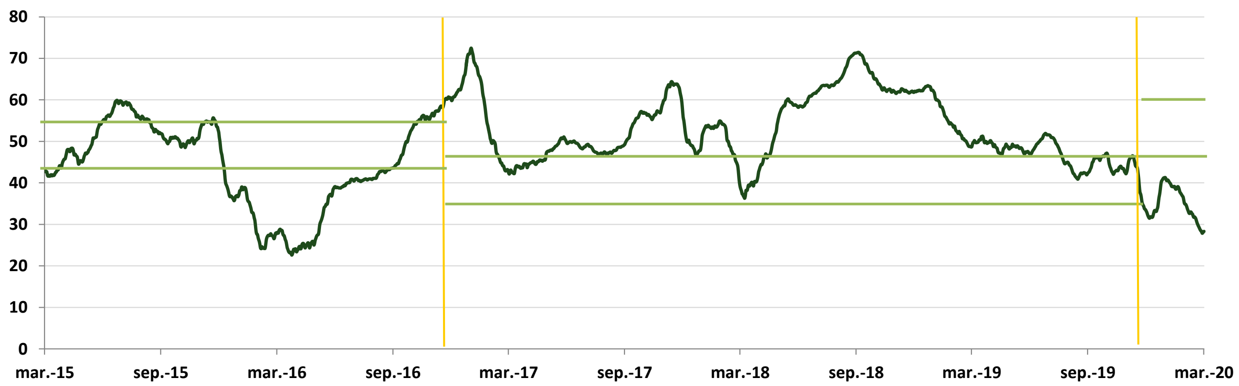
3.1. Electricity market trends

The average pool price in Spain declined by 34.5% year-on-year in 1Q20 to €35.9/MWh.

	1Q20	1Q19	*Δ%*	4Q19	*Δ%*
Average pool price (€/MWh)	35.9	54.8	*(34.5%)*	40.9	*(12.3%)*

The price per MWh sold by Ence is determined by the market (pool) price, subject to the ceiling and floor set by the regulator (regulatory collar) plus the remuneration for operation (Ro) earned by each plant. Those parameters were updated for the 2020-2022 regulatory stub period on 28 February 2020, as contemplated in applicable legislation.

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



In addition, the remuneration on investment (Ri) for the universe of power plants comprising Ence's Renewable Energy business was set at 7.4% for 2020–2031 by Spanish Royal Decree-Law 17/2019. That implies annual income of €63.5m.

The plants' remuneration parameters are outlined in greater detail in appendix 1.

3.2. Revenue from energy sales

All of Ence's activities are deemed 'essential' under Spanish Royal Decree 463/2020, declaring a state of alarm in Spain, and therefore should continue to be performed throughout the health crisis caused by the global spread of COVID-19.

Energy sales volumes increased by 4.5% year-on-year in 1Q20 to 258,436 MWh, boosted by the start-up of the new 46-MW biomass plant in Huelva in January. Output also rose at the 50-MW Huelva and the 16-MW Jaen plants thanks to the improvements implemented at those facilities during the second and fourth quarters of 2019, respectively. The new 50-MW biomass plant in Ciudad Real was started up on 31 March.

The drop in output at the 16-MW biomass plant in Ciudad Real is attributable to a scheduled repowering stoppage; the decrease in generation at the 50-MW solar thermal plant in Ciudad Real reflects lower solar radiation during the quarter. The turbine at the 41-MW biomass plant in Huelva broke in March and is expected to be restarted in May.

	1Q20	1Q19	*Δ%*	4Q19	*Δ%*
Huelva 41 MW - Biomass	28,139	34,790	*(19.1%)*	55,785	*(49.6%)*
Jaén 16 MW - Biomass	24,182	18,888	*28.0%*	17,420	*38.8%*
Ciudad Real 16 MW - Biomass	7,360	22,545	*(67.4%)*	24,296	*(69.7%)*
Córdoba 27 MW - Biomass	50,293	51,952	*(3.2%)*	51,031	*(1.4%)*
Ciudad Real 50 MW - Solar thermal plant	5,707	11,376	*(49.8%)*	4,670	*22.2%*
Huelva 50 MW - Biomass	86,973	72,971	*19.2%*	86,440	*0.6%*
Mérida 20 MW - Biomass	35,478	34,700	*2.2%*	24,108	*47.2%*
Huelva 46 MW - Biomass	20,305	-	-	-	-
Ciudad Real 50 MW - Biomass	-	-	-	-	-
Energy sales (MWh)	**258,436**	**247,223**	*4.5%*	**263,749**	*(2.0%)*
Average sales price - Pool + Collar + Ro (€/MWh)	96.6	97.0	*(0.4%)*	87.8	*10.0%*
Remuneration for investment (€ m)	15.9	15.9	*0.0%*	15.9	*0.0%*
Revenue (€ m)	**41.0**	**40.0**	*2.5%*	**39.3**	*4.5%*
Capitalised revenue (€ m)	4.1	-	-	-	-
Net revenue (€ m)	**45.2**	**40.0**	*12.9%*	**39.3**	*15.1%*

** The average sales price of €97.0/MWh in 1Q19 included a provision equivalent to €11.1/MWh for the temporary suspension of the electricity generation levy by the regulator which had no impact at the EBITDA level.*

The average first-quarter sales price of €96.6/MWh was 10.6% lower than the 1Q19 equivalent as a result of the downtrend in pool prices. Note that the average 1Q19 sales price of €97.0/MWh included a provision equivalent to €11.1/MWh for the temporary suspension of the electricity generation levy by the regulator which had no impact at the EBITDA level.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). That accounting treatment implied the recognition of revenue of €4.1m in 1Q20, compared to a reduction in revenue of €2m in that same connection in 1Q19.

Lastly, 1Q20 revenue includes €4.1m corresponding to the energy sold by the new biomass plants during testing, before their consolidation; that revenue was recognized along with the corresponding expenses so that the impact at the EBITDA level was neutral.

In total, and factoring in remuneration for investment, the Renewable Energy business posted revenue of €45.2m in 1Q20, up 12.9% year-on-year.

3.3. Statement of profit or loss

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Total revenue	**45.2**	**40.0**	*12.9%*	**39.3**	*15.1%*
EBITDA	**11.3**	**13.1**	*(13.7%)*	**10.3**	*10.0%*
EBITDA margin	*25%*	*33%*	*(7.7) p.p.*	*26%*	*(1.2) p.p.*
Depreciation and amortisation	(9.3)	(6.8)	*36.2%*	(8.4)	*10.0%*
Depletion of forestry reserves	(0.2)	-	*n.s.*	(0.0)	*n.s.*
Impairment of and gains/(losses) on fixed-asset dispo:	(1.1)	(0.1)	*n.s.*	(0.3)	*222.1%*
EBIT	**0.8**	**6.2**	*(87.7%)*	**1.5**	*(47.7%)*
EBIT margin	*2%*	*16%*	*(13.9) p.p.*	*4%*	*(2.1) p.p.*
Net finance cost	(3.6)	(4.6)	*(23.4%)*	(1.4)	*158.6%*
Profit before tax	**(2.8)**	**1.6**	*n.s.*	**0.1**	*n.s.*
Income tax	0.7	0.0	*n.s.*	1.1	*(34.0%)*
Net Income	**(2.1)**	**1.6**	*n.s.*	**1.1**	*n.s.*
Non-controlling interests	(0.2)	(0.8)	*(74.5%)*	(0.0)	
Atributable Net Income	**(2.3)**	**0.8**	*n.s.*	**1.1**	*n.s.*

EBITDA in the Renewable Energy business amounted to €11.3m in 1Q20, down 13.7% year-on-year due to the above-mentioned 10.6% drop in the average sales price, which fell to the floor set by the regulator.

Below EBITDA it is worth highlighting the year-on-year growth in depreciation and amortisation charges of 36.2% to €9.3m as a result of the addition of a new biomass plant (46 MW in Huelva) during the quarter and the transfer of the remaining Pulp business assets in Huelva.

Impairment losses amounted to €1.1m in 1Q20 and related mainly to charges for the costs of dismantling the remaining industrial assets in Huelva which were transferred from the Pulp business during the quarter.

Net finance costs amounted to €3.6m, which is down 23.4% from 1Q19, which included the fees incurred to arrange the non-recourse long-term project finance for the 50-MW solar thermal plant in Ciudad Real.

As a result, the Renewable Energy business posted a net loss of €2.3m in 1Q20, compared to a profit of €0.8m in 1Q19.

3.4. Cash flow analysis

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
EBITDA	**11.3**	**13.1**	*(13.7%)*	**10.3**	*10.0%*
Non cash expenses / (incomes)	(2.9)	5.1	*n.s.*	(5.9)	*(50.9%)*
Other collections / (payments)	(0.0)	(0.0)	*(18.2%)*	(0.2)	*(98.5%)*
Change in working capital	(1.5)	(5.8)	*(74.5%)*	25.8	*n.s.*
Income tax received / (paid)	1.2	0.1	*n.s.*	(2.0)	*n.s.*
Net interest received / (paid)	(0.7)	(1.1)	*(37.0%)*	(3.7)	*(81.2%)*
Net cash flow from operating activities	**7.5**	**11.4**	*(34.5%)*	**24.3**	*(69.3%)*

Net cash flows from operating activities amounted to €7.5m in 1Q20, compared to €11.4m in 1Q19. Apart from the decline in EBITDA it is worth noting the impact of the regulatory collar, which implied the recognition of €4.1m of revenue with no impact on cash flows, compared to a provision of €1.8m in that same respect in 1Q19.

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Inventories	(3.7)	(1.9)	*88.7%*	(1.6)	*126.8%*
Trade and other receivables	2.3	(1.8)	*n.s.*	22.7	*(90.1%)*
Trade and other payables	(0.1)	(2.0)	*(96.2%)*	4.8	*n.s.*
Change in working capital	**(1.5)**	**(5.8)**	*(74.5%)*	**25.8**	*n.s.*

Working capital movements implied a cash outflow of €1.5m in 1Q20, compared to an outflow of €5.8m in 1Q19.

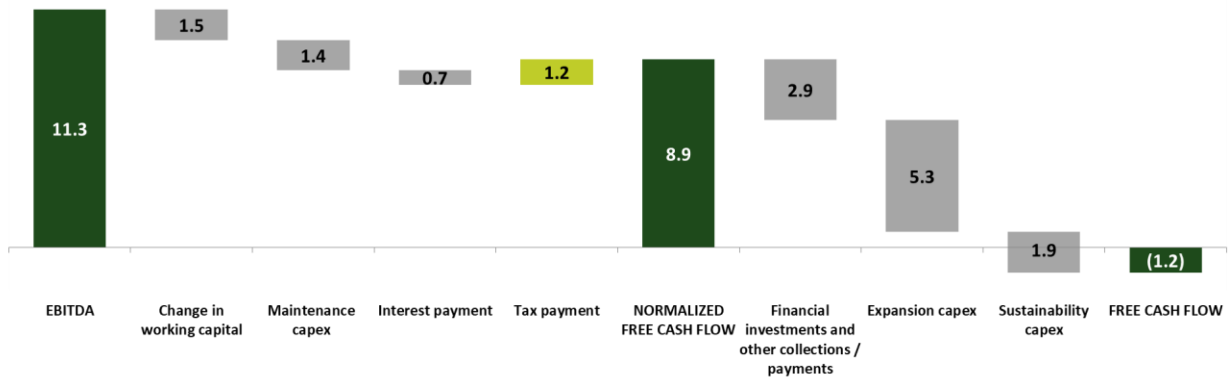
As of the March close, the Renewable Energy business had drawn down its factoring lines by €25.7m, compared to €26.3m at year-end 2019. The Renewable Energy business has also arranged several non-recourse reverse factoring facilities, which were drawn down by €8.6m at the March close, compared to €10.5m at year-end.

Figures in € m	1Q20	1Q19	Δ%	4Q19	Δ%
Maintenance capex	(1.4)	(1.7)	*(16.3%)*	(2.6)	*(45.1%)*
Efficiency and expansion capex	(32.2)	(61.2)	*(47.4%)*	(18.1)	*77.9%*
Sustainability capex	(1.9)	(1.5)	*25.8%*	(2.1)	*(8.1%)*
Financial investments	0.0	(0.0)	*n.s.*	(6.4)	*n.s.*
Investments	**(35.5)**	**(64.4)**	*(44.8%)*	**(29.1)**	*22.0%*
Disposals	-	-	*n.s.*	0.1	*(100.0%)*
Net cash flow from investing activities	**(35.5)**	**(64.4)**	*(44.8%)*	**(29.0)**	*22.4%*

Efficiency and growth investments of €32.2m notably include the transfer of the remaining Huelva assets by the Pulp business at a value of €26.9m, thus completing the separation of the two units' assets; the transfer had no impact on the the Group's consolidated cash flows. The remaining €5.3m corresponds largely to outstanding payments due on the new biomass plants commissioned during the quarter.

Maintenance and sustainability capex totalled €3.3m, which was largely flat year-on-year.

As a result, normalised free cash flow in the Renewable Energy business amounted to €8.9m in 1Q20, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €1.2m, excluding the impact of the Pulp business assets transferred, which had no impact on the Group's consolidated statement of cash flows.



** Growth capex as per the chart excludes the contribution of the remaining Pulp business assets in Huelva at a value of €26.9m, a transaction that has no impact on the Group's cash flows at the consolidated level.*

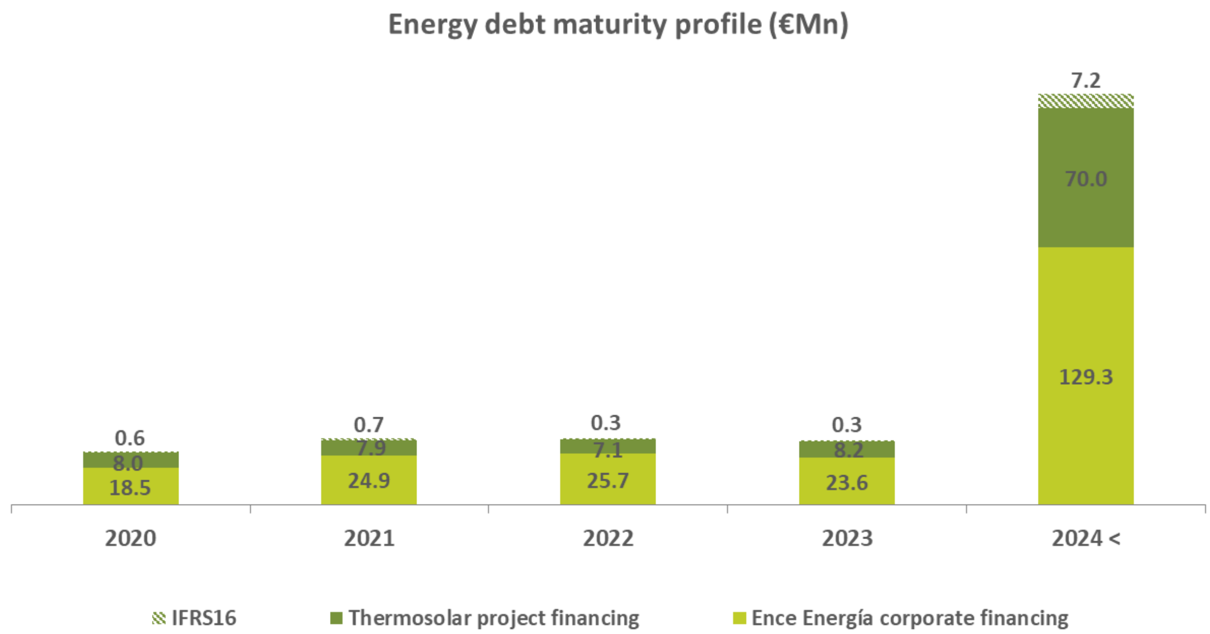
3.5. Change in net debt

Net debt in the Renewable Energy business was virtually unchanged from year-end 2019 at €207.9m, of which €9.2m corresponds to lease liabilities.

Figures in € m	Mar-20	Dec-19	Δ%
Non-current financial debt	296.3	294.2	*0.7%*
Current financial debt	26.9	25.1	*7.0%*
Gross financial debt	**323.2**	**319.3**	*1.2%*
Non-current lease contracts	8.5	8.3	*2.4%*
Current lease contracts	0.7	0.3	*104.3%*
Financial liabilities related to lease contracts	**9.2**	**8.6**	*6.5%*
Cash and cash equivalents	124.5	120.9	*2.9%*
Short-term financial investments	0.0	0.0	-
Net financial debt Renewable Energy business	**207.9**	**207.0**	*0.4%*

Cash amounted to €124.5m at the March close and the ratio of net debt-to-LTM EBITDA in the Renewable Energy business stood at 4.2x.

This unit's €323.2m of gross borrowings at the March close corresponded mainly to the €223.4m drawn down under the corporate finance facility and the €99.8m drawn under the project finance facility arranged by the solar thermal plant. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

	1Q20				1Q19			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**139.1**	**45.2**	**(0.7)**	**183.5**	**156.7**	**40.0**	**(1.1)**	**195.6**
Other income	2.5	(1.4)	(0.9)	0.2	3.7	0.3	(0.9)	3.1
Foreign exchange hedging operations results	(4.5)	-		(4.5)	(5.8)	-		(5.8)
Cost of sales and change in inventories of finished produ	(78.1)	(14.3)	0.7	(91.6)	(61.7)	(11.9)	1.1	(72.4)
Personnel expenses	(18.9)	(3.0)		(21.9)	(19.9)	(2.8)		(22.7)
Other operating expenses	(34.7)	(15.1)	0.9	(48.9)	(34.1)	(12.5)	0.9	(45.7)
EBITDA	**5.4**	**11.3**		**16.8**	**38.9**	**13.1**		**52.0**
EBITDA margin	*4%*	*25%*		*9%*	*25%*	*33%*		*27%*
Depreciation and amortisation	(13.9)	(9.3)	0.2	(22.9)	(13.4)	(6.8)		(20.2)
Depletion of forestry reserves	(3.4)	(0.2)		(3.6)	(2.2)	-		(2.2)
Impairment of and gains/(losses) on fixed-asset disposal	0.9	(1.1)	0.6	0.5	0.7	(0.1)		0.6
Other non-ordinary operating gains/(losses)	(1.3)	-		(1.3)	(1.1)	-		(1.1)
EBIT	**(12.2)**	**0.8**	**0.9**	**(10.6)**	**22.9**	**6.2**		**29.2**
EBIT margin	*-9%*	2%		-6%	*15%*	16%		*15%*
Net finance cost	(2.6)	(3.6)		(6.1)	(2.1)	(4.6)		(6.7)
Other finance income/(costs)	1.0	(0.0)		1.0	1.3	(0.0)		1.3
Profit before tax	**(13.8)**	**(2.8)**	**0.9**	**(15.7)**	**22.1**	**1.6**		**23.7**
Income tax	3.4	0.7		4.1	(5.7)	0.0		(5.6)
Net Income	**(10.4)**	**(2.1)**	**0.9**	**(11.6)**	**16.5**	**1.6**		**18.1**
Non-controlling interests	-	(0.2)		(0.2)	-	(0.8)		(0.8)
Atributable Net Income	**(10.4)**	**(2.3)**	**0.9**	**(11.8)**	**16.5**	**0.8**		**17.3**
Earnings per Share (EPS)	(0.04)	(0.01)		(0.05)	0.07	0.00		0.07

4.2. Balance sheet

	Mar - 20				Dec - 19			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.2	61.2	(14.4)	62.1	14.9	61.4	(14.4)	61.9
Property, plant and equipment	642.0	621.5	(14.2)	1,249.2	647.3	592.7	(1.7)	1,238.3
Biological assets	76.0	0.2		76.2	78.7	0.3		79.1
Non-current investments in Group companies	326.0	-	(326.0)	-	312.4	0.0	(312.4)	-
Non-current borrowings to Group companies	75.2	0.0	(75.2)	0.0	75.2	0.0	(75.2)	-
Non-current financial assets	2.0	5.2		7.1	3.6	5.2		8.7
Deferred tax assets	44.4	16.7		61.1	38.6	15.4		54.0
Total non-current assets	**1,180.8**	**704.7**	**(429.8)**	**1,455.7**	**1,170.8**	**675.0**	**(403.7)**	**1,442.2**
Inventories	39.6	15.3		54.9	44.9	11.7		56.6
Trade and other accounts receivable	42.2	10.5	(14.8)	37.9	41.6	17.6	(16.9)	42.2
Income tax	7.0	0.5		7.5	6.9	1.7		8.6
Other current assets	3.1	1.9		5.0	1.7	0.2		1.8
Current financial investments	6.1	0.0		6.2	4.4	0.0		4.5
Cash and cash equivalents	150.0	124.5		274.5	101.3	120.9		222.2
Total current assets	**248.1**	**152.7**	**(14.8)**	**386.0**	**200.7**	**152.1**	**(16.9)**	**336.0**
TOTAL ASSETS	**1,428.9**	**857.4**	**(444.6)**	**1,841.7**	**1,371.5**	**827.2**	**(420.6)**	**1,778.1**
Equity	**677.4**	**326.1**	**(350.6)**	**652.9**	**696.4**	**303.1**	**(324.5)**	**674.9**
Non-current borrowings	474.0	304.8		778.8	402.6	302.4		705.0
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.4	8.9		9.3	0.2	6.3		6.4
Deferred tax liabilities	22.9	18.5	(4.0)	37.4	23.0	18.6	(4.0)	37.6
Non-current provisions	3.3	9.5		12.7	3.4	9.4		12.8
Other non-current liabilities	6.6	21.8		28.4	10.1	26.1		36.2
Total non-current liabilities	**507.1**	**438.7**	**(79.2)**	**866.6**	**439.3**	**438.0**	**(79.2)**	**798.1**
Current borrowings	8.1	27.6		35.8	8.8	25.5		34.3
Current derivatives	14.7	3.5		18.2	6.2	3.7		9.9
Trade and other account payable	195.4	59.5	(14.8)	240.1	196.4	55.2	(16.9)	234.7
Income tax	0.0	-		0.0	0.4	-		0.4
Current provisions	26.1	2.0		28.1	24.0	1.7		25.7
Total current liabilities	**244.3**	**92.7**	**(14.8)**	**322.2**	**235.9**	**86.1**	**(16.9)**	**305.1**
TOTAL EQUITY AND LIABILITIES	**1,428.9**	**857.4**	**(444.5)**	**1,841.7**	**1,371.5**	**827.2**	**(420.6)**	**1,778.1**

4.3. Statement of cash flows

	1Q20				1Q19			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	**(13.8)**	**(2.8)**	**0.8**	**(15.7)**	**22.1**	**1.6**		**23.7**
Depreciation and amortisation	17.3	9.5	(0.2)	26.5	15.6	6.8		22.4
Changes in provisions and other deferred expense	6.9	1.3		8.1	7.2	3.1		10.3
Impairment of gains/(losses) on disposals intangible assets	(1.0)	1.1	(0.6)	(0.6)	(0.7)	0.1		(0.6)
Net finance result	2.0	3.6		5.5	0.9	4.6		5.6
Regulatory collar	(2.3)	(4.1)		(6.4)	0.4	2.0		2.4
Government grants taken to income	(0.2)	(0.1)		(0.3)	(0.2)	(0.1)		(0.3)
Adjustments to profit	**22.5**	**11.2**	**(0.9)**	**32.9**	**23.2**	**16.6**		**39.8**
Inventories	7.2	(3.7)		3.5	(8.7)	(1.9)		(10.6)
Trade and other receivables	(2.2)	2.3		0.1	11.5	(1.8)		9.6
Current financial and other assets	(1.7)	-		(1.7)	(0.6)	-		(0.6)
Trade and other payables	3.5	(0.1)		3.4	(2.1)	(2.0)		(4.1)
Changes in working capital	**6.8**	**(1.5)**		**5.3**	**0.1**	**(5.8)**		**(5.7)**
Interest paid	(1.8)	(0.7)		(2.5)	(1.1)	(1.1)		(2.2)
Dividends received	-	-		-	-	-		-
Income tax received/(paid)	-	1.2		1.2	-	0.1		0.1
Other collections/(payments)	(0.0)	-		-	-	-		-
Other cash flows from operating activities	**(1.8)**	**0.5**		**(1.2)**	**(1.1)**	**(1.0)**		**(2.1)**
Net cash flow from operating activities	**13.8**	**7.5**		**21.2**	**44.2**	**11.4**		**55.6**
Property, plant and equipment	(26.9)	(35.2)	26.9	(35.2)	(26.7)	(64.3)		(91.0)
Intangible assets	(1.3)	(0.4)		(1.6)	(0.8)	(0.1)		(0.9)
Other financial assets	0.0	0.0		0.0	0.0	(0.0)		0.0
Disposals	0.4	-		0.4	0.2	-		0.2
Net cash flow used in investing activities	**(27.7)**	**(35.5)**	**26.9**	**(36.3)**	**(27.3)**	**(64.4)**		**(91.7)**
Free cash flow	**(13.9)**	**(28.1)**	**26.9**	**(15.1)**	**16.9**	**(53.0)**		**(36.1)**
Buyback/(disposal) of own equity instruments	(1.2)	26.9	(26.9)	(1.2)	(0.2)	-		(0.2)
Proceeds from and repayments of financial liabilities	63.8	4.7		68.5	(3.3)	(39.0)		(42.3)
Dividends payments	-	-		-	-	-		-
Net cash flow from/ (used in) financing activities	**62.6**	**31.6**	**(26.9)**	**67.4**	**(3.5)**	**(39.0)**		**(42.4)**
Net increase/(decrease) in cash and cash equivalents	**48.7**	**3.6**		**52.3**	**13.5**	**(92.0)**		**(78.5)**

5. KEY DEVELOPMENTS

Measures taken to prevent the spread of COVID-19 and minimise its impact on the Group's people and operations

With the aim of safeguarding all Ence employees, the Group began to plan and implement COVID-19 prevention and mitigation measures well before society became aware of the scale of the pandemic in Spain, this being one of the key reasons why the impact of the coronavirus on the Group's activities has been scantly material or residual so far.

All of the measures taken have been overseen by the newly set up Emergency Committee (made up of the Chairman and the rest of Ence's Management Committee), which meets daily since the start of the health crisis to identify and implement new measures while ensuring that those already implemented are being met.

The measures taken by the Emergency Committee have proven effective: no Ence employees have contracted the virus to date.

At the operating level, the Group's facilities have to date been operating in line with capacity (as increased in 2019) since the advent of COVID-19, which has not, therefore, had an impact on business operations.

Nor have there been any significant changes in credit risk assessments or any signs that the Group's major pulp customers' creditworthiness may have become impaired (note that the Pulp business's sales on credit are 100% underwritten).

There have been no defaults and we have not identified the need to suspend or terminate any material contracts that could be described as onerous.

'Essential' activity status

All of Ence's activities - forest management, pulp production and renewable power generation - are deemed 'essential' under Spanish Royal Decree 463/2020, declaring the state of alarm in Spain, and therefore should continue to be performed throughout the COVID-19 health crisis.

Sensitivity analysis vis-a-vis adverse scenarios

Ence has worked on potential alternatives to adverse scenarios in the context of this pandemic and concrete action plans have been developed in the different areas involved that minimise its impact.

Notwithstanding the above, in view of the unpredictability of the current situation and its evolution, the company continues to actively analyse possible scenarios that could occur, the potential impact of which has not been assessed and which could require measures additional to those already implemented by Ence.

Measures taken to reinforce liquidity vis-a-vis potentially protracted adverse scenarios

In March, Ence's Pulp business drew down a €70 million revolving credit line due May 2023. The Company also made the most of its factoring and reverse factoring lines to ensure optimal management of its working capital coupled with an ample cash position.

Ence has renegotiated the payments for certain growth investments with certain suppliers in the amount of approximately €30m; originally due in 2020, those sums have been pushed back to 2021.

Ence has engaged a financial advisor to help it leverage the financial measures rolled out by the Spanish government in response to the health crisis with the aim of boosting its long-term financing lines by approximately €60m.

COVID-19 protocol

On 10 February, Ence began to inform the entire workforce about the various prevention measures introduced, which would ultimately articulate a protocol published on 24 February. That protocol establishes:

- ✓ Prevention measures with respect to workplace and personal hygiene regarding the distance to be maintained from colleagues at all times and the materials to be made available at all workplaces (masks, sanitisers, etc.)
- ✓ Specific measures for travel to work
- ✓ A ban on travel and recommendations for ensuring smooth working arrangements (Teams, working from home, etc.). Visits to the factory have been banned
- ✓ Meetings at work have been limited to no more than five people and all meetings outside of work have been banned (any exceptions to this and all the other bans must be approved at the committee level)
- ✓ Everyone's temperature is taken before entering their places of work
- ✓ Lunchrooms, vending machines and changing rooms have all been closed
- ✓ Specific recommendations have been made for postal delivery and couriers and for all manner of contractors and suppliers (couriers, etc.) with floor access
- ✓ Specific recommendations have been made for concrete situations in which it is not possible to maintain a minimum distance of 2 metres
- ✓ The protocol specifically regulates what to do in the event a person develops a cough or flu-like symptoms and what an employee should do if he or she has been in a place of risk or near people who have had contact with the virus, even if they are not exhibiting symptoms. Quarantines have been defined to address all of those possible circumstances.
- ✓ Specific course of action for particularly vulnerable employees. The definition of a vulnerable employee is broad and includes employees with certain illnesses, employees with healthcare providers in the family, etc.

Ence has made sure that the protocol and any updates thereto have reached every corner of the organisation; posters have been put up in every workplace to reinforce internal communication.

Other measures taken to safeguard Ence's people and ensure business continuity

Management at each biomill or energy plant reviews the minimum operating requirements daily to determine how many people can remain in preventive quarantine at a time in each team / shift / area without jeopardising continuity. At present just 11% of Ence's workforce is together at any one time.

That information has been used to define independent work teams for each section in each facility and those groups never come together, that way ensuring that replacement teams are duly isolated and so ready for immediate deployment in operations in the event that someone is infected in any of the groups. That measure of duplicating and isolating teams, coupled with the quarantines ordered in the event of the slightest possibility of exposure to an infected person, have proven highly effective to date.

Elsewhere, Ence is in the process of comprehensively auditing all of the facilities and activities at each workplace to ensure the practices dictated in the protocol are being carried out and the required resources (personal protective gear, etc.) are readily available. Those audits affect both Ence's and its subcontractors' employees.

The audit schedules are designed to ensure that each workplace is fully audited every three days at most. Between 70 and 80 audits are being carried out daily and the results are reported to the Management Committee, also daily. The observations arising from those audits are mainly aimed at verifying compliance with the protocol. The audits were initially carried out by the health and safety teams but are now being carried out by a broad hierarchy of professionals.

Ence's business involves interaction with many third parties: timber logging and transport contractors; operation & maintenance providers; goods and service suppliers, etc. Ence is also working actively with those stakeholders, providing them with advice and working to help them implement its protocol measures in their processes.

Key management personnel have been identified to ensure the continuity of the various corporate departments. 100% of those executives, along with most of the rest of the organisation, have been working effectively from home since 10 March.

2020 Annual General Meeting

Ence held its Annual General Meeting remotely on 31 March 2020. It was attended by shareholders representing 57% of its share capital who ratified all of the agenda items. The motions were carried with over 88% of votes in favour on average. The items ratified included:

- Approval of the 2019 financial statements, management report and sustainability report.
- Approval of the Board of Directors' performance and proposed appropriation of profit for 2019.
- Re-election of Ignacio de Colmenares Brunet as executive director and re-election of Víctor Urrutia Vallejo as proprietary director.
- Approval of the director remuneration policy for 2020-2022.
- Re-election of the Company's auditor.

Change in ratings at Moody's

On 10 March 2020, Moody's lowered Ence's credit rating from Ba2 to Ba3 as a result of the downtrend in pulp prices and the uncertainty sparked by the coronavirus.

On the other hand, it changed its outlook from negative to stable, highlighting the growing contribution by the Renewable Energy business, the postponement of new investments and new liquidity measures.

APPENDIX 1: MASTER SUSTAINABILITY PLAN

Sustainability is intrinsic to Ence's business activities as a leading player in the bioeconomy and an important producer of renewable power. Sustainability is fully integrated into Ence's vision and mission and is one of its strategic priorities. Indeed, sustainability is one of the cornerstones of the firm's 2019-2023 Strategic Plan.

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Strategic Plan. It constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. The plan sets out six priority lines of initiative:

1. Ence's people and values

Commitment to people has guided ENCE's actions in the face of the COVID-19 crisis. Thus, in February, the Prevention Protocol against COVID-19, which establishes the measures and behaviors to be adopted to avoid the spread of said pandemic, was approved and put into practice in the various units of the Company. As an example of the speed of the Company's actions and in application of the aforementioned Protocol, on March 4 the inauguration of the Huelva 46 plant, scheduled for March 10, was postponed until further notice. It was to be chaired by the President of the Andalusian Government, with the assistance of numerous representatives of the Administration.

On the human capital front, the Company's key objectives are: the provision of quality work; fostering of diversity and equal opportunities; development of talent; improvement of the organisational climate; and creation of a sustainability culture within the organisation.

In terms of the generation of quality work, note that as of March 2020, 86% of Ence employees had indefinite employment contracts and 98% were working full time.

Ence's commitment to equality materialised in a 4.4% increase in female employees in the first quarter to account for 22.5% of the total. Moreover, 75% of graduate hires under the age of 30 and 60% of the executive and individual contract hires were female. The gender pay gap at Ence was 0% in 2019.

Elsewhere, as part of the effort to create sustainability awareness, Ence has launched equality and sustainability related training programmes addressed at the entire organisation. During the first quarter of 2020, over 800 professionals received equality and sustainability related training.

2. Safe and eco-friendly operations

Ence is working to achieve zero workplace accidents. In parallel, it is striving for exemplary business operations in environmental terms, by upholding the most stringent standards.

During the first quarter, Ence's health and safety effort was dictated by the health crisis unleashed by COVID-19.

Ence's pioneering response in its sector and in the Spanish manufacturing industry more generally set a precedent. It analysed all the risks deriving from the crisis and implemented prevention measures very early on, framed by its ongoing commitment to protecting all its professionals (Ence's and contractors' employees) and their families no matter the circumstances. Many sectors and companies have since taken their lead from Ence in setting their COVID-19 strategies.

As a result, several weeks before COVID-19 peaked in Spain, the Ence Group already had a robust action plan for the prevention of infection encompassing preventative measures along several fronts: organisational, workplace health and safety, communication, and crisis management. Some of the most noteworthy measures include the implementation of social distancing, remote working and preventive quarantine rules; the drafting and updating (as often as three times a week) of emergency protocols; access controls and the daily disinfection of company facilities; and daily monitoring by a high-level crisis committee.

Ence's decisive response to the crisis has enabled it not only to protect the health of its employees and contractors but also to continue its activities - deemed essential - to ensure the supply of hygiene and healthcare products and the generation of electricity.

In general terms, the Group's key accident performance indicators improved year-on-year in the first quarter. Specifically, its injury frequency rate stood at 2.7 (1Q19: 3.9), while monthly lost-time injuries averaged 1.3 (1Q19: 2.6).

As for its environmental performance, Ence's operations centres hold the corresponding integrated environmental permits and sector authorisations required for the pursuit of their industrial activities. Those permits set emission limits for each facility based on best available techniques as well as monitoring and control plans in respect of all significant environmental parameters.

However, environmental management at Ence means more than simply complying with environmental legislation, to which end it has developed a total quality management (TQM) system which addresses matters related to quality, health and safety and environmental protection as one. Framed by that system, it sets improvement targets in order to minimise the environmental impacts of its activities in areas such as:

- ✓ Reducing odour pollution
- ✓ Reducing noise
- ✓ Reducing air quality impact
- ✓ Improving the quality of wastewater
- ✓ Enhanced energy efficiency
- ✓ Reducing water consumption
- ✓ Reducing the consumption of raw materials
- ✓ Cutting waste generation
- ✓ Improving the management systems

The integrated management system in place at the Navia, Pontevedra and Huelva operations centres is certified by an accredited organisation in keeping with the following international standards: The UNE-EN-ISO 9001 quality management standard, the UNE-EN-ISO 14001 environmental management standard and the OHSAS 18001 workplace health and safety standard. It is audited annually. These three facilities also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. The continuous improvement approach has enabled Ence to outperform the limits set in its environmental permits by over 80%, while the environmental results achieved means that the pulp produced in Pontevedra and Navia carries the Nordic Swan seal (the official Scandinavian ecolabel) and the EU Ecolabel.

Among the environmental milestones achieved in the first quarter of 2020, it is worth highlighting the reduction in water consumption per tonne of pulp produced at the Pontevedra biomill, which improved by 3.4% compared to year-end and is down by over 20% on aggregate over the last four years. At Navia water consumption also improved considerably, falling 11.4% from year-end 2019.

As for odour emissions, Pontevedra's monthly emissions, in minutes, improved by 44%, so that the biomill's odour impact index decreased from 0.19 to 0.14. The equivalent reading at the Navia biomill was flat year-on-year.

On the circular economy front, it is worth noting that both biomills and all of the biomass power generation plants are recycling and recovering waste at levels of over 90%, while the Pontevedra biomill was the first facility in its sector to achieve 'Zero Waste' certification from AENOR in 2019.

3. Rural and forest development

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

Indeed, Ence has cemented itself as a benchmark in Spain in sustainable forest management, applying internationally-recognised standards of excellence, such as the FSC® (FSC-C099970) (Forest Stewardship Council®) and PEFC (Program for the Endorsement of Forest Certification) schemes to the forest assets it manages and encouraging their adoption by its supply chain. As of the March close, 85% of its forest assets were certified under these standards and 82% of the timber that entered its biomills last year came with one or both certifications.

As for its effort to create value for its suppliers, the Company lends particular support to small firms, which represent 68.2% of Ence's suppliers. In the first quarter of 2020, the volume of standing timber purchased from

465 forest holders, virtually all of whom small-scale holders, amounted to nearly 212,000 cubic metres. In total, the volume of timber procured amounted to 0.83 million cubic metres, purchased for €56m.

Ence also strives to contribute to development in the areas in which it operates. To that end it encourages the purchase of timber locally; year-to-date, all of the timber bought came from Galicia, Asturias, Cantabria and the Basque region. Local timber purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering our carbon footprint.

Ence's renewable energy activities also make it an important player in the mobilisation of agricultural and forestry biomass in Spain. As a result, Ence not only contributes to minimising the environmental impacts of inappropriate management of agricultural and forestry waste, it actually creates value for the suppliers of these materials, while helping to invigorate the economy in the supply areas and stem the tide of rural depopulation. Specifically in 2019, Ence mobilised over half a million tonnes of biomass, worth over €18m, through its plants.

As well as generating value for its biomass suppliers, Ence contributes to fostering more sustainable agricultural management. To that end, Ence continues to make progress on the application of its 10-Point Declaration on the Sustainability of Biomass, which is leading to a gradual increase in the consumption of agricultural biomass, from 18.5% in 2016 to 37.7% in the first quarter of 2020.

4. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019. That development is 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 timber consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging suitable for substituting materials such as plastic. One of Ence's sustainability targets for 2020 is to increase sales of its products with special sustainability attributes. In the first quarter of the year, sales of Naturcell, a highly resistant, less-white pulp used to make paper bags and tissue paper products for more environmentally-conscious consumers, already topped those of all of 2019.

5. Community commitment

Ence remains committed to investing in its local communities. In 2019, it launched the third edition of its Pontevedra Community Plan, endowed with €3 million for social, environmental, sports and entrepreneurship projects, and initiatives aimed at addressing social exclusion. Ence has agreements with the town councils of Navia and San Juan del Puerto, endowed with €200,000, for the sponsorship and patronage of social and other community activities.

In addition to the above community investments, in the first quarter of 2020, Ence continued to roll out specific relations plans for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Against the backdrop of those plans, in 2019 Ence's facilities welcomed more than 700 visitors and received over 400 additional visitors in the first quarter of 2020 (before being interrupted by the COVID-19 crisis). In parallel to those facility tours, Ence carried out numerous training, education and volunteering activities with the help of its employees.

On top of those activities designed to improve community relations, it is worth highlighting the knock-on effects and impact on socioeconomic development Ence's activities have in communities such as Asturias and Galicia. It is estimated that Ence's biomill in Navia generates more than 6,400 direct, indirect and induced jobs, of which more than 440 are at the facility itself. More than half of them hail from Navia and surrounding towns. The Navia biomill also has a significant positive impact on local forestry, where it is responsible for an estimated 2,600 jobs, and on industries related with Ence's activities, such as timber harvesting, transportation and transformation. Ence's activities in Asturias also serve as a growth engine, creating wealth indirectly in other sectors such as the hospitality, food and independent retailing sectors.

Ence's biomill in Pontevedra is similarly an important source of job and wealth creation in the area. Over 5,100 families depend on the mill directly and indirectly, including 400 employees, around 2,700 contractor jobs in the industrial, logistics and transportation areas and over 2,100 jobs in the Galician forestry sector. In transport alone, the 300 trucks that enter the biomill daily paint a picture of the significance of the complex's activities for the local business landscape. As for the value generated for suppliers and contractors, note that in 2019, Ence purchased €65.4 million of goods and services from enterprises based in the province of Pontevedra.

6. ESG positioning

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.

Ence has been working hard on its board's gender diversity, increasing the female presence in the boardroom from 7% in 2017 to 29% in 2020. In parallel, it has been focusing on gradually updating its corporate policies and reinforcing its transparency, expanding the information published about its governing bodies. The appointment of a lead independent director has reinforced debate in the boardroom and helped channel proposals from the non-executive members of the board.

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.

During the first quarter of 2020, the Company began to contact investors with the specific aim of outlining the nature of Ence's corporate governance system. The purpose of that effort is to enhance understanding of how the Company's governance bodies are set up, structured, run and remunerated and to gather feedback from investors on ESG matters.

On 31 March 2020, the Company held its Annual General Meeting which, in light of the prevailing extraordinary health crisis, was conducted entirely remotely, in keeping with Spanish Royal Decree-Law 8/2020 on urgent and extraordinary measures for combatting the economic and social impact of COVID-19 and Ence's in-house rules and regulations.

All of the resolutions submitted to the Company's shareholders for ratification were carried. Among the motions carried, it is worth highlighting approval of the annual financial statements and the non-financial statement (Sustainability Report) for 2019; the re-election of Ignacio de Colmenares Brunet as executive director (he was also re-elected by the Board as its Chairman and the Company's CEO); and approval of the director remuneration policy for 2020, 2021 and 2022. That remuneration policy is aligned with the core principles and values that govern director remuneration, is more clearly explained and worded and reinforces the link between the variable components of the remuneration received by the executive directors and financial and non-financial targets, the latter designed to foster the Company's sustainability in the long term.

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

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW) *	Type of fuel	Remuneration for operation 1Q20 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34,6	-	Lignin	26,2	-	2032
			55.312	Agroforestry biomass	50,5	7.500	
Navia	Biomass co-generation	40,3	-	Lignin	24,6	-	2034
	Biomass generation	36,2	230.249	Agroforestry biomass	49,8	7.500	
Huelva 41MW	Biomass generation	41,0	246.267	Agroforestry biomass	56,6	7.500	2025
Jaen 16MW	Biomass generation	16,0	261.021	Olive Pulp	35,1	7.500	2027
Ciudad Real 16MW	Biomass generation	16,0	261.021	Olive Pulp	35,6	7.500	2027
Cordoba 27MW	Biomass generation	14,3	229.592	Olive Pulp	36,4	7.500	2031
	Gas co-generation	12,8	-	Natural Gas	45,3	-	2030
Ciudad Real 50MW	Solar thermal plant	50,0	451.156	-	40,4	2.016	2034
Huelva 50MW	Biomass generation	50,0	266.460	Agroforestry biomass	48,3	7.500	2037
Mérida 20MW	Biomass generation	20,0	293.586	Agroforestry biomass	47,6	7.500	2039
Huelva 46 MW	Biomass generation	46,0	-	Agroforestry biomass	43,7	7.500	2044
Ciudad Real 50 MW	Biomass generation	50,0	-	Agroforestry biomass		7.500	2044

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

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

1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a return of 7.4% on the estimated cost of building a 'standard' plant. It takes the form of a sum per MW installed (gross), which in the case of Ence implies annual revenue of €63m in the Renewable Energy business and €10m in the Pulp business.

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

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

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

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

Eur / MWh	2020	2021	2022
LS2	63,1	60,5	56,6
LS1	58,8	56,3	52,7
Estimated pool price	54,4	52,1	48,8
LI1	50,1	48,0	44,9
LI2	45,7	43,8	41,0

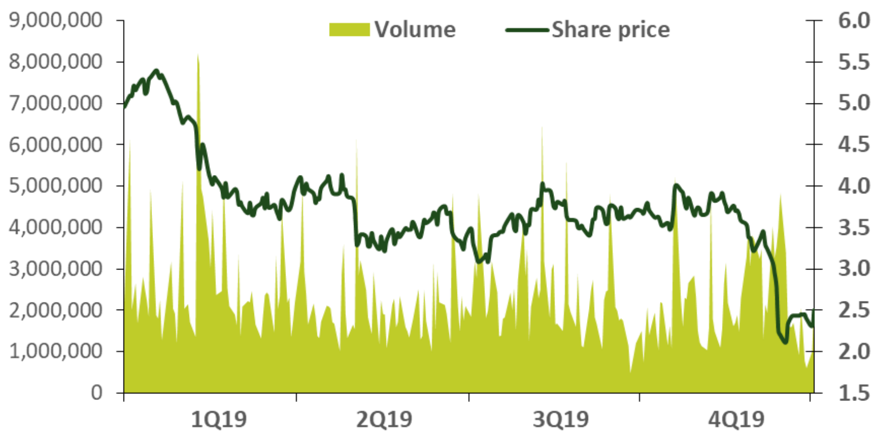
   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 2,016 hours for solar thermal electric power (there is no cap in the case of CHP). Output above this cap is sold at pool prices, with no entitlement to additional premiums.

3. Both the remuneration for investment and the regulated sale price are subject to a levy on the value of electric energy produced of 7%.

APPENDIX 3: SHARE PRICE PERFORMANCE

Ence's share capital consists of 246,272,500 shares with a unit par value of €0.90. They 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-35 index.

Ence's share price ended the first quarter at €2.50 per share, down 31.9% from the year-end close price, in line with the sector and broader equity market correction brought about by the fears about the consequences of the global spread of COVID-19 and the measures being taken by the various countries to contain it.



Source: Bloomberg

SHARES	2Q19	3Q19	4Q19	1Q20
Share price at the end of the period	3.97	3.49	3.67	2.50
Market capitalization at the end of the period	977.2	859.5	903.8	615.7
Ence quarterly evolution	(20.0%)	(12.0%)	5.2%	(31.9%)
Daily average volume (shares)	2,748,155	2,108,567	2,309,519	2,288,921
Peers quarterly evolution *	(22.9%)	(3.2%)	5.0%	(25.3%)

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp

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 €7.2635 per share. The convertible bonds are traded on the Frankfurt stock exchange. Their trading performance reflected the movement in the value of the conversion option in line with the correction in the share price.

CONVERTIBLE BOND	2Q19	3Q19	4Q19	1Q20
Bond price at the end of the period	94.47	94.27	94.26	80.50
Yield to worst at the end of the period*	2.845%	3.025%	3.168%	8.979%

*Yield to maturity

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

	RATING	OUTLOOK	DATE
Moody's	**Ba3**	**Stable**	**10/03/2020**
S&P	**BB**	**Negative**	**18/11/2019**

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:

CASH COST

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

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

As a result, the difference between the average sales price and the cash cost applied to the total sales volume in tonnes yields a figure that is a very close proxy for the EBITDA generated by the Pulp business.

EBITDA

EBITDA is a measure used in the statements of profit or loss presented in this report, in sections 2.6, 3.3 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

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

CASH FLOW ANALYSIS

The Cash Flow Analysis presented in sections 1, 2.7 and 3.4 of this report differs from the cash flow movements presented in the statement of cash flows included in section 4.3 and also presented in the annual financial statements.

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

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

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 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

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

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of its capex-related cash outflows for each of its business units in sections 1, 2.7 and 3.4, distinguishing between maintenance, efficiency, growth and sustainability capex.

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

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

FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 2.7, 3.4 and 4.3 of this report.

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

NET DEBT

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

Net debt is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet and the sum of cash and cash equivalents and other financial investments within current assets, as outlined in sections 2.8 and 3.5 of this report.

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

DISCLAIMER

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

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

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

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Earnings Report

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