Second-quarter 2020 Earnings Report

28 July 2020

80 Overall ESG

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1. EXECUTIVE SUMMARY

Market figures	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
BHKP (USD/t) average price	680.4	938.6	(27.5%)	680.0	0.1%	680.2	966.9	(29.7%)
Average exchange rate (USD/€)	1.10	1.12	(2.2%)	1.10	(0.4%)	1.10	1.13	(2.6%)
BHKP (€/t) average price	619.7	835.9	(25.9%)	617.1	0.4%	617.6	855.5	(27.8%)
Average pool price (€/MWh)	23.3	48.5	(52.1%)	35.9	(35.2%)	29.0	51.7	(43.9%)

Source: Bloomberg

Operating Metrics	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Pulp production (t)	**258,860**	**226,182**	***14.4%***	**261,758**	***(1.1%)***	**520,617**	**465,344**	***11.9%***
Pulp sales (t)	**246,584**	**218,846**	***12.7%***	**273,236**	***(9.8%)***	**519,820**	**437,950**	***18.7%***
Average sales pulp price (€/t)	416.8	575.8	(27.6%)	418.2	(0.3%)	417.5	590.4	(29.3%)
Cash cost (€/t)	375.1	398.7	(5.9%)	380.1	(1.3%)	377.6	396.2	(4.7%)
Renewable Energy sales volume (MWh)	**354,508**	**235,429**	***50.6%***	**258,436**	***37.2%***	**612,945**	**482,652**	***27.0%***
Average sales price - Pool + Ro (€/MWh)	97.6	105.0	(7.1%)	96.6	1.0%	98.0	101.7	(3.6%)
Remuneration for investment (€ m)	15.9	15.9	0.0%	15.9	(0.0%)	31.7	31.7	0.0%

P&L € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Revenue from Pulp business	128.8	151.5	(15.0%)	139.1	(7.4%)	267.9	308.1	(13.1%)
Revenue from Renewable Energy business	50.8	40.8	24.5%	45.2	12.3%	96.0	80.8	18.7%
Consolidation adjustments	(1.1)	(1.7)		(0.7)		(1.9)	(2.8)	
Total revenue	**178.4**	**190.6**	(6.4%)	**183.5**	(2.8%)	**362.0**	**386.2**	(6.3%)
Pulp business EBITDA	3.4	27.8	(87.7%)	5.4	(37.2%)	8.9	66.6	(86.7%)
Margin %	3%	18%	(15.7) p.p.	4%	(1.3) p.p.	3%	22%	(18.3) p.p.
Renewable Energy business EBITDA	15.5	12.5	23.9%	11.3	37.2%	26.9	25.7	4.7%
Margin %	31%	31%	(0.1) p.p.	25%	5.6 p.p.	28%	32%	(3.8) p.p.
EBITDA	**19.0**	**40.3**	(53.0%)	**16.8**	13.0%	**35.7**	**92.3**	(61.3%)
Margin %	*11%*	*21%*	(10.5) p.p.	*9%*	1.5 p.p.	*10%*	*24%*	(14.0) p.p.
Depreciation, amortisation and forestry depletion	(27.9)	(22.4)	24.8%	(26.5)	5.3%	(54.5)	(44.8)	21.6%
Impairment of and gains/(losses) on fixed-asset disposals	(0.0)	1.0	n.s.	0.5	n.s.	0.4	1.6	(73.6%)
Other non-ordinary results of operations	(1.3)	(1.1)	19.0%	(1.3)	-	(2.5)	(2.1)	19.0%
EBIT	**(10.3)**	**17.8**	n.s.	**(10.6)**	(2.9%)	**(20.8)**	**47.0**	n.s.
Net finance cost	(6.9)	(6.3)	10.1%	(6.1)	13.5%	(13.0)	(13.0)	0.1%
Other finance income/(cost) results	(0.5)	(0.7)	(37.4%)	1.0	n.s.	0.5	0.6	(10.2%)
Profit before tax	**(17.6)**	**10.8**	n.s.	**(15.7)**	12.3%	**(33.3)**	**34.6**	n.s.
Income tax	4.6	(2.5)	n.s.	4.1	11.6%	8.7	(8.1)	n.s.
Net income	**(13.0)**	**8.3**	n.s.	**(11.6)**	12.6%	**(24.6)**	**26.4**	n.s.
Non-controlling interests	(0.5)	(0.6)	(11.4%)	(0.2)	146.7%	(0.7)	(1.4)	(48.3%)
Atributable Net Income	**(13.6)**	**7.7**	n.s.	**(11.8)**	15.0%	**(25.4)**	**25.0**	n.s.
Earnings per share (Basic EPS)	(0.06)	0.03	n.s.	(0.05)	15.0%	(0.10)	0.10	n.s.

Cash flow € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
EBITDA	**19.0**	**40.3**	(53.0%)	**16.8**	13.0%	**35.7**	**92.3**	(61.3%)
Change in working capital	5.5	2.2	147.0%	5.3	4.1%	10.9	(3.5)	n.s.
Maintenance capex	(3.9)	(7.1)	(44.8%)	(5.2)	(24.9%)	(9.1)	(12.5)	(27.3%)
Net interest Payment	(7.3)	(5.9)	23.0%	(2.5)	197.4%	(9.7)	(8.2)	19.4%
Income tax received/(paid)	(0.2)	(5.4)	(96.4%)	1.2	n.s.	1.0	(5.3)	n.s.
Normalised free cash flow	**13.1**	**24.2**	(45.8%)	**15.7**	(16.2%)	**28.8**	**62.9**	(54.2%)
Other collection (payments) and non cash expenses (revenues)	(8.9)	(2.4)	n.s.	0.4	n.s.	(8.5)	9.1	n.s.
Payments for 2019 expansion capex	(7.5)	(61.0)	(87.7%)	(22.3)	(66.3%)	(29.8)	(140.7)	(78.8%)
Payments for 2019 sustainability capex	(2.4)	(9.7)	(75.2%)	(9.3)	(74.1%)	(11.8)	(16.6)	(29.3%)
Disposals	-	4.4	(100.0%)	0.4	(100.0%)	0.4	4.5	(90.9%)
Free cash flow	**(5.7)**	**(44.7)**	(87.2%)	**(15.1)**	(62.2%)	**(20.8)**	**(80.8)**	(74.2%)
Dividends from the parent	-	(13.2)	-	-	n.s	-	(13.2)	(100.0%)

Net debt € m	Jun-20	Dec-19	Δ%
Net financial debt Pulp business	322.1	305.7	5.4%
Net financial debt Renewable Energy business	217.9	207.0	5.3%
Net financial debt	**540.0**	**512.7**	5.3%

- ✓ **Prompt and rigorous application of Ence's internal protocols for the prevention and minimisation of COVID-19 risks for the Group's staff and operations enabled it to continue operating during the health crisis, with no jobs lost.**
- ✓ **All of Ence's activities - pulp production, forest management and renewable power generation - were deemed 'essential' under Spanish Royal Decree 463/2020 and could therefore continue to be performed throughout the COVID-19 health crisis.**
- ✓ **Pulp production increased by 14% year-on-year in 2Q20 and by 12% in 1H20, driven by the new capacity expansions carried out in 2019. Both of the biomills' annual maintenance stoppages have been postponed to the third quarter due to the mobility limitations imposed during the health crisis and to minimise the associated risks for our professionals. Some of the upgrades planned during those stoppages require the presence of foreign experts.**
- ✓ **Pulp sales increased by 13% year-on-year in 2Q20 and by 19% in 1H20, from which 94% went to the European market (82% in 2019) and 57% went to the tissue paper segment for the production of 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 in 1H20 (6% in 2019).**
- ✓ **The growth in production and sales volumes helped shaping a 6% year-on-year reduction in the cash cost in 2Q20 (equivalent to €24/tonne), to €375/tonne, and a 5% year-on-year reduction in 1H20 (equivalent to €19/tonne), to €378/tonne.**
- ✓ **EBITDA in the Pulp business amounted to €3.4m in 2Q20 and €8.9m in 1H20, marking a contraction of 87% compared to 1H19, shaped by the 29% decrease in the average sales price.**
- ✓ **Hardwood pulp prices were flat in Europe, having fallen sharply in 2019, leaving them at their lowest level in the last 10 years.**
- ✓ **Elsewhere, sales in the Renewable Energy business increased by 51% year-on-year in 2Q20 thanks to the commissioning of two new agricultural and forestry biomass plants: a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real. The commissioning of the new plants and the repair of a turbine problem at the 41-MW plant in Huelva were delayed by the fallout from the pandemic. In the first half of 2020, renewable energy sales increased by 27% compared to 1H19.**
- ✓ **EBITDA in the Renewable Energy business was 24% higher year-on-year in 2Q20, at €15.5m, thanks to the contribution by the new plants, offsetting the 7% drop in the average sales price to the floor set by the regulator (regulatory collar). First-half EBITDA amounted to €27m in this business, growth of 5%.**
- ✓ **The Group's net debt at the June close stood at €540m, €322m in the Pulp business and €218m 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 maximise liquidity and lock in the ability to respond to any business scenario, Ence increased its long-term financing lines by €137m during the first half, negotiated the deferral until 2021 of €37m of capex payments and stepped up the use of its undrawn factoring and reverse factoring lines. As a result, the Group's unrestricted cash ended June at €342m, up 51% from year-end 2019. Of that sum, €234m corresponds to the Pulp business and €108m 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 keep net debt-to-EBITDA in this segment below 2.5x (assuming average cycle prices).**
- ✓ **Development of the 405-MW pipeline of grid-authorised renewable capacity, for which locations have been secured, is pending the announcement of the next public auctions under the scope of Spain's National Renewable Energy Plan. Meanwhile, the permitting process continues and is expected to finalise between 3Q21 and 1Q22.**
- ✓ **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.

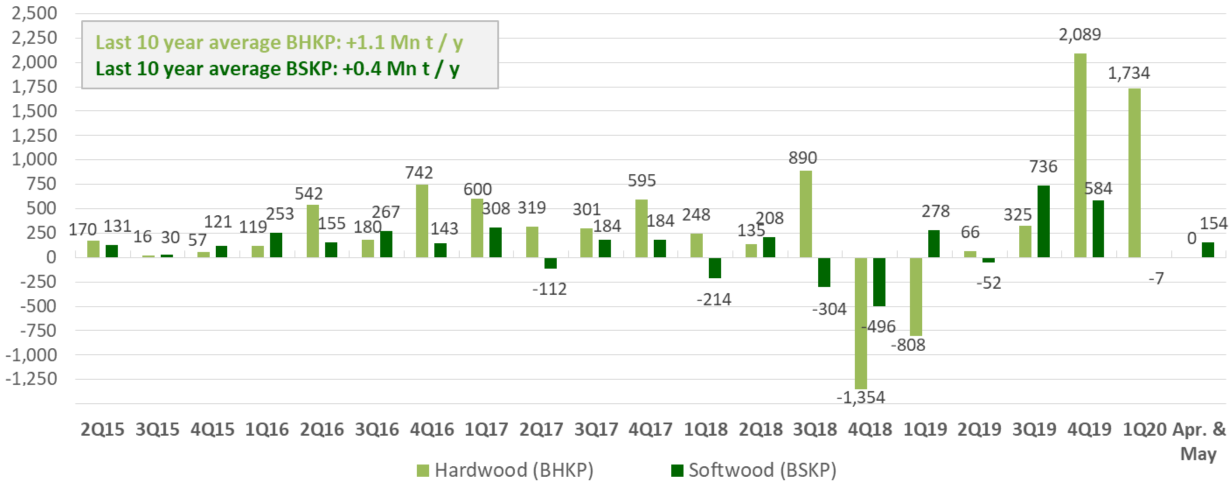
Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process,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

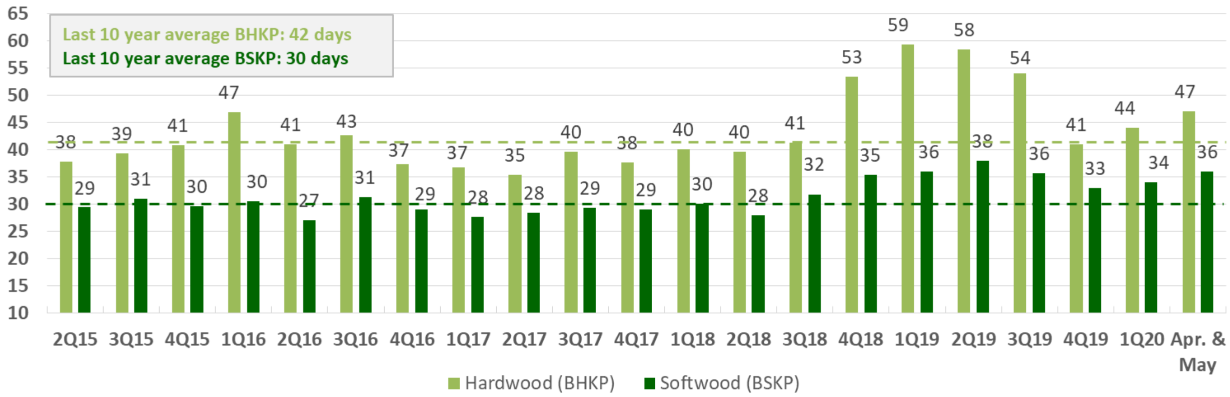
Year-on-year change in global demand for pulp, last five years (tonnes, 000)



Source: Ence, PPPC–GL100

In general, the pulp market continued to function during the first half of the year, despite the global spread of COVID-19. Year-on-year growth in demand for pulp during the first five months of 2020 recovered to 7.8%, equivalent to 1.9 million tonnes; recall that demand had been affected by destocking in the paper industry in the first half of 2019. The replenishment of stocks, coupled with growth in demand for tissue paper and hygiene products, offset the drop in demand for printing and writing papers as a result of the lockdown measures taken to curb COVID-19 around the world.

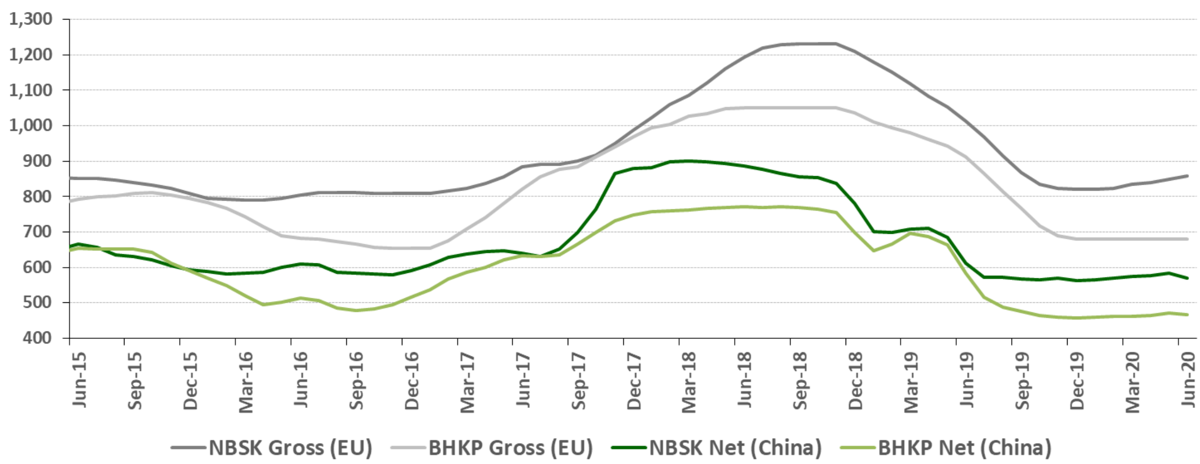
Pulp producer inventories during the last five years (quarterly average in no. of days)



Source: Ence, PPPC–GL100

Producer inventories increased during the first half as a result of their activity levels, having pushed back maintenance stoppages to the second half of the year due to the pandemic; that pattern was exacerbated by that fact that the lockdown measures had an adverse effect on demand for printing and writing papers mostly during the second quarter.

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



Source: FOEX

At the June close, hardwood pulp (BHKP) prices remained at $680/tonne (gross) in Europe and $460/tonne (net) in China, while softwood pulp (BSKP) prices had firmed by $39/tonne to $859/tonne (gross) in Europe and by $8/tonne to $566/tonne (net) in China.

Those 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

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 first half of the year.

	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Pulp sales (t)	**246,584**	**218,846**	*12.7%*	**273,236**	*(9.8%)*	**519,820**	**437,950**	*18.7%*
Average sales price (€/t)	416.8	575.8	*(27.6%)*	418.2	*(0.3%)*	417.5	590.4	*(29.3%)*
Pulp sales revenue (€ m)	**102.8**	**126.0**	*(18.4%)*	**114.3**	*(10.1%)*	**217.0**	**258.6**	*(16.1%)*

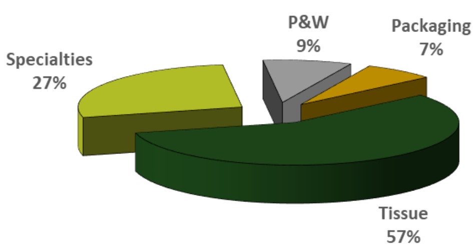
Pulp sales volumes increased by 12.7% year-on-year in 2Q20 to 246,584 tonnes, driven by growth in output following the capacity added in 2019. In the first half, pulp sales registered growth of 18.7% from 1H19, to 519,820 tonnes.

Quarter-over-quarter, sales volumes declined by 9.8% due to the sale during the first quarter of 11,478 tonnes of pulp from inventories, compared to the stocking up of 12,276 tonnes during the second quarter in order to ensure the ability to service customers during the maintenance stoppages programmed at both biomills during the third quarter. As a result, pulp inventories stood at 55,490 tonnes at the June close.

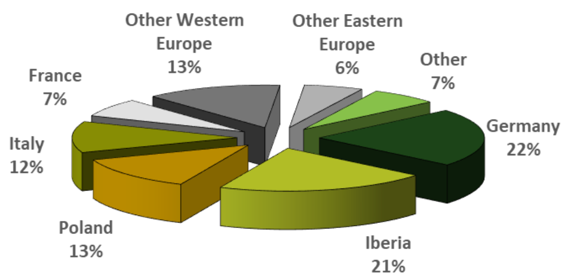
Meanwhile, the average sales price fetched by Ence during the second quarter was flat compared to the first quarter but 27.6% lower than in 2Q19 due to the drop in benchmark prices in Europe. The average sales price decreased by 29.3% year-on-year in 1H20.

The combination of the two factors resulted in a year-on-year reduction in revenue from pulp sales of 18.4% to €102.8m in 2Q20 and of 16.1% to €217m in 1H20.

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 57% of revenue from pulp sales in 1H20, followed by the specialty paper segment, at 27%. The printing and writing paper segment accounted for 9% of sales and packaging, the remaining 7%.

Most of the pulp produced by Ence is sold in Europe, specifically 94% of revenue from pulp sales in 1H20. Germany and Iberia accounted for 22% and 21% of total revenue, respectively, followed by Poland (13%), Italy (12%) and France (7%). The other western European countries accounted for 13% 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 1H20 sales.

2.3. Pulp production and the cash cost

Prompt and rigorous application of Ence's internal protocols for the prevention and minimisation of COVID-19 risks for the Group's people and operations enabled it to operate *business as usual* throughout the first half.

All of Ence's activities were deemed 'essential' under Spanish Royal Decree 463/2020 and could therefore continue to be performed throughout the health crisis caused by the global spread of COVID-19.

	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Navia pulp production	143,353	115,274	*24.4%*	142,968	*0.3%*	286,321	247,142	*15.9%*
Pontevedra pulp production	115,507	110,908	*4.1%*	118,789	*(2.8%)*	234,296	218,202	*7.4%*
Pulp production (t)	**258,860**	**226,182**	*14.4%*	**261,758**	*(1.1%)*	**520,617**	**465,344**	*11.9%*

Pulp production increased by 14.4% year-on-year to 258,860 tonnes in 2Q20, as a result of 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. In the first half, pulp output registered growth of 11.9% from 1H19, to 520,617 tonnes.

Both of the biomills' annual maintenance stoppages have been postponed to the third quarter due to the mobility limitations imposed during the health crisis and in order to minimise the associated risks for our professionals, as some of the upgrades planned during those stoppages require the presence of foreign experts. In 2019 the annual stoppages took place during the first half of the year: the Pontevedra biomill was stopped for 10 days during 1Q19 and the Navia biomill, for 12 days in 2Q19. The Navia biomill was also idled for 37 days in 4Q19 for its capacity expansion.

Figures in €/t	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Wood cost	206.1	210.0	*(1.9%)*	204.3	*0.9%*	205.2	209.8	*(2.2%)*
Conversion costs	105.9	116.4	*(9.0%)*	117.9	*(10.2%)*	112.0	116.4	*(3.7%)*
Sales and logistic costs	28.9	31.0	*(6.6%)*	31.6	*(8.5%)*	30.3	31.1	*(2.4%)*
Overheads	34.2	41.3	*(17.2%)*	26.3	*30.2%*	30.1	38.9	*(22.7%)*
Total cash cost	**375.1**	**398.7**	*(5.9%)*	**380.1**	*(1.3%)*	**377.6**	**396.2**	*(4.7%)*

Ence's cash cost was €375.1/tonne in the second quarter, down 5.9% (or €24/tonne) year-on-year and 1.3% (€5/tonne) quarter-on-quarter. The 1H20 cash cost improved by 4.7% (or €19/tonne) compared to 1H19. That improvement was shaped by a €9/tonne reduction in unit overheads, a €5/tonne reduction in timber costs, a €4/tonne drop in unit conversion costs and a €1/tonne improvement in sales, marketing and logistics costs.

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

Ence uses the lignin and forest biomass derived from its manufacturing activities to generate the energy needed for the pulp production process. Specifically, 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**.

	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Navia energy sales	143,745	110,582	*30.0%*	139,405	*3.1%*	283,150	239,124	*18.4%*
Pontevedra energy sales	67,298	55,136	*22.1%*	61,721	*9.0%*	129,018	111,552	*15.7%*
Energy sales linked to the pulp process (MWh)	**211,043**	**165,718**	*27.4%*	**201,126**	*4.9%*	**412,169**	**350,676**	*17.5%*
Average sales price - Pool + Ro (€/MWh)	78.5	92.6	*(15.3%)*	78.3	*0.2%*	78.4	91.5	*(14.4%)*
Remuneration for investment (€ m)	2.6	2.6	*(0.0%)*	2.6	*0.1%*	5.1	5.1	*0.1%*
Revenues from energy sales linked to pulp (€ m)	**19.1**	**17.9**	*6.8%*	**18.3**	*4.4%*	**37.4**	**37.2**	*0.6%*

The energy sales related with pulp production increased by 27.4% year-on-year in 2Q20 to 211,043 MWh and by 17.5% year-on-year in 1H20 to 412,169 MWh, fuelled by the growth in pulp production. Note that energy sales in the first half of 2019 were affected by the annual maintenance stoppages carried out at both biomills.

Average sales prices, on the other hand, declined by 15.3% year-on-year to €78.5/MWh in 2Q20 and by 14.4% in 1H20 to €78.4/MWh, as a result of the correction in pool prices which dipped to the floor set by the regulator.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - increased by 6.8% year-on-year in 2Q20 to €19.1m and by 0.6% year-on-year in 1H20 to €37.4m.

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.

	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Forestry and other revenue (m €)	**6.9**	**7.5**	*(8.5%)*	**6.5**	*6.3%*	**13.4**	**12.4**	*8.3%*

Forestry revenue amounted to €6.9m in 2Q20 and €13.4m in 1H20 (€12.4m in 1H19).

Exploitation of the eucalyptus plantations located in the south of Spain was reactivated in early 2019 following the execution 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	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Total net revenue	**128.8**	**151.5**	*(15.0%)*	**139.1**	*(7.4%)*	**267.9**	**308.1**	*(13.1%)*
EBITDA	**3.4**	**27.8**	*(87.7%)*	**5.4**	*(37.2%)*	**8.9**	**66.6**	*(86.7%)*
EBITDA margin	*3%*	*18%*	*(15.7) p.p.*	*4%*	*(1.3) p.p.*	*3%*	*22%*	*(18.3) p.p.*
Depreciation and amortisation	(14.1)	(13.1)	*7.7%*	(13.9)	*1.6%*	(28.0)	(26.5)	*5.6%*
Depletion of forestry reserves	(3.2)	(2.3)	*37.8%*	(3.4)	*(5.9%)*	(6.7)	(4.5)	*47.2%*
Impairment of and gains/(losses) on fixed-asset dispos	(0.1)	1.0	*n.s.*	0.9	*n.s.*	0.8	1.7	*(51.1%)*
Other non-recurring gains/(losses)	(1.3)	(1.1)	*19.0%*	(1.3)	*-*	(2.5)	(2.1)	*0.2 p.p.*
EBIT	**(15.3)**	**12.3**	*n.s.*	**(12.2)**	*25.4%*	**(27.5)**	**35.2**	*n.s.*
EBIT margin	*-12%*	*8%*	*(20.0) p.p.*	*-9%*	*(3.1) p.p.*	*-10%*	*11%*	*(21.7) p.p.*
Net finance cost	(2.8)	(2.1)	*37.1%*	(2.6)	*10.8%*	(5.4)	(4.1)	*30.0%*
Other financial results	(0.4)	(0.7)	*(39.4%)*	1.0	*n.s.*	0.5	0.6	*(8.2%)*
Profit before tax	**(18.5)**	**9.5**	*n.s.*	**(13.8)**	*34.6%*	**(32.3)**	**31.6**	*n.s.*
Income tax	4.6	(2.2)	*n.s.*	3.4	*34.0%*	8.0	(7.8)	*n.s.*
Net Income	**(14.0)**	**7.3**	*n.s.*	**(10.4)**	*34.8%*	**(24.3)**	**23.8**	*n.s.*

EBITDA in the Pulp business amounted to €3.4m in 2Q20, down €2m from 1Q20 as a result of the 9.8% quarter-on-quarter decline in sales due to the effect of inventory strategies to prepare the biomills for their annual stoppages, which have been pushed back to the third quarter due to COVID-19.

In comparison with 1H19, first-half EBITDA declined by 86.7% to €8.9m as a result of a 29.3% decrease in the average sales price, partially offset by the 4.7% improvement in the cash cost and growth of 18.7% 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 €5.0m in 2Q20 and of €9.5m in 1H20, compared to losses of €8.9m in 2Q19 and of €14.7m in 1H19.

In addition, EBITDA this half includes other expenses, net of other income, that are not included in the cash cost, of €2.4m. The income and expenses not included in the cash include the EBITDA generated on the sale of timber to third parties, charges for community work in the vicinity of the Group's biomills, working capital provisions, non-recurring staff costs and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were 5.6% higher year-on-year at €28m in 1H20, reflecting the capital expenditure incurred in 2019, while forest depletion charges increased by 47.2% to €6.7m as a result of higher use and sales of timber sourced from proprietary plantations.

Impairment and gains/(losses) on the disposal of assets, in the amount of €0.8m in 1H20, mainly includes the reversal of the impairment charges recognised on the remaining assets in Huelva, which were transferred to the Renewable Energy business during the first quarter, thus completing the full separation of the two units' assets. Other non-recurring operating charges include a €2.5m provision for expenses under Ence's Environmental Pact in Pontevedra, signed in June 2016.

Lastly, net finance cost increased by €1.3m year-on-year in 1H20 to €5.4m, in line with the growth in gross borrowings. 'Other finance income/costs' include €0.5m of exchange rate gains on working capital.

As a result, the Pulp business posted a net loss of €14m in 2Q20 and of €24.3m in 1H20, compared to a profit of €7.3m in 2Q19 and of €23.8m in 1H19.

2.7. Statement of cash flows

Operating cash flow amounted to €7.7m in 2Q20 and €21.5m in 1H20, down 41.3% and 62.5% year-on-year, respectively, due to the outlined decline in EBITDA, which was partially offset by a lower working capital requirement and lower taxes.

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
EBITDA	**3.4**	**27.8**	*(87.7%)*	**5.4**	*(37.2%)*	**8.9**	**66.6**	*(86.7%)*
Non cash expenses / (income)	(1.5)	(1.0)	*44.0%*	3.0	*n.s.*	1.6	5.3	*(70.2%)*
Other collections / (payments)	(0.1)	0.2	*n.s.*	0.3	*n.s.*	0.2	0.3	*(33.4%)*
Change in working capital	6.5	(8.4)	*n.s.*	6.8	*(5.0%)*	13.2	(8.3)	*n.s.*
Income tax received / (paid)	0.0	(5.1)	*n.s.*	(0.0)	*n.s.*	0.0	(5.1)	*n.s.*
Net interest received / (paid)	(0.6)	(0.2)	*159.5%*	(1.8)	*(64.4%)*	(2.4)	(1.4)	*73.2%*
Net cash flow from operating activities	**7.7**	**13.1**	*(41.3%)*	**13.8**	*(44.0%)*	**21.5**	**57.4**	*(62.5%)*

Movements in working capital implied a cash inflow of €6.5m in 2Q20 and of €13.2m in 1H20, due mainly to the increase in trade payables as a result of greater reliance on reverse factoring lines.

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Inventories	(12.0)	(8.4)	*43.5%*	7.2	*n.s.*	(4.8)	(17.1)	*(71.7%)*
Trade and other receivables	(6.6)	(6.6)	*(0.5%)*	(2.2)	*203.9%*	(8.8)	4.8	*n.s.*
Financial and other current assets	0.0	(4.1)	*n.s.*	(1.7)	*n.s.*	(1.7)	(4.7)	*(63.9%)*
Trade and other payables	25.1	10.7	*134.2%*	3.5	*n.s.*	28.6	8.6	*232.2%*
Change in working capital	**6.5**	**(8.4)**	*n.s.*	**6.8**	*(5.0%)*	**13.2**	**(8.3)**	*n.s.*

As of the June close, the Group had drawn down €75m of non-recourse factoring facilities in the Pulp business, compared to €74.4m at year-end 2019. Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €104.9m at the June close, compared to €82.1m at year-end.

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Maintenance capex	(2.9)	(5.4)	*(46.2%)*	(3.8)	*(23.0%)*	(6.7)	(9.1)	*(26.7%)*
Expansion capex	(4.3)	(39.0)	*(89.1%)*	(17.0)	*(74.9%)*	(21.2)	(57.4)	*(63.0%)*
Sustainability capex and other	(2.1)	(7.6)	*(71.9%)*	(7.4)	*(71.0%)*	(9.6)	(13.0)	*(26.5%)*
Financial investments	0.0	(0.1)	*n.s.*	0.0	*(28.0%)*	0.0	(0.1)	*n.s.*
Investments	**(9.3)**	**(52.2)**	*(82.2%)*	**(28.1)**	*(67.0%)*	**(37.4)**	**(79.7)**	*(53.0%)*
Disposals	-	4.3	*(100.0%)*	0.4	*(100.0%)*	0.4	4.5	*(90.9%)*
Net cash flow used in investing activities	**(9.3)**	**(47.8)**	*(80.6%)*	**(27.7)**	*(66.5%)*	**(37.0)**	**(75.1)**	*(50.7%)*

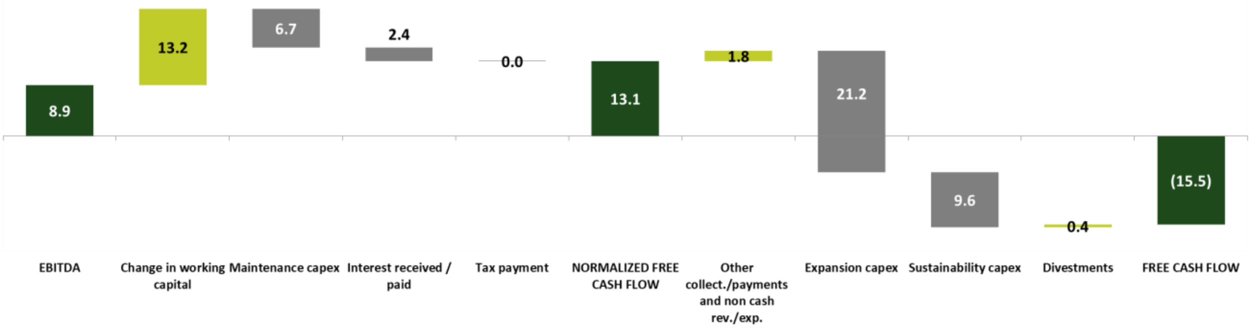
The cash outflow from investing activities amounted to €9.3m in 2Q20 and €37m in 1H20, representing year-on-year declines of 80.6% and 50.7%, respectively. Recall that the Group made major investments under the scope of its Strategic Plan in 2019.

Firstly, maintenance capex was pared back to €2.9m in 2Q20 and to €6.7m in 1H20, compared to €5.4m and €9.1m in the same periods of 2019, respectively.

Secondly, the outlay for efficiency and growth capex was reduced to €4.3m in 2Q20 and to €21.2m in 1H20, compared to €39m and €57.4m in the same periods of 2019, respectively. Those payments are mainly related with the capacity added in 2019. During the first half of 2020, the Group negotiated the deferral of €37m of such payments to 2021.

Thirdly, sustainability-related capex was kept at €2.1m in 2Q20 and to €9.6m in 1H20, compared to €7.6m and €13m in the same periods of 2019, respectively. Those investments are largely related with a range of initiatives targeted at reinforcing safety and reducing odour, noise and water consumption at the biomills, an effort that will make Ence more competitive in the long run.

Lastly, the proceeds from disposals mainly include the sale of a residual interest in a non-core Group investee for €0.4m in 1Q20.



As a result, normalised free cash flow in the Pulp business amounted to €13.1m in 1H20, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €15.5m.

2.8. Change in net debt

The Pulp business had €322.1m of net debt at 30 June 2020, €45.7m of which corresponds to lease liabilities. That balance marks growth of €16.4m from year-end 2019.

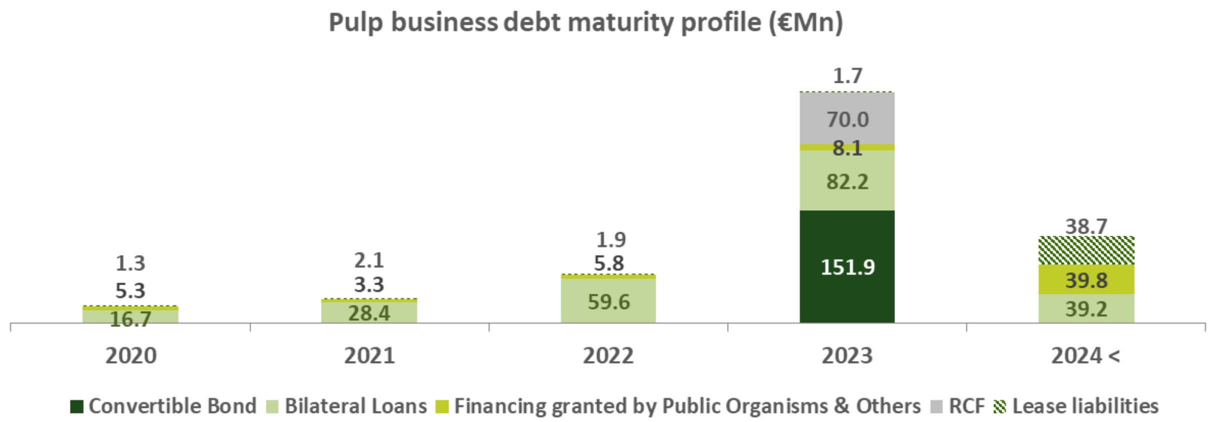
The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 18.5x at the June close. Note that the leverage ratio is adversely affected by the one-off EBITDA loss recognised during the fourth quarter of 2019 as a result of the stoppage of the Navia biomill that quarter in order to increase its capacity. Note additionally that the financing arranged by the Pulp business is not subject to any leverage covenants.

Figures in € m	Jun-20	Dec-19	Δ%
Non-current financial debt	474.9	361.1	*31.5%*
Current financial debt	35.5	6.7	*n.s.*
Gross financial debt	**510.4**	**367.8**	*38.8%*
Non-current lease contracts	43.4	41.5	*4.5%*
Current lease contracts	2.3	2.1	*7.4%*
Financial liabilities related to lease contracts	**45.7**	**43.7**	*4.6%*
Cash and cash equivalents	227.8	101.3	*124.8%*
Short-term financial investments	6.1	4.4	*38.2%*
Net financial debt Pulp business	**322.1**	**305.7**	*5.4%*

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 2019). In addition, during the second quarter it arranged €66.5m of new credit lines with maturity dates ranging until 2025.

As a result, at the reporting date, the Pulp business had cash and cash equivalents of €233.9m.

The gross debt of €510.4m at the June close corresponds mainly to the €151.9m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €226.1m on its bilateral loans, including the €70m revolving credit facility, and a series of loans totalling €62.4m 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 agricultural and forestry 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 Mérida (20 MW); one in Jaén (16 MW); and a complex in Córdoba (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, marking delays with respect to the initially planned timing due to the health crisis induced by COVID-19.

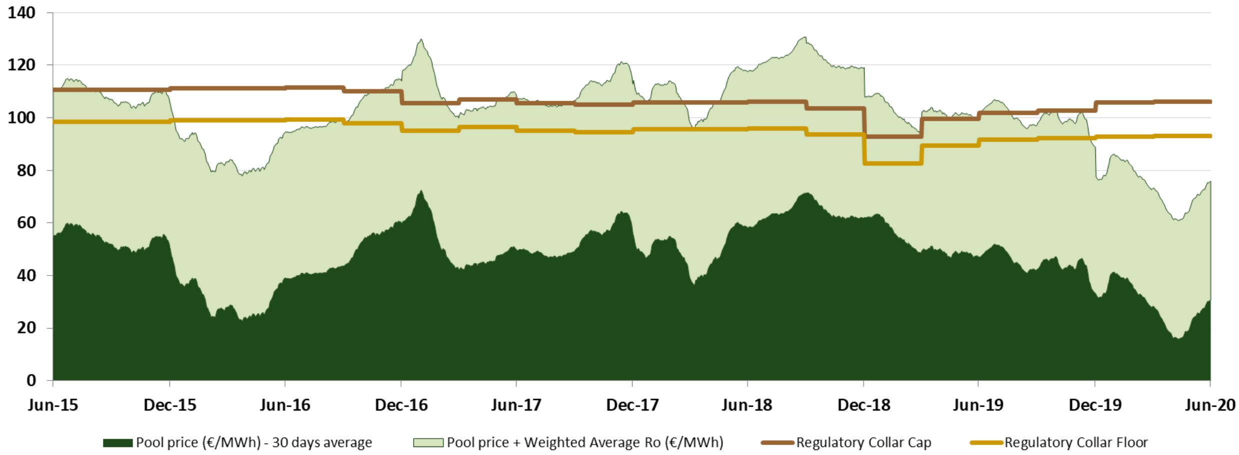
3.1. Electricity market trends

The average pool price in Spain declined by 52.1% year-on-year in 2Q20 to €23.3/MWh and by 43.9% in 1H20 to €29/MWh.

	2Q20	2Q19	*Δ%*	1Q20	*Δ%*	1H20	1H19	*Δ%*
Average pool price (€/MWh)	23.3	48.5	*(52.1%)*	35.9	*(35.2%)*	29.0	51.7	*(43.9%)*

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

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



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

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

3.2. Energy sales

All of Ence's activities were deemed 'essential' under Spanish Royal Decree 463/2020 and could therefore continue to be performed throughout the health crisis caused by the global spread of COVID-19.

The volume of energy sold increased by 50.6% year-on-year and by 37.2% quarter-on-quarter to 354,508 MWh in 2Q20, thanks to the contribution made by two new biomass plants, a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real, commissioned on 31 January and 31 March, respectively. Sales volumes increased by 27% year-on-year in 1H20.

It is worth highlighting the growth in output at the 16-MW biomass plant in Ciudad Real in 2Q20 following its repowering in 1Q20, and at the 50-MW Huelva and 16-MW Jaen plants due to upgrades implemented at those facilities during the second and fourth quarters of 2019, respectively. The drop in output at the 50-MW solar thermal plant in Ciudad Real is attributable to lower solar radiation during the reporting period, while the turbine at the 41-MW biomass plant in Huelva broke down during the first quarter and is scheduled to be restarted in 3Q20. One quarter later than scheduled due to the health crisis induced by COVID-19.

	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Huelva 41 MW - Biomass	-	13,976	*(100.0%)*	28,139	*(100.0%)*	28,139	48,766	*(42.3%)*
Jaén 16 MW - Biomass	21,927	21,219	*3.3%*	24,182	*(9.3%)*	46,108	40,107	*15.0%*
Ciudad Real 16 MW - Biomass	25,910	23,372	*10.9%*	7,360	*n.s.*	33,270	45,917	*(27.5%)*
Córdoba 27 MW - Biomass	47,187	48,173	*(2.0%)*	50,293	*(6.2%)*	97,479	100,125	*(2.6%)*
Ciudad Real 50 MW - Solar thermal plant	19,127	27,910	*(31.5%)*	5,707	*235.2%*	24,833	39,286	*(36.8%)*
Huelva 50 MW - Biomass	81,122	66,896	*21.3%*	86,973	*(6.7%)*	168,095	139,867	*20.2%*
Mérida 20 MW - Biomass	33,776	33,883	*(0.3%)*	35,478	*(4.8%)*	69,254	68,584	*1.0%*
	64,482	-	-	20,305	*217.6%*	84,787	-	-
	60,979	-	-	-	-	60,979	-	-
Energy sales (MWh)	**354,508**	**235,429**	*50.6%*	**258,436**	*37.2%*	**612,945**	**482,652**	*27.0%*
Average sales price - Pool + Collar + Ro (€/MWh)	97.6	105.0	*(7.1%)*	96.6	*1.0%*	98.0	101.7	*(3.6%)*
Remuneration for investment (€ m)	15.9	15.9	*0.0%*	15.9	*(0.0%)*	31.7	31.7	*0.0%*
Revenue (€ m)	**50.8**	**40.8**	*24.5%*	**41.0**	*23.7%*	**91.8**	**80.8**	*13.6%*
Revenue (€ m)	-	-	-	4.1	-	4.1	-	-
Revenue (€ m)	**50.8**	**40.8**	*24.5%*	**45.2**	*12.3%*	**96.0**	**80.8**	*18.7%*

** The average sales price of €101.7/MWh in 1H19 included a provision equivalent to €3.8/MWh for the temporary suspension of the electricity generation levy by the regulator in 1Q20 which had no impact at the EBITDA level.*

The average second-quarter sales price of €97.6/MWh was 7.1% lower than the 2Q19 equivalent as a result of the downtrend in pool prices, which drove Ence's average sale price to the floor contemplated by the regulator. In 1H20, the average sales price of €98/MWh was 3.6% lower than in 1H19, when the average included a provision equivalent to €3.8/MWh for the temporary suspension of the electricity generation levy by the regulator which had no impact at the EBITDA level. On a like-for-like basis, the average 1H20 sale price would have been 7.1% lower year-on-year.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). That accounting treatment implied the recognition of revenue of €10.9m in 2Q20 and of €15m in 1H20, compared to a reduction in revenue of €0.4m and €2.2m, respectively, in that same connection in the same periods of 2019.

Note that both the remuneration for operations (Ro) and the floor and cap set by the regulator (regulatory collar) applicable during the term of effectiveness of the state of emergency in Spain are to be reviewed, as dictated in Royal Decree-Law 23/2020 (of 23 June 2020) on economic reactivation measures in the energy and other fields.

Lastly, 1H20 revenue includes €4.1m corresponding to the energy sold by the new biomass plants during testing in the first quarter, before their consolidation; that revenue was recognised along with the corresponding expenses so that the impact at the EBITDA level was neutral.

In total, and factoring in remuneration for investment, unchanged, the Renewable Energy business posted revenue of €50.8m in 2Q20, up 24.5% year-on-year, and of €96m in 1H20, growth of 18.7%.

3.3. Statement of profit or loss

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Total revenue	**50.8**	**40.8**	*24.5%*	**45.2**	*12.3%*	**96.0**	**80.8**	*18.7%*
EBITDA	**15.5**	**12.5**	*23.9%*	**11.3**	*37.2%*	**26.9**	**25.7**	*4.7%*
EBITDA margin	*31%*	*31%*	*(0.1) p.p.*	*25%*	*5.6 p.p.*	*28%*	*32%*	*(3.8) p.p.*
Depreciation and amortisation	(11.1)	(6.9)	*60.1%*	(9.3)	*19.2%*	(20.3)	(13.7)	*48.3%*
Depletion of forestry reserves	(0.0)	(0.0)	*58.3%*	(0.2)	*(77.8%)*	(0.2)	(0.0)	*n.s.*
Impairment of and gains/(losses) on fixed-asset disposals	(0.5)	(0.0)	*n.s.*	(1.1)	*(54.6%)*	(1.6)	(0.1)	*n.s.*
EBIT	**3.9**	**5.6**	*(29.2%)*	**0.8**	*n.s.*	**4.7**	**11.8**	*(60.1%)*
EBIT margin	*8%*	*14%*	*(5.9) p.p.*	*2%*	*6.1 p.p.*	*5%*	*15%*	*(9.7) p.p.*
Net finance cost	(4.1)	(4.2)	*(3.2%)*	(3.6)	*15.4%*	(7.7)	(8.9)	*(13.8%)*
Profit before tax	**(0.2)**	**1.3**	*n.s.*	**(2.8)**	*(93.5%)*	**(3.0)**	**2.9**	*n.s.*
Income tax	0.1	(0.3)	*n.s.*	0.7	*(90.2%)*	0.8	(0.3)	*n.s.*
Net Income	**(0.1)**	**1.0**	*n.s.*	**(2.1)**	*(94.6%)*	**(2.2)**	**2.6**	*n.s.*
Non-controlling interests	(0.5)	(0.6)	*(11.4%)*	(0.2)		(0.7)	(1.4)	*(48.3%)*
Atributable Net Income	**(0.6)**	**0.4**	*n.s.*	**(2.3)**	*(72.2%)*	**(2.9)**	**1.2**	*n.s.*

EBITDA in the Renewable Energy business amounted to €15.5m in 2Q20, up 37.2% from 1Q20 and growth of 23.9% year-on-year thanks to the contribution by the two new biomass plants, which offset the above-mentioned drop in the average sales price to the floor set by the regulator. First-half EBITDA increased by 4.7% year-on-year.

Below EBITDA it is worth highlighting the year-on-year growth in depreciation and amortisation charges of 48.3% in 1H20 to €20.3m as a result of the addition of two new biomass plants during the first quarter and the transfer of the remaining Pulp business assets in Huelva.

Impairment losses amounted to €1.6m in 1H20 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 first quarter.

Net finance costs amounted to €7.7m, which is down 13.8% from 1H19, which had included the fees incurred to arrange 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 €0.6m in 2Q20 and of €2.9m in 1H20, compared to a profit of €0.4m in 2Q19 and of €1.2m in 1H19.

3.4. Statement of cash flows

Net cash from operating activities amounted to €0.4m in 2Q20 (€15.8m in 2Q19) and €7.8m in 1H20 (€27.2m in 1H19). The decline is largely attributable to the effect of the regulatory collar and its accounting treatment; the revenue recognised is collected for cash purposes over the remainder of the various plants' useful lives.

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
EBITDA	**15.5**	**12.5**	*23.9%*	**11.3**	*37.2%*	**26.9**	**25.7**	*4.7%*
Non cash expenses / (incomes)	(7.4)	(0.9)	*n.s.*	(2.9)	*155.0%*	(10.3)	4.1	*n.s.*
Other collections / (payments)	(0.0)	(0.5)	*(96.1%)*	(0.0)	*n.s.*	(0.0)	(0.5)	*(95.4%)*
Change in working capital	(0.9)	10.7	*n.s.*	(1.5)	*(38.0%)*	(2.4)	4.9	*n.s.*
Income tax received / (paid)	(0.2)	(0.3)	*(26.3%)*	1.2	*n.s.*	1.0	(0.2)	*n.s.*
Net interest received / (paid)	(6.7)	(5.7)	*17.2%*	(0.7)	*n.s.*	(7.3)	(6.8)	*8.5%*
Net cash flow from operating activities	**0.4**	**15.8**	*(97.7%)*	**7.5**	*(95.1%)*	**7.8**	**27.2**	*(71.2%)*

The change in working capital implied cash outflows of €0.9m in 2Q20 and of €2.4m in 1H20, compared to inflows of €10.7m and €4.9m in 2Q19 and 1H19, respectively.

Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Inventories	(0.9)	(1.1)	*(17.6%)*	(3.7)	*(76.1%)*	(4.5)	(3.0)	*51.1%*
Trade and other receivables	(9.7)	6.7	*n.s.*	2.3	*n.s.*	(7.4)	4.9	*n.s.*
Trade and other payables	9.6	5.0	*91.9%*	(0.1)	*n.s.*	9.5	3.0	*218.5%*
Change in working capital	**(0.9)**	**10.7**	*n.s.*	**(1.5)**	*(38.0%)*	**(2.4)**	**4.9**	*n.s.*

As of the June close, the Renewable Energy business had drawn down its factoring lines by €21.5m, 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 €31.7m at the June close, compared to €10.5m at year-end.

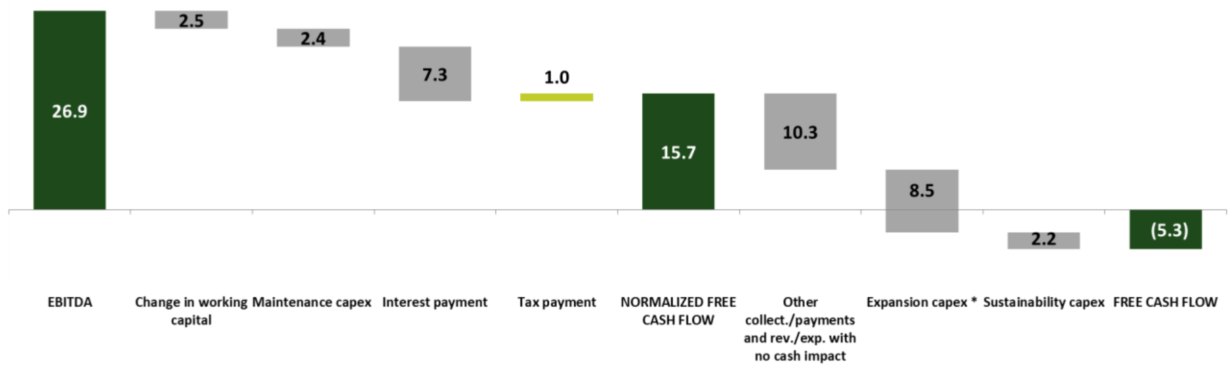
Figures in € m	2Q20	2Q19	Δ%	1Q20	Δ%	1H20	1H19	Δ%
Maintenance capex	(1.0)	(1.7)	*(40.3%)*	(1.4)	*(29.9%)*	(2.4)	(3.4)	*(28.7%)*
Efficiency and expansion capex	(3.2)	(36.4)	*(91.1%)*	(32.2)	*(90.0%)*	(35.4)	(97.6)	*(63.7%)*
Sustainability capex and other	(0.3)	(2.1)	*(87.0%)*	(1.9)	*(85.8%)*	(2.2)	(3.6)	*(39.4%)*
Financial investments	(0.0)	(0.0)	*(95.5%)*	0.0	*n.s.*	0.0	(0.0)	*n.s.*
Investments	**(4.5)**	**(40.2)**	*(88.8%)*	**(35.5)**	*(87.3%)*	**(40.0)**	**(104.6)**	*(61.7%)*
Disposals	-	0.0	*(100.0%)*	-	*n.s.*	-	0.0	*(100.0%)*
Net cash flow from investing activities	**(4.5)**	**(40.2)**	*(88.8%)*	**(35.5)**	*(87.3%)*	**(40.0)**	**(104.6)**	*(61.7%)*

The cash outflow from investing activities amounted to €4.5m in 2Q20 and €40m in 1H20, year-on-year declines of 88.8% and 61.7%, respectively. Recall that the Group incurred significant expenditure in 2019 in order to build the two new biomass plants commissioned during the first quarter of 2020.

First-half efficiency and growth investments of €35.4m notably include the transfer during the first quarter 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 Group's consolidated cash flows. The remaining €8.5m corresponds largely to outstanding payments due on the new biomass plants.

Maintenance and sustainability capex totalled €4.6m in 1H20, down 34.3% year-on-year.

As a result, normalised free cash flow in the Renewable Energy business amounted to €15.7m in 1H20, while free cash flow net of efficiency, growth and sustainability capex, excluding the impact of the Pulp business assets transferred, which had no impact on the Group's consolidated statement of cash flows, came in at a negative €5.3m. That balance also includes the regulatory collar adjustment recognised during the quarter in the amount of €15m.



** 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.*

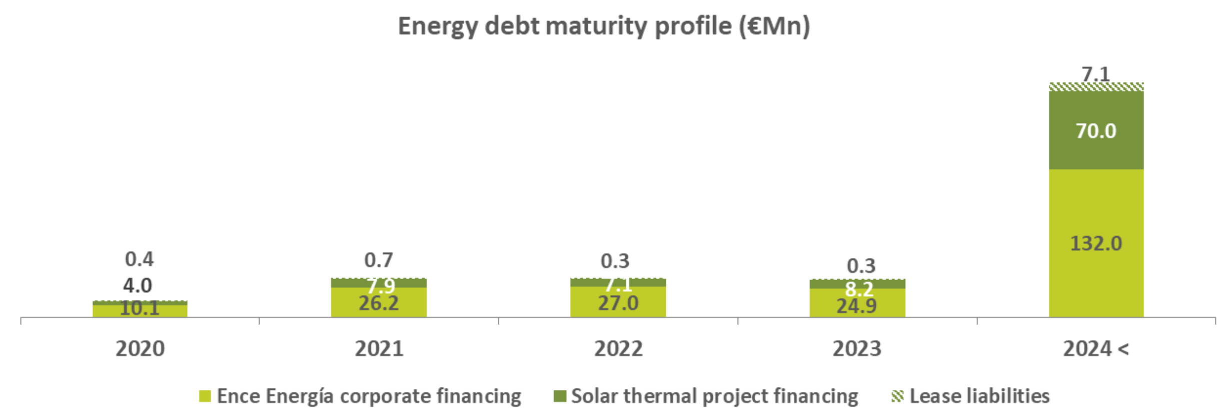
3.5. Change in net debt

The Renewable Energy business had €217.9m of net debt at 30 June 2020, €8.9m of which corresponds to lease liabilities. That balance marks growth of €10.9m from year-end 2019.

Figures in € m	Jun-20	Dec-19	Δ%
Non-current financial debt	285.4	294.2	*(3.0%)*
Current financial debt	32.0	25.1	*27.1%*
Gross financial debt	**317.4**	**319.3**	*(0.6%)*
Non-current lease contracts	8.3	8.3	*0.3%*
Current lease contracts	0.6	0.3	*84.1%*
Financial liabilities related to lease contracts	**8.9**	**8.6**	*3.6%*
Cash and cash equivalents	108.3	120.9	*(10.4%)*
Short-term financial investments	0.0	0.0	-
Net financial debt Renewable Energy business	**217.9**	**207.0**	*5.3%*

Cash amounted to €108.3m at the June close and the ratio of net debt-to-LTM EBITDA in the Renewable Energy business stood at 4.1x.

This unit's €317.4m of gross borrowings at the June close corresponded mainly to the €220.2m drawn down under the corporate finance facility and the €97.2m 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

	1H20				1H19			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**267.9**	**96.0**	**(1.9)**	**362.0**	**308.1**	**80.8**	**(2.8)**	**386.2**
Other income	4.2	1.5	(1.1)	4.6	8.2	0.8	(1.9)	7.1
Foreign exchange hedging operations results	(9.5)	-		(9.5)	(14.7)	-		(14.7)
Cost of sales and change in inventories of finished produ	(146.5)	(29.9)	1.9	(174.6)	(126.0)	(22.3)	2.8	(145.5)
Personnel expenses	(39.0)	(6.4)		(45.5)	(39.9)	(6.0)		(45.9)
Other operating expenses	(68.1)	(34.2)	1.1	(101.2)	(69.2)	(27.6)	1.9	(94.9)
EBITDA	**8.9**	**26.9**		**35.7**	**66.6**	**25.7**		**92.3**
EBITDA margin	*3%*	*28%*		*10%*	*22%*	*32%*		*24%*
Depreciation and amortisation	(28.0)	(20.3)	0.8	(47.6)	(26.5)	(13.7)		(40.2)
Depletion of forestry reserves	(6.7)	(0.2)		(6.9)	(4.5)	(0.0)		(4.6)
Impairment of and gains/(losses) on fixed-asset disposals	0.8	(1.6)	1.2	0.4	1.7	(0.1)		1.6
Other non-ordinary operating gains/(losses)	(2.5)	-		(2.5)	(2.1)	-		(2.1)
EBIT	**(27.5)**	**4.7**	**1.9**	**(20.8)**	**35.2**	**11.8**		**47.0**
EBIT margin	*-10%*	5%		-6%	*11%*	15%		*12%*
Net finance cost	(5.4)	(7.7)		(13.0)	(4.1)	(8.9)		(13.0)
Other finance income/(costs)	0.5	(0.0)		0.5	0.6	(0.0)		0.6
Profit before tax	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**	**31.6**	**2.9**		**34.6**
Income tax	8.0	0.8		8.7	(7.8)	(0.3)		(8.1)
Net Income	**(24.3)**	**(2.2)**	**1.9**	**(24.6)**	**23.8**	**2.6**		**26.4**
Non-controlling interests	-	(0.7)		(0.7)	-	(1.4)		(1.4)
Atributable Net Income	**(24.3)**	**(2.9)**	**1.9**	**(25.4)**	**23.8**	**1.2**		**25.0**
Earnings per Share (EPS)	(0.10)	(0.01)		(0.10)	0.10	0.00		0.10

4.2. Balance sheet

	Jun - 20				Dec - 19			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.4	60.2	(14.2)	61.4	14.9	61.4	(14.4)	61.9
Property, plant and equipment	635.1	626.5	(13.4)	1,248.2	647.3	592.7	(1.7)	1,238.3
Biological assets	73.7	0.2		73.9	78.7	0.3		79.1
Non-current investments in Group companies	326.0	0.0	(325.9)	0.1	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	2.6	5.4		8.0	3.6	5.2		8.7
Deferred tax assets	46.6	16.8		63.3	38.6	15.4		54.0
Total non-current assets	**1,174.5**	**709.0**	**(428.7)**	**1,454.9**	**1,170.8**	**675.0**	**(403.7)**	**1,442.2**
Inventories	50.4	15.2		65.6	44.9	11.7		56.6
Trade and other accounts receivable	66.9	35.6	(36.1)	66.4	41.6	17.6	(16.9)	42.2
Income tax	6.3	0.6		6.9	6.9	1.7		8.6
Other current assets	3.6	0.3		3.8	1.7	0.2		1.8
Current financial investments in Group companies	0.8	0.2	(0.9)	0.0	-	0.0	(0.0)	-
Current financial investments	6.1	0.0		6.1	4.4	0.0		4.5
Cash and cash equivalents	227.8	108.3		336.1	101.3	120.9		222.2
Total current assets	**361.9**	**160.2**	**(37.0)**	**485.0**	**200.7**	**152.1**	**(16.9)**	**336.0**
TOTAL ASSETS	**1,536.4**	**869.2**	**(465.7)**	**1,939.9**	**1,371.5**	**827.2**	**(420.6)**	**1,778.1**
Equity	**672.1**	**324.3**	**(349.5)**	**646.9**	**696.4**	**303.1**	**(324.5)**	**674.9**
Non-current borrowings	518.3	293.7		811.9	402.6	302.4		705.0
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.1	8.7		8.8	0.2	6.3		6.4
Deferred tax liabilities	22.7	17.5	(4.0)	36.3	23.0	18.6	(4.0)	37.6
Non-current provisions	3.3	9.5		12.8	3.4	9.4		12.8
Other non-current liabilities	6.7	22.8		29.5	10.1	26.1		36.2
Total non-current liabilities	**551.1**	**427.4**	**(79.1)**	**899.4**	**439.3**	**438.0**	**(79.2)**	**798.1**
Current borrowings	37.8	32.6		70.4	8.8	25.5		34.3
Current derivatives	4.6	3.6		8.1	6.2	3.7		9.9
Trade and other account payable	246.2	79.0	(36.1)	289.1	196.4	55.2	(16.9)	234.7
Short-term debts with group companies	0.1	0.8	(0.9)	-	0.0	-	-	-
Income tax	0.0	0.6		0.6	0.4	-		0.4
Current provisions	24.5	0.9		25.4	24.0	1.7		25.7
Total current liabilities	**313.2**	**117.5**	**(37.1)**	**393.6**	**235.9**	**86.1**	**(16.9)**	**305.1**
TOTAL EQUITY AND LIABILITIES	**1,536.4**	**869.2**	**(465.7)**	**1,939.9**	**1,371.5**	**827.2**	**(420.6)**	**1,778.1**

4.3. Statement of cash flows

Figures in € m	1H20 Pulp	1H20 Energy	1H20 Adjustments	1H20 Consolidated	1H19 Pulp	1H19 Energy	1H19 Adjustments	1H19 Consolidated
Consolidated profit/(loss) for the period before tax	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**	**31.6**	**2.9**		**34.6**
Depreciation and amortisation	34.7	20.6	(0.8)	54.5	31.5	13.3		44.8
Changes in provisions and other deferred expense	11.7	4.8		16.5	7.4	1.9		9.3
Impairment of gains/(losses) on disposals intangible asset	(1.0)	1.6	(1.2)	(0.6)	(1.7)	0.1		(1.6)
Net finance result	5.2	7.7		12.9	3.4	8.9		12.3
Regulatory collar	(7.1)	(15.0)		(22.1)	0.5	2.4		2.9
Government grants taken to income	(0.5)	(0.1)		(0.6)	(0.5)	(0.1)		(0.6)
Adjustments to profit	**43.0**	**19.5**	**(1.9)**	**60.6**	**40.6**	**26.4**		**67.0**
Inventories	(4.8)	(4.5)		(9.4)	(17.1)	(3.0)		(20.1)
Trade and other receivables	(8.8)	(7.4)		(16.2)	4.9	4.8		9.7
Current financial and other assets	(1.7)	-		(1.7)	(4.7)	-		(4.7)
Trade and other payables	28.6	9.5		38.1	8.6	3.0		11.6
Changes in working capital	**13.2**	**(2.4)**		**10.9**	**(8.3)**	**4.8**		**(3.5)**
Interest paid	(2.4)	(7.3)		(9.7)	(1.4)	(6.8)		(8.2)
Dividends received	-	-		-	-	-		-
Income tax received/(paid)	-	1.0		1.0	(5.1)	(0.2)		(5.3)
Other collections/(payments)	0.0	-		-	-	-		-
Other cash flows from operating activities	**(2.4)**	**(6.3)**		**(8.7)**	**(6.5)**	**(6.9)**		**(13.4)**
Net cash flow from operating activities	**21.5**	**7.8**		**29.3**	**57.4**	**27.2**		**84.6**
Property, plant and equipment	(35.3)	(39.7)	26.9	(48.1)	(91.2)	(90.0)	14.4	(166.9)
Intangible assets	(2.1)	(0.3)		(2.5)	11.7	(14.6)		(2.9)
Other financial assets	0.0	0.0		0.1	(0.1)	(0.0)		(0.1)
Disposals	0.4	-		0.4	4.5	0.0		4.5
Net cash flow used in investing activities	**(37.0)**	**(40.0)**	**26.9**	**(50.1)**	**(75.1)**	**(104.6)**	**14.4**	**(165.4)**
Free cash flow	**(15.5)**	**(32.2)**	**26.9**	**(20.8)**	**(17.8)**	**(77.4)**	**14.4**	**(80.8)**
Buyback/(disposal) of own equity instruments	(0.5)	26.9	(26.9)	(0.5)	(10.6)	14.4	(14.4)	(10.6)
Proceeds from and repayments of financial liabilities	142.5	(7.3)		135.2	(1.7)	(43.1)		(44.8)
Dividends payments	-	-		-	(13.2)	(0.8)		(14.1)
Net cash flow from/ (used in) financing activities	**142.0**	**19.7**	**(26.9)**	**134.7**	**(25.5)**	**(29.5)**	**(14.4)**	**(69.4)**
Net increase/(decrease) in cash and cash equivalents	**126.5**	**(12.6)**		**113.9**	**(43.3)**	**(106.9)**		**(150.2)**

5. KEY DEVELOPMENTS

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

Ence began to plan and execute COVID-19 response measures in February in order to protect its professionals from transmission and ensure the continuity of its operations.

The Emergency Committee set up - made up of the Chairman and the rest of Ence's Management Committee - has met daily since the onset of the health crisis in order to continue to take the measures necessary and make sure they are being strictly complied with throughout the entire organisation.

The measures have proven effective, preventing the spread of the virus in our workplaces and enabling business continuity throughout the health crisis.

'Essential' activity status

All of Ence's activities - pulp production, forest management and renewable power generation - were deemed 'essential' under Spanish Royal Decree 463/2020, declaring the state of alarm in Spain.

Minimisation of on-site work throughout the health crisis

The measures rolled out included having as many people as possible work from home, including all professionals deemed to be particularly at risk. On-site staff levels were reduced to the bare minimum.

Ence also devised shifts and designed non-intersecting isolated teams; meanwhile, back-up teams are kept in preventive isolation at home.

Both of the biomills' annual maintenance stoppages have been postponed to the third quarter due to the mobility limitations imposed during the health crisis and to minimise the associated risks for our professionals.

COVID-19 protocol

The Group's COVID-19 response protocol was implemented on 24 February and has since been complemented by a series of additional measures which have been updated regularly as more became known about the disease and its transmission.

That protocol is applicable in all of the Group's places of work and to all employees of Ence and its service providers. Among other things, it stipulates the following:

- ✓ The suspension of all travel and factory visits.
- ✓ Preventive quarantines for anyone with symptoms, anyone who has been in a place of risk or in proximity to people who may have been in contact with the virus.
- ✓ Specific measures governing travel to work and temperature checks before entering.
- ✓ Preventive measures with respect to workplace and personal hygiene, social distancing and the provision of materials (masks and hand sanitisers) at all workplaces.
- ✓ Closure of canteens, vending machines and changing rooms.
- ✓ Specific measures for the various classes of contractors and suppliers who need access to Ence's places of work.
- ✓ Measures for testing health status before returning to work (coronavirus testing).
- ✓ Online training about the protocol.

Internal communication has been stepped up to ensure that the protocol and each update reach every corner of the organisation. To ensure stringent compliance, daily audits are carried out in each work centre, with all activities reviewed every three days at most.

Phasing out of restrictions

The Company is monitoring developments in the pandemic and its measures for curbing its spread closely and continuously. As a result, people have been returning to work, very gradually since the end of June, guided by the case incidence during the previous 14 days in the areas in which each workplace is located and at all times framed by the safety measures dictated in Ence's COVID-19 protocol.

In addition, it has drawn up protocols covering what to do in the event of potential new outbreaks in the vicinity of Ence's places of work.

Sensitivity analysis vis-a-vis adverse scenarios

Ence has worked on potential adverse scenarios against the backdrop of the pandemic and developed specific action plans across the various areas implicated to minimise their impact.

Nevertheless, given the lack of visibility into the situation and where it may be headed, the Company continues to actively analyse the various scenarios that could emerge whose impact has not yet been evaluated and would require additional measures to those already taken by Ence.

Measures taken to boost liquidity

In light of the uncertainty sparked by the global spread of COVID-19 and with the aim of maximising its liquidity vis-a-vis a range of potential adverse and/or prolonged scenarios, in 1Q20 the Company drew down a €70 million revolving credit facility due May 2023 (undrawn at year-end 2019) and in 2Q20 it arranged new financing lines, the last of which matures in 2025, in the amount of €67m.

In tandem, it reinforced its working capital management tools by making greater use of its factoring and reverse factoring lines and negotiated with certain suppliers the deferral of €37m of capital expenditure related payments to 2021.

As a result, the Group's unrestricted cash ended June at €342m, up 51% from year-end 2019.

COVID-19 related costs

In the first half of 2020 the costs induced by COVID-19 amounted to €2.6m. Those costs include extra staff costs to implement the new safety and hygiene measures put in place and the provision of disinfectants, face masks, tests and equipment to facilitate working from home.

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 sustainable use of natural resources for the eco-efficient production of differentiated pulp and renewable energy. Sustainability is fully integrated into Ence's vision and mission and is one of its strategic priorities.

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

Ence's commitment to its people has guided its response to the COVID-19 crisis. As early as February it approved and implemented a specific, Group-wide protocol in response COVID-19, which establishes the measures and conduct to be observed to prevent transmission. Those measures included protocols designed to facilitate working from home. At the end of June the process of phasing those measures out began, while leaving certain work-life balance and working time measures in place.

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

In terms of the generation of quality work, note that as of June 2020, 85% of Ence employees were on indefinite employment contracts.

The Workplace Climate Improvement Plan is a top priority, not only for the human resources team but for all of the professionals who work at Ence. The initiatives undertaken during the first half of 2020 notably include the organisation of more than 8,200 one-on-one meetings, over 1,000 career development interviews and the merit distinction of over 170 Ence professionals.

On the talent development front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the Company boasts the human capital required to successfully execute its 2019-2023 Strategic Plan. In 2020 it 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 and promotions. During the first half of 2012, 12 such promotions were made.

As for training and learning, the overriding goal of Ence's professional training strategy is to encourage personal and professional development at all levels with a view to improving employee integration in the Company 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 paving the way for 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:

Occupational Health and Safety Policy

- ✓ TQM model: Six Sigma
- ✓ Environmental Awareness
- ✓ Development of Leadership Skills
- ✓ Operations Expertise
- ✓ Sustainability, Equality and Diversity
- ✓ Digital Transformation

During the first half of 2020, Ence provided 11,178 hours of training in these seven core areas, adapting the formats as necessary.

Ence's commitment to equality has materialised in a 9.2% year-on-year increase in female employees in the first half to account for 23.1% of the total. Moreover, 69% of graduate hires under the age of 30 and 65% of the executive and individual contract hires were female.

Under its Equality Plan, Ence offers the following measures which go beyond its obligations under prevailing labour legislation:

- ✓ Leaves for breast-feeding (with scope for accumulating leave to take full days off)
- ✓ Paid maternity leave
- ✓ The ability to structure maternity leave into a part-time arrangement
- ✓ The use of video-conferencing to reduce travel requirements
- ✓ The requirement to finish work meetings by 6pm
- ✓ At least one candidate in the final round of selection processes must be female
- ✓ Integration measures for foreign employees in the form of support and assistance with moves and the settling in of their families

In line with those commitments, the Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria. As a result, 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 half of 2020, over 1,500 professionals received equality and sustainability related training.

Ence works to build management-employee relations based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to working towards efficiency and productivity gains. To that end Ence engages in open and continuous dialogue with its employees' various representatives at all of its places of work.

In March, April and May 2020 agreements were reached which substantially modify employees' working conditions as part of the effort to reorganise shift-work in response to the COVID-19 pandemic. A preliminary version of the new collective bargaining agreement at Norfor was also signed during the reporting period.

2. 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 stringent international standards.

During the first half of the year, Ence's health and safety effort was dictated by the health crisis triggered 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 of emergency protocols; access control measures and the daily disinfection of company facilities; internal communication and daily monitoring by a high-level crisis committee; the development of robust testing plans for all members of the Ence Family availing of all the latest technological developments (anti-body, PCR and ELISA testing methods).

To complement the general disinfection protocol, the Company has drafted a number of other specific protocols to address important aspects of managing the pandemic effectively, such as: a protocol for the management of

COVID-19 in the context of programmed maintenance stoppages; a protocol for the phasing-out of certain restrictions; a protocol for the management of new outbreaks; and a COVID-19 testing protocol.

In sum, 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.

On the safety front, the main accident performance indicators deteriorated during the first half of the year by comparison with 1H19. Specifically, the injury frequency rate increased to 5.7 from 3.9; monthly lost-time injuries averaged just below the 1H19 readings but the number of hours worked was much lower. On the other hand it is worth highlighting the improved performance on the Renewable Energy side of the business, which presented an injury frequency rate of 1.3 in 1H20, compared to 4.2 in 2019. Note additionally that none of the lost-time injuries recorded was considered serious.

Among the environmental milestones achieved in the first half of 2020, it is worth highlighting the reduction in water consumption per tonne of pulp produced at the Pontevedra biomill, which improved by 5% compared to year-end and is down by over 21% on aggregate over the last four years. At Navia water consumption also improved considerably, falling 7.7% from year-end 2019.

As for odour emissions, Navia's monthly emissions, in minutes, improved by 19%, so that the biomill's odour impact index decreased from 0.73 to 0.43. Pontevedra's odour impact index was similar to that observed in 2019.

On the circular economy front, note that both biomills and all of the biomass power generation plants are recycling and recovering waste at levels of over 95%. The Pontevedra biomill was the first facility in its sector to achieve 'Zero Waste' certification from AENOR in 2019 and in the first half of this year the Navia biomill, despite the difficulties posed by the COVID-19 pandemic, managed to carry out the inspections and audits needed to earn that same certification, which it expects it will obtain officially during the third quarter of this year.

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 sustainable forest management in Spain, 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 June close, 85% of its forest assets were certified under one or other of those standards and 80% of the timber that entered its biomills during the reporting period 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 96.5% of Ence's timber suppliers and 81% of its biomass suppliers. In the first half of 2020, the volume of standing timber purchased from over 800 forest holders, most of whom small-scale holders, amounted to nearly 464,000 cubic metres. In total, the volume of incoming timber amounted to 1.66 million cubic metres, purchased for over €112m.

Ence also strives to contribute to development in the areas in which it operates. To that end it encourages the purchase of local timber; 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. During the first half of 2020, Ence moved more than 985,000 tonnes of biomass, worth over €36m, through its plants.

As well as generating value for its biomass suppliers, Ence contributes to fostering more sustainable agricultural management. Against that backdrop, during the first half of the year Ence continued 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 21% in 2016 to 57% in the first half 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 half of the year, sales of sustainable products such as Naturcell and Powercell accounted for 10% of overall pulp sales.

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 half 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.

Framed by its firm commitment to giving back to society, Ence is looking for ways to support its communities in the face of the difficulties caused by the pandemic. With that aim in mind, the Company has launched an initiative dubbed "ENCEmploys" for the hire of 16 young vocational training graduates, who will join the team at the Pontevedra biomill for one year.

With this programme Ence hopes to help the young people of Pontevedra by giving them the chance to hone their newly acquired skills at a benchmark sector player. Thanks to this initiative, 16 youths from Pontevedra, Marín and Poio will join the biomill's industry and forestry teams in Lourizán, so getting their first taste of work experience in the various departments of the Pontevedra complex.

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 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. Corporate governance and ESG positioning

On the corporate governance front, Ence has a comprehensive and effective system which incorporates prevailing regulatory requirements and recommendations with respect to best practices in the field. For this purpose, 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.

With respect to Ence’s ESG positioning, the Company’s efforts in Sustainability matters have resulted in a substantial improvement in the ESG score that the rating agency Sustainalytics has awarded the Company with. In all, Ence’s Overall ESG Score in 2020 was of 80 points (over a total of 100), which implies a 9 point improvement with respect to the previous assessment.

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 2020 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	25.6	-	2032
			55,314	Agroforestry biomass	52.4	7,500	
Navia	Biomass co-generation	40.3	-	Lignin	24.8	-	2034
	Biomass generation	36.2	230,307	Agroforestry biomass	50.0	7,500	
Huelva 41MW	Biomass generation	41.0	246,292	Agroforestry biomass	56.6	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,033	Olive Pulp	35.1	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,033	Olive Pulp	36.5	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,601	Olive Pulp	39.0	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	46.3	-	2030
Ciudad Real 50MW	Solar thermal plant	50.0	452,488	-	40.4	2,016	2034
Huelva 50MW	Biomass generation	50.0	266,467	Agroforestry biomass	48.3	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,594	Agroforestry biomass	47.6	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	44.2	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	44.3	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

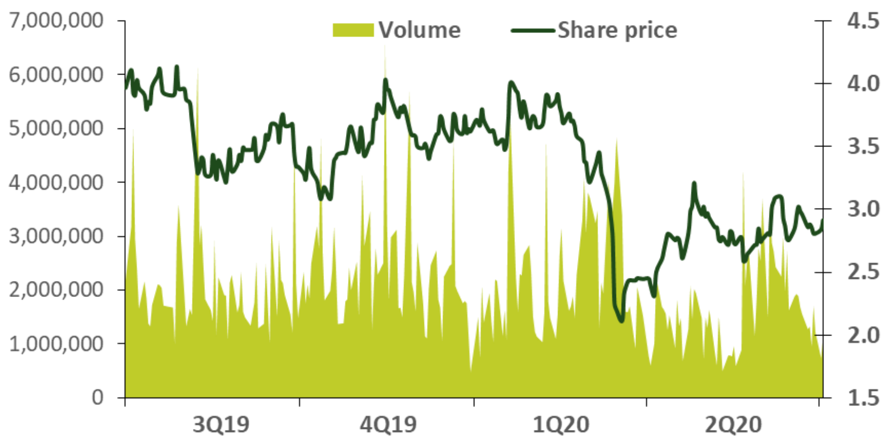
   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 2,016 hours for solar thermal electric power (there is no cap in the case of CHP). Output above this 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 half at €2.91 per share, down 20.7% 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	3Q19	4Q19	1Q20	2Q20
Share price at the end of the period	3.49	3.67	2.50	2.91
Market capitalization at the end of the period	859.5	903.8	615.7	717.6
Ence quarterly evolution	(12.0%)	5.2%	(31.9%)	16.6%
Daily average volume (shares)	2,108,567	2,309,519	2,288,921	1,677,385
Peers quarterly evolution *	(3.2%)	5.0%	(25.3%)	3.3%

(*) 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 €7.5517 per share (adjusted on 1 July 2020). The convertible bonds are traded on the Frankfurt stock exchange. Their price performance echoes the Company's share price performance and any changes in the value of the conversion option.

CONVERTIBLE BOND	3Q19	4Q19	1Q20	2Q20
Bond price at the end of the period	94.27	94.26	80.50	88.76
Yield to worst at the end of the period*	3.025%	3.168%	8.979%	5.848%

*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
2Q20

80 Overall ESG