



## **Ence Energía y Celulosa, S.A. and subsidiaries**

Condensed consolidated interim financial  
statements for the first half of 2020 prepared  
under the International Financial Reporting  
Standards adopted by the European Union  
and the corresponding Group Management  
Report

**Condensed consolidated interim  
financial statements for the first  
half of 2020**

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

Thousands of euros	Note	30/06/2020 (*)	31/12/2019 (**)
<b>NON-CURRENT ASSETS:</b>			
Intangible assets:			
Goodwill	11	5,796	6,066
Other intangible assets	11	55,614	55,835
Property, plant and equipment	12	1,248,167	1,238,304
Biological assets	13	73,901	79,076
Non-current financial assets:			
Investments accounted for using the equity method	22	51	49
Hedging derivatives	22 & 25	-	1,419
Other financial assets	14 & 22	8,034	7,359
Deferred tax assets	26	63,306	54,042
		<b>1,454,869</b>	<b>1,442,150</b>
<b>CURRENT ASSETS:</b>			
Inventories	16	65,647	56,552
Trade and other receivables	17 & 22	60,394	39,053
Tax receivables	26	5,963	3,190
Income tax receivable	26	6,850	8,641
Current financial assets:			
Loans to group companies and associates	22 & 28	36	36
Other financial assets	14 & 22	6,145	4,450
Cash and cash equivalents	14 & 22	336,126	222,214
Other current assets		3,842	1,830
		<b>485,003</b>	<b>335,966</b>
<b>TOTAL ASSETS</b>		<b>1,939,872</b>	<b>1,778,116</b>
<b>EQUITY:</b>			
Issued capital	19.1	221,645	221,645
Share premium and parent company reserves		339,446	334,463
Parent company retained earnings (prior-period losses)		(5,573)	(43,668)
Reserves in fully-consolidated companies		68,865	115,670
Interim dividend		-	(12,493)
Translation differences		11	10
Own shares - parent company shares	19.3	(11,850)	(11,783)
Valuation adjustments	19.4	29,934	31,969
Other equity instruments	19.5	11,986	11,661
Profit/(loss) for the period attributable to owners of the parent	19.2	(25,370)	9,209
<b>Equity attributable to owners of the parent</b>		<b>629,094</b>	<b>656,683</b>
<b>Non-controlling interests</b>	20	<b>17,814</b>	<b>18,250</b>
<b>TOTAL EQUITY</b>		<b>646,908</b>	<b>674,933</b>
<b>NON-CURRENT LIABILITIES:</b>			
Borrowings:			
Bonds and other marketable securities	22 & 23	241,874	239,941
Bank borrowings	22 & 23	461,559	357,903
Other financial liabilities	22 & 23	108,499	107,203
Derivative financial instruments	22 & 25	8,847	6,414
Grants		7,555	6,750
Deferred tax liabilities	26	36,275	37,575
Non-current provisions	21	12,828	12,810
Non-current accruals and deferred income		3,334	3,376
Other non-current liabilities	22 & 24	18,605	26,105
		<b>899,376</b>	<b>798,077</b>
<b>CURRENT LIABILITIES:</b>			
Borrowings:			
Bank borrowings	22 & 23	61,894	26,281
Other financial liabilities	22 & 23	8,469	8,042
Derivative financial instruments	22 & 25	8,135	9,947
Trade and other payables	18, 22 & 24	276,116	226,869
Income tax payable	26	625	438
Taxes payable	26	12,953	7,821
Current provisions	21	25,396	25,708
		<b>393,588</b>	<b>305,106</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,939,872</b>	<b>1,778,116</b>

The accompanying notes 1 to 30 are an integral part of the consolidated statement of financial position at 30 June 2020.

(\*) Unaudited figures.

(\*\*) The consolidated statement of financial position at 31 December 2019 is presented exclusively for comparison purposes.

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Thousands of euros	Note	1H20 (*)	1H19 (**)
<b>Continuing operations:</b>			
Revenue	6	361,963	386,167
Gains/(losses) on hedging transactions	25	(9,518)	(14,714)
Changes in inventories of finished goods and work in progress	16	(1,954)	10,260
Own work capitalised	12 & 13	404	4,701
Other operating income		2,150	318
Grants taken to income		2,030	2,088
<b>Operating income</b>		<b>355,075</b>	<b>388,820</b>
Cost of sales	7	(172,630)	(155,790)
Employee benefits expense	8	(45,475)	(45,872)
Depreciation and amortisation charges	11 & 12	(47,595)	(40,246)
Depletion of forest reserve	13	(6,879)	(4,556)
Impairment of and gains/(losses) on disposal of fixed assets	11, 12 & 13	426	1,614
Impairment of financial assets	17	(751)	(1,132)
Other operating expenses	9	(102,988)	(95,829)
<b>Operating expenses</b>		<b>(375,892)</b>	<b>(341,811)</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>(20,817)</b>	<b>47,009</b>
Finance income		22	480
Finance costs	10	(13,049)	(13,461)
Change in fair value of financial instruments	10 & 25	-	-
Net exchange gains/(losses)		337	669
Impairment of and gains/(losses) on disposal of financial assets	-	161	(140)
<b>NET FINANCE COST</b>		<b>(12,529)</b>	<b>(12,452)</b>
Share of profit/(loss) of investees accounted for using the equity method		2	-
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>(33,344)</b>	<b>34,557</b>
Income tax	26	8,716	(8,146)
<b>PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>(24,628)</b>	<b>26,411</b>
Profit/(loss) for the year from continuing operations attributable to non-controlling inte	20	742	1,435
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (***)</b>		<b>(25,370)</b>	<b>24,976</b>
<b>Earnings/(loss) per share attributable to owners of the parent</b>		<b>€/share</b>	
Basic	19.2	<b>(0.10)</b>	<b>0.10</b>
Diluted	19.2	<b>(0.09)</b>	<b>0.09</b>

The accompanying notes 1 to 30 are an integral part of the consolidated statement of profit or loss for the six months ended 30 June 2020.

(\*) Unaudited figures.

(\*\*) Unaudited figures. The consolidated statement of profit or loss for the six months ended 30 June 2019 is presented exclusively for comparison purposes.

(\*\*\*) 100% from continuing operations.

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020

Thousands of euros	Note	1H20 (*)	1H19 (**)
<b>GROUP PROFIT FOR THE PERIOD (***)</b>		<b>(24,628)</b>	<b>26,411</b>
<b>Profit/(loss) recognised directly in consolidated equity</b>			
- Cash-flow hedges (****)		(14,279)	(12,122)
- Translation differences (***)		1	(3)
- Tax effect		3,570	3,031
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY</b>	<b>19</b>	<b>(10,708)</b>	<b>(9,094)</b>
<b>Expense / (income) reclassified to profit or loss</b>			
- Cash-flow hedges (****)		11,566	15,370
- Tax effect		(2,892)	(3,843)
<b>TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS</b>	<b>19</b>	<b>8,674</b>	<b>11,527</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(26,662)</b>	<b>28,844</b>
Attributable to:			
Parent		(27,404)	27,409
Non-controlling interests		742	1,435

The accompanying notes 1 to 30 are an integral part of the consolidated statement of comprehensive income for the six months ended 30 June 2020.

(\*) Unaudited figures.

(\*\*) Unaudited figures. The consolidated statement of comprehensive income for the six months ended 30 June 2019 is presented exclusively for comparison purposes.

(\*\*\*) Corresponds to "Profit/(loss) for the year from continuing operations" in the consolidated statement of profit or loss.

(\*\*\*\*) Items that may be subsequently be reclassified to profit or loss.

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Balance at 01/01/2020	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (***)	Trading in own shares	Other movements	Balance at 30/06/2020
30 June 2020 - Thousands of euros (*)							
Issued capital	221,645	-	-	-	-	-	221,645
Own shares	(11,783)	-	-	-	(67)	-	(11,850)
Reserves:							
Share premium	170,776	-	-	-	-	-	170,776
Legal reserve	45,049	-	-	-	-	-	45,049
Cancelled capital reserve	10,566	-	-	-	-	-	10,566
Capitalisation reserve	9,234	-	5,426	-	-	-	14,660
Voluntary reserves	98,838	-	-	-	(443)	-	98,395
Parent company retained earnings (prior-period losses)	(43,668)	-	38,095	-	-	-	(5,573)
Reserves in fully-consolidated companies	115,670	-	(46,805)	-	-	-	68,865
Interim dividend	(12,493)	-	12,493	-	-	-	-
Consolidated profit/(loss) for the period	9,209	(25,370)	(9,209)	-	-	-	(25,370)
Translation differences	10	1	-	-	-	-	11
Valuation adjustments	31,969	(2,035)	-	-	-	-	29,934
Other equity instruments	11,661	-	-	-	-	325	11,986
<b>Total equity attributable to owners of the parent</b>	<b>656,683</b>	<b>(27,404)</b>	<b>-</b>	<b>-</b>	<b>(510)</b>	<b>325</b>	<b>629,094</b>
Non-controlling interests	18,250	742	-	(1,178)	-	-	17,814
<b>Total equity</b>	<b>674,933</b>	<b>(26,662)</b>	<b>-</b>	<b>(1,178)</b>	<b>(510)</b>	<b>325</b>	<b>646,908</b>

	Balance at 01/01/2019	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (***)	Trading in own shares	Other movements	Balance at 30/06/2019
30 June 2019 - Thousands of euros (**)							
Issued capital	221,645	-	-	-	-	-	221,645
Own shares	(4,352)	-	-	-	(10,018)	-	(14,370)
Reserves:							
Share premium	170,776	-	-	-	-	-	170,776
Legal reserve	45,049	-	-	-	-	-	45,049
Cancelled capital reserve	10,566	-	-	-	-	-	10,566
Capitalisation reserve	4,543	-	4,691	-	-	-	9,234
Voluntary reserves	101,108	-	13,140	(13,214)	(561)	-	100,473
Parent company retained earnings (prior-period losses)	(71,196)	-	27,528	-	-	-	(43,668)
Reserves in fully-consolidated companies	83,208	-	32,462	-	-	-	115,670
Interim dividend	(51,309)	-	51,309	-	-	-	-
Consolidated profit/(loss) for the period	129,130	24,976	(129,130)	-	-	-	24,976
Translation differences	13	(3)	-	-	-	-	10
Valuation adjustments	25,778	2,436	-	-	-	-	28,214
Other equity instruments	14,065	-	-	-	-	1,151	15,216
<b>Total equity attributable to owners of the parent</b>	<b>679,024</b>	<b>27,409</b>	<b>-</b>	<b>(13,214)</b>	<b>(10,579)</b>	<b>1,151</b>	<b>683,791</b>
Non-controlling interests	18,272	1,435	-	(1,529)	-	(326)	17,852
<b>Total equity</b>	<b>697,296</b>	<b>28,844</b>	<b>-</b>	<b>(14,743)</b>	<b>(10,579)</b>	<b>825</b>	<b>701,643</b>

The accompanying notes 1 to 30 are an integral part of the consolidated statement of changes in equity for the six months ended 30 June 2020.

(\*) Unaudited figures.

(\*\*) Unaudited figures. The consolidated statement of changes in equity for the six months ended 30 June 2019 is presented exclusively for comparison purposes.

(\*\*\*) Corresponding to the dividends distributed during the year.

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Thousands of euros	Note	1H20 (*)	1H19 (**)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit/(loss) before tax from continuing operations		(33,344)	34,557
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	11 & 12	47,595	39,875
Depletion of forest reserve	13	6,879	4,928
Changes in provisions and other deferred expense (net)		5,380	10,282
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets		(587)	(1,600)
Adjustments for tariff shortfall/surplus (electricity market)	9	(22,062)	2,873
Finance income and costs (net)		12,874	12,253
periodificación gastos fijos	1.5	11,122	(1,004)
Grants taken to income		(640)	(626)
		<b>60,561</b>	<b>66,981</b>
<b>Changes in working capital:</b>			
Inventories	16	(9,363)	(20,088)
Trade and other receivables	17	(16,192)	9,698
Financial and other current assets	14	(1,695)	(4,693)
Trade payables, other payables and other liabilities	18	38,103	11,594
		<b>10,853</b>	<b>(3,489)</b>
<b>Other cash flows from operating activities:</b>			
- Interest paid, net (including right-of-use assets)	10, 15 & 23	(9,739)	(8,156)
- Income tax paid	26	1,011	(5,274)
		<b>(8,728)</b>	<b>(13,430)</b>
<b>Net cash from operating activities</b>		<b>29,342</b>	<b>84,619</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
<b>Payments for investments:</b>			
Property, plant and equipment	12	(48,129)	(166,850)
Intangible assets	11	(2,478)	(2,931)
Financial assets		50	(139)
		<b>(50,557)</b>	<b>(169,920)</b>
<b>Proceeds from disposals:</b>			
Property, plant and equipment	12	122	422
Financial assets		290	4,123
		<b>412</b>	<b>4,545</b>
<b>Net cash used in investing activities</b>		<b>(50,145)</b>	<b>(165,375)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
<b>Proceeds from/(payments for) equity instruments:</b>			
Buyback of own equity instruments	19	(21,289)	(58,998)
Disposal of own equity instruments	19	20,779	48,419
		<b>(510)</b>	<b>(10,579)</b>
<b>Proceeds from/(repayments of) financial liabilities:</b>			
Proceeds from issuance of bonds, net of arrangement fees	23	3	(121)
Increase/(decrease) in bank borrowings, net of issuance costs	23	138,194	(35,889)
Increase/(decrease) in other borrowings	23	(298)	(6,292)
Payments for right-of-use assets	15	(2,842)	(2,511)
Grants received, net		168	30
		<b>135,225</b>	<b>(44,783)</b>
<b>Dividend payments</b>			
Dividends paid to ENCE shareholders		-	(13,214)
Dividends paid to minority shareholders		-	(845)
		<b>-</b>	<b>(14,059)</b>
<b>Net cash from /(used in) financing activities</b>		<b>134,715</b>	<b>(69,421)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>113,912</b>	<b>(150,177)</b>
Cash and cash equivalents - opening balance		222,214	348,623
Cash and cash equivalents - closing balance	14	336,126	198,446

The accompanying notes 1 to 30 are an integral part of the consolidated statement of changes in cash flow for the six months ended 30 June 2020.

(\*) Unaudited figures.

(\*\*) Unaudited figures. The consolidated statement of cash flows for the six months ended 30 June 2019 is presented exclusively for comparison purposes.

**Notes to the condensed  
consolidated interim financial  
statements for the first half of  
2020**

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## Ence Energía y Celulosa, S.A. and subsidiaries

### Explanatory notes accompanying the condensed consolidated interim financial statements for the first half of 2020

#### 1. Group business activity, basis of preparation and scope of consolidation of the condensed consolidated interim financial statements, accounting policies used therein and other information

##### 1.1. Business activity

Ence Energía y Celulosa, S.A. (hereinafter, the “Company” or the “Parent”) was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

- a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;
- b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law;
- c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their by-products. Forestry studies and projects;
- d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

ENCE and its group of companies (hereinafter, the “Group”, “ENCE” or the “ENCE Group”) has articulated its activities around two businesses:

##### The Pulp business:

Encompasses the production from eucalyptus timber of bleached eucalyptus kraft pulp (BEKP), by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences, and of unbleached eucalyptus kraft pulp (UEKP).

To carry out this activity, the Group has two biomills in Spain (located in Asturias and Pontevedra) with combined nominal capacity of approximately 1,200,000 tonnes per annum.

Both mills use the kraft process to produce pulp. That productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin or biomass. The Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra biomills) is 112 megawatts (MW).

The Group also manages 62,168 hectares of forest in Spain, 43,271 hectares of which it owns.

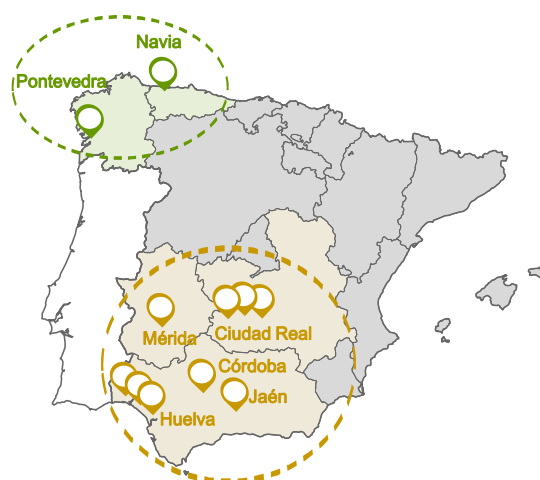
### The Renewable Energy business:

ENCE has developed and acquired several power generation facilities that are fuelled by biomass obtained from agricultural and forestry by-products. It also owns a solar thermal power plant. These plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 316 MW, broken down as follows:

Location	Capacity MW	Regulatory useful life
Huelva	50	2037
Huelva	41	2028
Huelva (**)	46	2045
Merida	20	2039
Jaen	16	2027
Ciudad Real	16	2027
Cordoba	14	2031
Cordoba	13	2030
Ciudad Real (*)	50	2034
Ciudad Real (**)	50	2045

(\*) The Group's solar thermal power plant

(\*\*) Plants that were commissioned during the first half of 2020



In addition, the Group is in the process of applying for permits for a number of other renewable energy developments. It currently has a pipeline of 405 MW of such projects, for which it has secured grid-connection authorisation and locations and for which the government permitting process is expected to finalise between the third quarter of 2021 and the first quarter of 2022.

### Listing of shares

All of the Company's shares are represented by book entries and are listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

## **1.2. Basis of preparation of the condensed consolidated interim financial statements under the IFRS adopted by the European Union**

The accompanying condensed consolidated interim financial statements were prepared from the accounting records of the Group companies and are presented under the International Financial Reporting Standards adopted by the European Union as of 30 June 2020 and, specifically, in accordance with IAS 34 - Interim Financial Information, the standard which establishes the accounting principles applicable to condensed financial statements, as provided for in article 12 of Royal Decree 1362/2007, and factoring in the disclosures required under CNMV Circular 5/2015 (of 28 October 2015), issued by Spain's securities market regulator.

In keeping with IAS 34, the interim financial information has been prepared solely for the purpose of providing an update with respect to the last complete set of annual consolidated financial statements authorised for issue and accordingly focuses on new activities, events and circumstances arising in the six-month period and does not include all of the information and disclosures required in consolidated annual financial statements under IFRS. Accordingly, for adequate reader comprehension, the information included in these condensed consolidated interim financial statements should be read in conjunction with the Group's 2019 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 30 March 2020, which are available for consultation at [www.ence.es](http://www.ence.es).

The accompanying condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 28 July 2020.

## **1.3. Accounting policies applied and basis of consolidation**

In drawing up the accompanying condensed consolidated interim financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2019 consolidated financial statements, as detailed in notes 3.2 and 4 thereof, except as outlined in section 2 below.

## **1.4. Comparative information**

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2019 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2020.

## **1.5. Seasonal nature of the Group's transactions**

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Note, however, that the production of pulp and the generation of energy require annual stoppages of between 10 and 15 days for maintenance purposes. The biomills in Pontevedra and Asturias and most of the independent biomass power generation plants are usually stopped for maintenance in the first half of the year; this year, however, on account of the special circumstances induced by the Covid-19 pandemic, the annual stoppages of both biomills and some of the independent power plants have been postponed until the second half of the year.

As a result, the consolidated statement of profit or loss for the first half of 2020 recognises an increase in expenses of 11,122 thousand euros corresponding to the accrual of the fixed costs forecast for the year over the periods in which the biomills are operational, therefore excluding the periods in which they are stopped for maintenance work. That same accrual implied the recognition of income of 1,004 thousand euros in the first half of 2019.

## 1.6. Materiality

In determining the information to be disclosed in the explanatory notes for the various headings of the condensed consolidated interim financial statements, the Group assessed materiality in relation to the financial statements themselves, in accordance with IAS 34 - Interim Financial Information.

## 1.7. Changes in the Group's consolidation scope and business combinations

There were no changes in Ence Energía y Celulosa, S.A.'s consolidation scope during the first half of 2020.

## 2. Accounting policies and measurement criteria

### 2.1. New and amended standards taking effect during the reporting period

The accounting policies used to prepare these condensed consolidated interim financial statements are the same as those used to prepare the consolidated financial statements for the year ended 31 December 2019, except for the entry into effect, from 1 January 2020, of the following standard amendments and/or interpretations:

Standard	Contents	Applicable in annual periods beginning on or after
<b>Standard amendments:</b>		
Amendments to IFRS 3 - Definition of a business	Clarifies the definition of a business	1 January 2020
Amendments to IFRS 9, IFRS 7 and IAS 39 - Interest rate benchmark reform	Amendments related with interest rate benchmark reform	1 January 2020
Amendments to IAS 1 and IAS 8 - Definition of 'material'.	Aligns the definition of 'material' with that provided in the Conceptual Framework	1 January 2020

The above amendments have not had a material impact on the accompanying condensed consolidated interim financial statements.

## 2.2. Standards and interpretations issued but not yet effective

At the date of authorising the accompanying condensed consolidated interim financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation, are the following:

Standard	Contents	Applicable in annual periods beginning on or after
<b>New standards:</b>		
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2021
<b>Standard amendments:</b>		
Amendments to IFRS 16 Leases - Rent concessions	Provides an optional practical expedient for lessees from assessing whether a rent concession related to Covid-19 is a lease modification	1 June 2020
Amendment to IAS 1 Classification of liabilities as current or non-current	Provides certain clarifications with respect to the presentation of liabilities as current or non-current	1 January 2023

Although the Group is in the process of analysing what impact these new and amended standards could have on its consolidated financial information, if adopted, it does not expect their application to have a significant impact.

## 3. Key accounting estimates and judgements

The preparation of these condensed consolidated interim financial statements for the first half of 2020 in accordance with generally accepted accounting principles requires the use of assumptions and estimates that affect the measurement of recognised assets and liabilities, the presentation of contingent assets and liabilities at the reporting date and the amounts of income and expense recognised during the reporting period. Actual results may differ significantly from these estimates.

The criteria used to calculate the estimates for these financial statements are the same as those used to prepare the ENCE Group's consolidated annual financial statements for 2019.

As stipulated in IAS 34 - Interim financial reporting, the calculation of the amount included under "Income tax" in the statement of profit or loss for the six-month periods ended 30 June 2020 and 2019 was based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year. Other significant sources of estimation uncertainty are disclosed in notes 17 and 21.

The assumptions and estimates made factor in historical experience, the advice received from independent experts, forecasts and other circumstances and expectations at year-end. Nevertheless, events occurring after the date of authorising these financial disclosures could make it necessary to revise these estimates (upwards or downwards); the effects of any such changes in accounting estimates would be recognised in future reporting periods.

## 4. Impact of Covid-19

ENCE's absolute top priority in dealing with the health crisis has been to implement as many measures as are within its reach to protect the health and safety of its employees, customers and suppliers, so enabling business continuity in parallel.

Below is a description of the main impacts Covid-19 has had for ENCE and its business activities.

### 4.1. People

As early as the second half of February, with the aim of ensuring the health and safety of its people, ENCE began to work on a General Covid-19 Prevention Protocol, applicable across all ENCE workplaces and activities and binding upon all the people affected by those workplaces and activities, including employees, auxiliary firms, contractors, freelancers and carriers, among others, a universe that began to be described as the "ENCE Family".

That Protocol included the following measures, among others:

- The requirement to keep a minimum area of 9 square metres per person and a minimum distance of 2 metres between each unless a given activity requires a greater distance.
- Personal hygiene and disinfection measures and the cleaning of work stations, equipment and tools.
- The use of a face mask, provided by ENCE, at all times.
- Temperature checks of all people entering ENCE's facilities.
- Travel and meeting restrictions.
- Preventive medical testing, etc.

Working from home was mandated for all jobs in which such an arrangement was possible and for 100% of critical staff. Work groups and shifts were redefined using criteria designed to minimise the spread of the virus. The General Protocol, which has since been updated weekly, was communicated to the entire organisation and its contractors.

In order to ensure compliance with and the correct application of the practices defined in the Protocol, daily audits have been carried out across all facilities and activities; as a result, it has been possible to review all activities at each facility every two days. The results of that effort have been analysed daily by the high-level Crisis Committee set up to that end, made up of the Chairman and the rest of the members of ENCE's Management Committee.

The intense and proactive approach taken early on has proven effective, preventing the spread of the virus in the Group's workplaces and enabling business continuity throughout the health crisis.

The phasing out of certain restrictions is currently underway, on a staggered basis, while ENCE continues to constantly monitor developments with respect to the pandemic and the measures in place to prevent its spread. People have accordingly started to return to work, very gradually, since July, guided by the case incidence during the previous 14 days in the areas in which each workplace is located, at all times framed by the safety measures dictated in ENCE's Covid-19 Protocol. In addition, new protocols have been drawn up addressing what to do in the event of potential new outbreaks in the vicinity of ENCE's places of work.

## 4.2. Business performance

### Pulp

The production of pulp, the procurement of inputs for its manufacturing and its storage and distribution to end customers were deemed 'essential' activities for the purposes of Spanish Royal Decree 463/2020, declaring the state of emergency in Spain. That status, coupled with the low incidence of virus transmission within the ENCE Family, enabled ENCE to continue to carry out its pulp-making activities without any interruption and at the levels of efficiency contemplated before the pandemic.

Throughout, the pulp market has remained operational, despite Covid-19 and the contention measures rolled out successively around the world. Global demand for pulp increased year-on-year during the first half of 2020; the contraction in consumption was concentrated in the printing and writing paper segment. Benchmark BHKP prices were stable in Europe by comparison with the fourth quarter of 2019, at around \$680 per tonne (10-year lows), while the discounts applied to ENCE's customers have not varied significantly as a result of Covid-19.

Against that backdrop, the production and sale of pulp, and also the trends in finished product stocks during the first half were, generally speaking, in line with pre-Covid-19 expectations, increasing by 12% and 19% year-on-year, respectively, with the growth in demand from customers in the tissue paper segment more than offsetting the dip in demand from printing and writing paper customers. Raw material stocks increased as part of the strategic response to the risk of stock outages during the early stages of the Covid-19 pandemic (note 16).

### Renewable Energy

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.

As in the Pulp business, the generation of power from renewable sources and all related activities were deemed 'essential' activities under Spanish Royal Decree 463/2020, declaring the state of emergency in Spain. That status, coupled with the scant incidence of the virus in the ENCE Family, enabled operations to continue free from pandemic-induced interruptions.

Demand declined across the European electricity markets on account of the measures taken to curb the Covid-19 pandemic. The oil, gas and carbon emissions markets were similarly affected, correcting during the period.

Combined, the two effects drove pool prices lower in Spain, to €29.04/MWh on average in the first half of 2020, a year-on-year reduction of 44%. The low for the period - €17.65/MWh - was recorded in April, since when prices have recovered, most intensely in June 2020.

The Spanish remuneration regulations applicable to the generation of power from renewable sources feature an adjustment to hedge against significant fluctuations in pool prices called the "Adjustment for tariff shortfall/surplus", a concept designed to correct for the impact of deviations between the pool price estimates used by the regulator, €54.42/MWh in 2020, and those that ultimately materialise. The corresponding adjustment for 2020 will be quantified in 2022 and settled over the remaining useful life of each facility for regulatory remuneration purposes.

Although this protective mechanism works as intended by ensuring a minimum level of income for renewable energy facilities, the attendant cash inflows are spread out in time, over each plant's useful life, and so can have a significant impact on the power plants' liquidity situation.

In order to partially address this lag in the collection of the revenue associated with the generation of electricity, on 24 June 2020, the Spanish government published Royal Decree-Law 23/2020, passing economic recovery measures in energy and other fields; those measures include a review of the remuneration for operations applicable during the term of effectiveness of the state of emergency for the facilities qualifying for the remuneration premiums whose operating costs depend to a significant degree on fuel prices. That piece of legislation, currently pending the corresponding implementing regulations, is expected to make up the difference between the actual pool prices and the estimated €54.42/MWh for all electricity sold during the state of emergency in Spain. It is expected to affect all of ENCE's Renewable Energy facilities other than its solar thermal plant (note 17).

The other mechanism contemplated in prevailing electricity regulations that protects against the impact of the pandemic is the remuneration for investment, a parameter that guarantees the recovery of the initial investment plus a return of 7.4% on the estimated cost of building a 'standard' plant. It translates into a sum of remuneration per gross MW installed, which in the case of ENCE's Renewable Energy business implies annual income of €63m; its accrual requires production during 3,000 equivalent hours at the biomass plants (a figure that was reduced by 50% for 2020 under Royal Decree-Law 23/2020), the minimum nominal availability of ENCE's biomass plants being 5,500 hours. Considering the universe of facilities in this business segment, the remuneration for investment covers approximately 100% of the fixed costs of running the assets.

Therefore, there are no significant sources of uncertainty with respect to either the Pulp or the Renewable Energy businesses that could call the going concern approach into question. Nor has the onset of Covid-19 given rise to significant indications of impairment of non-financial business assets or indicated the need to make substantial changes to the assumptions used to determine the recoverable amounts of those businesses.

### 4.3. Liquidity

#### Pulp

The Group has taken specific measures to hone its liquidity to put the business in a position of greater strength in the event that the effects of the pandemic worsen or last for longer than expected. Specifically, it drew down the €70 million revolving credit line and new financing lines totalling €66.5 million (€15 million of current loans and €51.5 million of non-current loans), of which €31.5 million is backed by state guarantees. ENCE also enhanced its working capital management by making greater use of previously undrawn factoring and reverse factoring lines. Lastly, it negotiated with certain suppliers, mainly suppliers associated with the investments made to expand capacity at the Group's biomills, the deferral of aggregate debts of €37 million until the second half of 2020 and 2021.

Combined, those measures boosted available cash in the Pulp business by €126 million in the first half of 2020 compared to year-end 2019, while keeping net debt close to year-end levels (a small increase of €16.4 million).

To give the reader an idea of the strength and resistance of the Pulp business, the cash available at 30 June 2020 - €228 million - is enough to cover 73% of next year's payment obligations or the fixed costs of running the pulp production plants for nearly two years.

### **Renewable Energy**

Borrowings in this business increased by 5% in the first half of 2020 to €218 million, while unrestricted cash at the June close amounted to €108 million. That cash is sufficient, without any additional internal generation, to cover 92% of the business's payment obligations in the year ahead or the fixed costs of running the power generation plants for more than 18 months.

Lastly, the financing arranged by this business entails compliance with certain covenants related with its borrowing levels, ability to generate cash and equity position; a minimum cash sweep is also required. In light of the current business situation and the outlook for the rest of 2020 the Group does not expect to breach those covenants.

#### **4.4. Credit risk**

ENCE's management has also paid particular attention to credit risk trends in its Pulp business since the onset of the pandemic. Throughout the state of emergency in Spain, ENCE accordingly continued to operate the systems place for assessing the credit risk of its debtors and determining exposure limits by counterparty. Those systems are based on available internal information and the credit scoring analysis conducted by prestigious credit underwriters.

Thanks to those systems, ENCE does business with pulp customers with favourable credit records and underwrites all major transactions with collection insurance.

That coverage is achieved via credit insurance programmes that cover approximately 90% of insured balances or via guarantees provided by customers, letters of credit, etc.

Using the credit ratings assigned by our credit risk underwriter, at 30 June 2020, 35% of the balances outstanding correspond to customers classified as low risk (year-end 2019: 43%); 46% to customers classified as medium risk (year-end 2019: 51%); and 19% to medium-high and high risk customers (year-end 2019: 6%).

Note that the Group has not experienced significant delays in collecting its pulp sales. At 30 June 2020, there were no balances outstanding that were past due by more than 30 days.

#### **4.5. Other matters**

ENCE incurred a series of extraordinary operating expenses and made certain extraordinary investments of €2,708 thousand euros and €203 thousand, respectively, during the first half of 2020 in relation with the following: staff costs to cover the defined safety measures; the provision of masks, disinfectants and tests and of equipment to facilitate working from home; workplace cleaning; donations in ENCE communities to help with the impacts of Covid-19; bank charges, etc. It also expects to incur €1,860 thousand euros of additional operating expenses during the second half of 2020.

Elsewhere, on 2 March 2020, a fault occurred at the HU-41MW power generation plant whose repair has been delayed significantly on account of the Covid-19 pandemic; that plant is expected to be brought back online in early August 2020.

The extraordinary liquidity arrangements made to prepare against the risk of the aggravation of the pandemic will impact the Group's finance costs by approximately €1.3 million per annum.

The leases arranged by the Group, mainly over forest land, have not been affected by the pandemic.

The Group has reassessed its ability to utilise the tax assets recognised at 30 June 2020 - €40,899 thousand euros - in respect of unused tax losses and unused tax credits in light of the current state of its core businesses and the impact of the pandemic during the first half of 2020, concluding that the future profitability of its Pulp and Renewable Energy businesses will be sufficient to enable it to utilise the assets within the timeframes prescribed in prevailing legislation.

The main areas of support received from the Spanish government are the above-mentioned state-guaranteed loans, which have been arranged at market rates, and the measures contemplated in Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields.

ENCE has not had to lay anyone off or avail of the furlough schemes as a result of Covid-19. Nor have there been any changes in ENCE's long-term remuneration plans or its defined contribution pension commitments. Lastly, the situation brought about by Covid-19 is not currently expected to trigger any contractual breaches by ENCE with either its customers or its suppliers.

## **5. Operating segments**

The Group has defined the following reporting segments for which detailed and discrete financial information is available and reviewed regularly along with the operating results by senior management to make decisions about resources to be allocated to the segments and to assess their performance. Those reporting segments are articulated around the two core lines of business, namely:

The Pulp business:

This business line encompasses the following reportable segments:

- **Pulp.** This segment includes the pulp production and sale activities carried out at the biomills located in Pontevedra (Galicia) and Navia (Asturias) and the power co-generation and generation activities related to the production of pulp and integrated therein using the parts of timber that cannot be transformed in pulp, essentially lignin and biomass, as inputs.
- **Forest Management.** This operating segment essentially includes the forest cover that supplies raw materials that are used in the pulp production process (forest assets located in northern Spain) or sold to third parties (forest assets located in southern Spain).
- **Forest Services & Other.** This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

The Renewable Energy business:

This business line/segment includes the plants that generate and sell electric power using agricultural and forestry biomass and solar thermal power; they are developed and operated independently.

## 5.1. Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2020 and 2019, based on the management information reviewed regularly by senior management:

1H20	Thousands of euros						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations			
<b>Revenue:</b>							
Third parties	264,345	1,722	-	-	266,067	95,896	361,963
Inter-segment revenue	1,338	6,654	425	(6,613)	1,804	60	-
<b>Total revenue</b>	<b>265,683</b>	<b>8,376</b>	<b>425</b>	<b>(6,613)</b>	<b>267,871</b>	<b>95,956</b>	<b>361,963</b>
<b>Earnings:</b>							
<b>EBITDA (*)</b>	<b>2,498</b>	<b>5,918</b>	<b>458</b>	<b>-</b>	<b>8,874</b>	<b>26,857</b>	<b>35,731</b>
<b>Operating profit/(loss)</b>	<b>(26,430)</b>	<b>(1,250)</b>	<b>215</b>	<b>-</b>	<b>(27,465)</b>	<b>4,708</b>	<b>(20,817)</b>
Finance income	2,032	-	-	(694)	1,338	3	22
Finance costs	(6,708)	(696)	(3)	694	(6,713)	(7,655)	(13,049)
Hedging derivatives	-	-	-	-	-	-	-
Net exchange gains/(losses)	360	-	-	-	360	(23)	337
Impairment of financial instruments	-	161	-	-	161	-	161
Share of profit/(loss) of investees accounted for using equity method	-	2	-	-	2	-	2
Income tax	8,291	(220)	(60)	-	8,011	765	8,716
<b>Profit/(loss) for the period</b>	<b>(22,455)</b>	<b>(2,003)</b>	<b>152</b>	<b>-</b>	<b>(24,306)</b>	<b>(2,202)</b>	<b>(24,628)</b>
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	742	742
<b>Profit/(loss) attributable to owners of the parent</b>	<b>(22,455)</b>	<b>(2,003)</b>	<b>152</b>	<b>-</b>	<b>(24,306)</b>	<b>(2,944)</b>	<b>(25,370)</b>

(\*) A measure that is not disclosed in the consolidated statement of profit or loss. It is calculated as 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 Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

1H19	Thousands of euros						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations			
<b>Revenue:</b>							
Third parties	303,674	3,689	-	-	307,363	80,800	386,167
Inter-segment revenue	352	5,426	-	(5,003)	775	18	-
<b>Total revenue</b>	<b>304,026</b>	<b>9,115</b>	<b>-</b>	<b>(5,003)</b>	<b>308,138</b>	<b>80,818</b>	<b>386,167</b>
<b>Earnings:</b>							
<b>EBITDA (*)</b>	<b>62,984</b>	<b>4,040</b>	<b>95</b>	<b>(482)</b>	<b>66,637</b>	<b>25,660</b>	<b>92,297</b>
<b>Operating profit/(loss)</b>	<b>36,249</b>	<b>(1,087)</b>	<b>37</b>	<b>-</b>	<b>35,199</b>	<b>11,810</b>	<b>47,009</b>
Finance income	2,846	15	-	(1,350)	1,511	252	480
Finance costs	(5,663)	(1,286)	(18)	1,350	(5,617)	(9,127)	(13,461)
Hedging derivatives	-	-	-	-	-	-	-
Net exchange gains/(losses)	683	(1)	-	-	682	(13)	669
Impairment of financial instruments	-	(140)	-	-	(140)	-	(140)
Income tax	(8,719)	844	27	-	(7,848)	(298)	(8,146)
<b>Profit/(loss) for the period</b>	<b>25,396</b>	<b>(1,655)</b>	<b>46</b>	<b>-</b>	<b>23,787</b>	<b>2,624</b>	<b>26,411</b>
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	1,435	1,435
<b>Profit/(loss) attributable to owners of the parent</b>	<b>25,396</b>	<b>(1,655)</b>	<b>46</b>	<b>-</b>	<b>23,787</b>	<b>1,189</b>	<b>24,976</b>

(\*) A measure that is not disclosed in the consolidated statement of profit or loss. It is calculated as 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 Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

In order to expand the disclosures provided in this note, the appendices attached to these condensed consolidated interim financial statements include the condensed consolidated statement of financial position at 30 June 2020 and 31 December 2019 and the condensed consolidated statement of profit or loss and the condensed consolidated statement of cash flows for the six-month periods then ended broken down between the Pulp and Renewable Energy businesses..

## 6. Revenue

The breakdown of Group revenue by segment in the first six months of 2020 and 2019 is as follows:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
<b>Business metrics</b>						
Pulp sales volume (tonnes)	519,820	-	519,820	437,950	-	437,950
Energy sales volume (MWh) (**)	412,169	612,945	1,025,114	350,676	482,652	833,328
<b>Revenue</b>						
Pulp	217,042	-	217,042	258,552	-	258,552
Electric energy	37,433	95,432	132,865	37,218	80,433	117,651
Timber and forestry services	11,592	464	12,056	9,605	359	9,964
Inter-segment sales	1,804	60	-	2,763	26	-
	<b>267,871</b>	<b>95,956</b>	<b>361,963</b>	<b>308,138</b>	<b>80,818</b>	<b>386,167</b>

(\*) The difference between the figures presented under "Consolidated Group" for 1H20 and 1H19 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2020 and 2019 in the amounts of €1,864 thousand and €2,789 thousand euros, respectively.

(\*\*) In addition, in 1H20, the Group generated 53,275 MWh while testing the new biomass plants commissioned during the reporting period: HU-46 MW and PU-50 MW. The revenue associated with that power, in the amount of €4,076 thousand, has been accounted for as a reduction in the investment in those facilities.

The revenue associated with the generation of electricity includes an estimate of the 'Adjustment for tariff shortfall/surplus' concept contemplated in electricity sector regulations in order to correct the impact of deviations between the variables estimated by the regulator, for the purpose of calculating remuneration for operations, most important of which estimated pool prices, and those that ultimately materialise. That adjustment is made every three years and its settlement is usually distributed over the remaining useful life of each facility for regulatory purposes. ENCE estimates the amount of that adjustment annually and recognises it in its financial statements.

Accrual of that adjustment had the effect of increasing revenue by €22,062 thousand in first half of 2020 (1H19: revenue was reduced by €2,851 thousand), without factoring in the effects of Additional Provision Four of Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields (note 17).

During the first six months of 2020, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €95.8 million (1H19: €121.4 million).

### 6.1. Geographic revenue split

All of the revenue from energy sales was generated in Spain. The breakdown of revenue from pulp sales by geographic market is as follows:

Percentage of pulp sales	1H20	1H19
Germany	22.0	19.0
Spain	19.1	15.4
Poland	12.6	7.9
Italy	11.8	3.5
France	7.0	12.0
UK	6.1	4.6
Turkey	4.0	10.7
Austria	2.7	4.6
Other	14.7	22.3
	<b>100.0</b>	<b>100.0</b>

(\*) Breakdown made on the basis of the location of each customer's registered office

In the first half of 2020, one customer accounted for 10% of revenue from pulp sales.

## 7. Cost of sales

Cost of sales in the first six months of 2020 and 2019 breaks down as follows:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	133,114	25,741	157,971	127,507	22,714	147,757
Change in raw materials and other inventories	(6,800)	(5,150)	(11,950)	(6,812)	(3,138)	(9,950)
Other external expenses	18,265	9,324	26,609	15,542	2,766	17,983
	<b>144,579</b>	<b>29,915</b>	<b>172,630</b>	<b>136,237</b>	<b>22,342</b>	<b>155,790</b>

(\*) The difference between the figures presented under "Consolidated Group" for 1H20 and 1H19 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2020 and 2019 in the amounts of €1,864 thousand and €2,789 thousand euros, respectively.

This heading mainly includes timber, chemical products, fuel and other variable costs.

## 8. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in the first six months of 2020 and 2019 is provided below:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Wages and salaries	29,458	4,865	34,323	29,554	4,499	34,053
Social Security	7,153	1,372	8,525	6,951	1,120	8,071
Contributions to pension plans	1,104	109	1,213	1,087	91	1,178
Other benefit expense	537	73	610	554	42	596
	<b>38,252</b>	<b>6,419</b>	<b>44,671</b>	<b>38,146</b>	<b>5,752</b>	<b>43,898</b>
Long-term remuneration plans	613	5	618	1,723	249	1,972
Termination benefits	163	23	186	-	2	2
	<b>39,028</b>	<b>6,447</b>	<b>45,475</b>	<b>39,869</b>	<b>6,003</b>	<b>45,872</b>

### 8.1. Headcount figures

The average Group headcount during the first halves of 2020 and 2019:

Job category	Average headcount during the period					
	1H20			1H19		
	Men	Women	Total	Men	Women	Total
Executives	54	14	68	54	13	67
Managers	64	18	82	64	17	81
Team leaders	72	4	76	73	3	76
Technical experts	210	119	329	190	104	294
Clerical staff	13	43	56	12	40	52
Operators	295	13	308	283	9	292
Support and upgrade staff	49	47	96	54	45	99
Maintenance	131	1	132	131	1	132
	<b>888</b>	<b>259</b>	<b>1,147</b>	<b>861</b>	<b>232</b>	<b>1,093</b>

At 30 June 2020, the Board of Directors was made up of 14 members. Ten of them are men and three represent legal person directors.

### 8.2. Long-term remuneration plans

#### 2019-2023 long-term bonus plan

The maximum payout under the plan, considering the current 117 beneficiaries and assuming 100% target delivery, amounts to €21,150 thousand. Of that total, 46.3% corresponds to key management personnel (note 27).

To determine the amount accrued in respect of this undertaking, estimates have been made which are reviewed at each year end; the impact of any changes in those estimates is recognised in the consolidated statement of profit or loss prospectively.

The charge accrued in this respect during the first half of 2020 amounted to €618 thousand and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€432 thousand before the related tax effect; note 19.5); and ii) "Non-current provisions" in the consolidated statement of financial position (note 21) in respect of the portion to be settled in cash (€186 thousand).

## 9. Other operating expenses

The breakdown of this heading of the condensed consolidated statement of profit or loss for the six months ended 30 June 2020 and 2019 by ENCE's business lines:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	64,063	25,502	88,461	63,527	23,175	84,835
Use of emission allowances (note 21)	1,435	855	2,290	1,502	875	2,377
Taxes other than income tax	1,123	926	2,049	1,169	649	1,818
Electricity generation levy	2,634	6,690	9,324	1,252	2,825	4,077
Change in trade and other provisions	(1,694)	58	(1,636)	579	43	622
Other non-recurring operating expenses (note 21)	2,500	-	2,500	2,100	-	2,100
	<b>70,061</b>	<b>34,031</b>	<b>102,988</b>	<b>70,129</b>	<b>27,567</b>	<b>95,829</b>

(\*) The difference between the figures presented under "Consolidated Group" for 1H20 and 1H19 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2020 and 2019 in the amounts of €1,104 thousand and €1,867 thousand euros, respectively.

"Other non-recurring operating expenses" in the table above includes the costs related to the Environmental Pact entered into with the environment department of the regional government of Galicia (note 21).

### 9.1. External services

The breakdown of "External services" in the interim reporting periods is as follows:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	22,314	411	22,725	18,738	287	19,025
Utilities	15,536	1,109	16,644	19,108	1,170	20,278
Repairs and upkeep	4,803	9,127	13,930	7,369	9,018	16,388
Rent and fees	188	183	371	309	90	398
Insurance premiums	1,963	986	2,949	1,557	641	2,198
Independent professional services	2,663	(154)	2,509	3,407	842	4,241
Banking and similar services	913	279	1,191	374	91	464
Advertising, publicity and public relations	1,710	7	1,718	1,989	2	1,991
Research and development costs	102	-	102	195	-	195
Other services	13,871	13,554	26,322	10,481	11,034	19,657
	<b>64,063</b>	<b>25,502</b>	<b>88,461</b>	<b>63,527</b>	<b>23,175</b>	<b>84,835</b>

(\*) The difference between the figures presented under “Consolidated Group” for 1H20 and 1H19 and the addition of the figures corresponding to the “Pulp” and “Renewable Energy” businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2020 and 2019 in the amounts of €1,104 thousand and €1,867 thousand euros, respectively.

“Rent and fees” reflects the costs incurred in respect of short-term leases and variable lease payments.

ENCE has arranged director and officer liability insurance which covers all its directors and executives against damages caused by acts or omissions in the course of discharging their duties. In the first half of 2020, this policy cost the Group €49 thousand euros.

## 10. Finance costs

The breakdown of this heading of the consolidated statement of profit or loss in the first six months of 2020 and 2019 was as follows:

Thousands of euros	1H20			1H19		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
High-yield / convertible bonds	2,422	-	2,422	2,377	-	2,377
Senior notes	-	1,622	1,622	-	1,613	1,613
Loans, credit facilities & other	2,928	2,231	5,159	1,782	2,244	4,026
Fees and other charges	599	1,803	2,402	721	1,886	2,607
Capitalised borrowing costs (notes 12 & 13)	(104)	(506)	(610)	(120)	(11)	(131)
Inter-business finance costs	-	1,319	-	-	1,283	-
Right-of-use assets (note 15)	781	155	936	794	144	938
	6,626	6,624	11,931	5,554	7,159	11,430
Costs associated with refinancing work:						
Derecognition of arrangement fees	-	-	-	-	1,375	1,375
	-	-	-	-	1,375	1,375
Hedging derivatives:						
Settlement of IR swap (note 25)	87	1,031	1,118	63	593	656
	87	1,031	1,118	63	593	656
	<b>6,713</b>	<b>7,655</b>	<b>13,049</b>	<b>5,617</b>	<b>9,127</b>	<b>13,461</b>

(\*) The difference between the figures presented under “Consolidated Group” for 1H20 and 1H19 and the addition of the figures corresponding to the “Pulp” and “Renewable Energy” businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2020 and 2019 in the amounts of €1,319 thousand and €1,283 thousand euros, respectively.

## 11. Goodwill and other intangible assets

The reconciliation of the opening and closing carrying amounts of the various components of intangible assets, including accumulated amortisation and impairment, for the first half of 2020 is as follows:

1H20	Thousands of euros			
	Balance at 01/01/2020	Additions/ (charges)	Transfers	Balance at 30/06/2020
Goodwill	7,104	-	-	7,104
Software	27,636	188	1,352	29,176
Development costs	18,452	-	-	18,452
Prepayments	3,617	2,290	(1,352)	4,555
Other intangible assets	44,641	-	-	44,641
<b>Total cost</b>	<b>101,450</b>	<b>2,478</b>	<b>-</b>	<b>103,928</b>
Software	(19,751)	(1,543)	-	(21,294)
Development costs	(12,417)	(242)	-	(12,659)
Other intangible assets	(2,743)	(914)	-	(3,657)
<b>Total amortisation</b>	<b>(34,911)</b>	<b>(2,699)</b>	<b>-</b>	<b>(37,610)</b>
Goodwill	(1,038)	(270)	-	(1,308)
Development costs	(2,854)	-	-	(2,854)
Other intangible assets	(746)	-	-	(746)
<b>Total impairment</b>	<b>(4,638)</b>	<b>(270)</b>	<b>-</b>	<b>(4,908)</b>
<b>Total</b>	<b>61,901</b>			<b>61,410</b>

Goodwill at 30 June 2020 includes €1,866 thousand deriving from the acquisition by ENCE of interests in Energía de la Loma, S.A. and Energías de la Mancha ENEMAN, S.A., the cash-generating units to which it has been allocated, and €3,930 thousand arising on the acquisition of the 50-MW Termollano solar thermal plant.

The goodwill will be amortised over the remaining regulatory useful lives of the power plants and assets to which it has been allocated. The goodwill balance is written down for impairment to reflect the reduction in the plants' remaining regulatory useful lives with the passage of time. Factoring in those impairment charges, the recoverable amounts of the cash-generating units to which the goodwill has been allocated are in line with their carrying amounts.

## 12. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 1H20 and 1H19 is as follows:

1H20	Thousands of euros					Balance at 30/06/2020
	Balance at 01/01/2020	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	
Forest land	83,794	-	-	-	-	83,794
Other land	13,352	215	-	2,024	-	15,591
Buildings	124,609	945	-	5,838	-	131,392
Plant and machinery	1,791,622	4,365	(5,822)	216,654	-	2,006,819
Other PP&E	62,508	316	(519)	485	-	62,790
Prepayments and PP&E in progress	298,176	44,647	(729)	(225,001)	-	117,093
Right-of-use - Land (note 15)	42,448	28	(347)	-	-	42,129
Right-of-use assets - Other assets (note 15)	12,939	4,298	(56)	-	-	17,181
<b>Cost</b>	<b>2,429,448</b>	<b>54,814</b>	<b>(7,473)</b>	<b>-</b>	<b>-</b>	<b>2,476,789</b>
Buildings	(66,207)	(1,244)	-	-	-	(67,451)
Plant and machinery	(1,059,845)	(39,795)	4,902	22	-	(1,094,716)
Other PP&E	(37,832)	(2,389)	251	1	-	(39,969)
Right-of-use - Land (note 15)	(1,991)	(868)	346	-	-	(2,513)
Right-of-use assets - Other assets (note 15)	(1,674)	(1,096)	19	(23)	-	(2,774)
<b>Depreciation</b>	<b>(1,167,549)</b>	<b>(45,392)</b>	<b>5,518</b>	<b>-</b>	<b>-</b>	<b>(1,207,423)</b>
Land and buildings	(1,985)	(496)	14	-	-	(2,467)
Plant and machinery	(20,459)	-	3,236	-	1,375	(15,848)
Other PP&E	(1,151)	(611)	253	-	(1,375)	(2,884)
<b>Impairment</b>	<b>(23,595)</b>	<b>(1,107)</b>	<b>3,503</b>	<b>-</b>	<b>-</b>	<b>(21,199)</b>
<b>Carrying amount</b>	<b>1,238,304</b>					<b>1,248,167</b>

## 12.1. Additions and transfers

The Group invested in its productive facilities in both the Pulp and Renewable Energy businesses with a view to making its production processes more efficient, boosting power generation and making them more environmentally friendly. These expenses break down as follows:

	Thousands of euros	
	1H20	2019
Pulp business:		
Pontevedra	8,373	47,422
Navia	15,290	123,336
Other	828	5,467
Renewable Energy business:		
46-MW Huelva (*)	9,248	27,046
41-MW Huelva	699	13,135
50-MW Puertollano (*)	10,170	35,166
Other	5,880	20,814
<b>Total additions</b>	<b>50,488</b>	<b>272,386</b>
<b>Total right-of-use assets added (note 15)</b>	<b>4,326</b>	<b>58,225</b>
	<b>54,814</b>	<b>330,611</b>

(\*) Plants that were commissioned during the first half of 2020.

### Renewable Energy

The Group arranged two EPC agreements for the turnkey construction of two biomass power plants in Spain, specifically in Puertollano, Ciudad Real (50 MW) and Huelva (46 MW), on 25 April 2018 and 8 November 2017, respectively. The 46-MW Huelva and 50-MW Puertollano plants were commissioned on 1 February 2020 and 1 April 2020, respectively.

The Group invested a total of €126 million in the 50-MW Puertollano plant, net of the income derived from the power generated during the test period and including an investment of €19 million in electric power generation rights. Total investment in the 46-MW Huelva project, meanwhile, amounted to €100 million.

### Other capital commitments

In addition to the undertakings detailed in note 12.2 in exchange for the 10-year extension of the concession term in Pontevedra, the Group was contractually committed to investing €23.6 million in the Pulp business at the reporting date.

Capital commitments in the Renewable Energy business amounted to €8.8 million at 30 June 2020.

### 12.2. Public-domain concession - Pontevedra biomill

The Pontevedra biomill is located on public-domain coastal land for which ENCE holds the corresponding domain concession, to which end it is subject to the legal regime contemplated in Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014).

That concession was granted to ENCE by Ministerial Order on 13 June 1958. On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment (currently the Ministry of Ecological Transition and Demographic Challenges) agreed to extend the concession for 60 years, i.e., until 8 November 2073.

Of the agreed-upon 60-year extension, 10 years are conditional upon ENCE making investing an estimated €61 million at the biomill related with increasing its capacity and efficiency, improving its environmental performance and blending the facility into its surroundings.

In relation to that commitment, €62.7 million has already been invested and the Group is contractually committed to investing another €1.5 million. These investment undertakings in Pontevedra have been similarly factored into the Environmental Pact entered into with the Environmental Department of the regional government of Galicia along with other investment commitments (notes 21 and 29).

### 12.3. Insurance cover

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent's directors and their insurance advisors believe that the coverage provided by those policies at the reporting date is sufficient.

## 13. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". The movement in this heading during the first half of 2020:

1H20	Thousands of euros			
	Balance at 01/01/2020	Additions/ (charges)	Derecognitions or decreases	Balance at 30/06/2020
<b>Pulp business:</b>				
Forest cover	133,812	1,977	(5,583)	130,206
Depletion of forest reserve	(48,192)	(6,670)	5,190	(49,672)
Provision for impairment	(6,888)	(336)	360	(6,864)
	<b>78,732</b>	<b>(5,029)</b>	<b>(33)</b>	<b>73,670</b>
<b>Renewable Energy business:</b>				
Forest cover	2,723	96	(288)	2,531
Depletion of forest reserve	(1,994)	(209)	32	(2,171)
Provision for impairment	(385)	-	256	(129)
	<b>344</b>	<b>(113)</b>	<b>-</b>	<b>231</b>
	<b>79,076</b>			<b>73,901</b>

In the first half of 2020, the Group planted 393 hectares of land and carried out forest preservation and protection work on 2,988 hectares, work which entailed investments totalling €2,073 thousand.

In the first half of 2020, the Group capitalised €609 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs.

## 14. Financial assets

### 14.1 Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short-term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value.

The Group had €336,126 thousand of cash and cash equivalents at 30 June 2020 (€227,778 thousand of which corresponding to the Pulp business and €103,348 thousand to the Renewable Energy business).

In assessing the availability of the Group's cash, the reader should note that the financing taken on by the Renewable Energy business requires it to maintain a minimum cash balance of €10 million, a sum that could rise to €30 million depending on the extent to which it uses the credit facility contemplated in tranche 4. There is an additional cash sweep requirement of €4.8 million under the terms of the Termollano project finance facility to cover a forward six months' debt service requirement (note 23).

### 14.2 Other financial assets

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the reporting period is as follows:

Thousands of euros	30/06/2020		31/12/2019	
	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 24)	-	861	-	-
Collateral securing future inventory purchases (note 25)	1,187	-	-	-
ENCE's share liquidity agreement (note 19.3)	2,085	-	2,571	-
Account receivable from Iberdrola - Regulator claim	-	1,166	-	1,166
Security deposits and other accounts receivable	2,873	6,007	1,879	6,193
	<b>6,145</b>	<b>8,034</b>	<b>4,450</b>	<b>7,359</b>

## 15. Leases

The application with effect from 1 January 2019 of IFRS 16 - Leases has implied the recognition of the following balances in the consolidated statement of financial position at 30 June 2020 and the consolidated statement of profit or loss for the six months then ended:

### 15.1. Right-of-use assets

The reconciliation of the carrying amounts of the various components of "Right-of-use assets" and the corresponding accumulated depreciation charges at the beginning and end of the first half of 2020:

		Thousands of euros				
	Note	Balance at 01/01/2020	Additions/ (charges)	Derecognitions	Transfers	Balance at 30/06/2020
Cost:						
Pontevedra biomill land	12	33,351	-	-	-	33,351
Forest leases	12	9,097	28	(347)	-	8,778
Other (*)	12	12,939	4,298	(56)	-	17,181
<b>Cost</b>		<b>55,387</b>	<b>4,326</b>	<b>(403)</b>	<b>-</b>	<b>59,310</b>
Depreciation:						
Pontevedra biomill land	12	<b>744</b>	372	-	-	1,116
Forest leases	12	<b>1,247</b>	496	(347)	-	1,396
Other (*)	12	1,674	1,096	(18)	23	2,775
<b>Depreciation</b>		<b>3,665</b>	<b>1,964</b>	<b>(365)</b>	<b>23</b>	<b>5,287</b>
<b>Carrying amount</b>		<b>51,722</b>				<b>54,023</b>

(\*) Mainly includes the lease of the land on which the 50-MW Puertollano solar thermal plant is located, as well as office and vehicle leases.

### 15.2. Lease liabilities

The reconciliation of the opening and closing balances of the various items reflecting the Group's obligations under the lease agreements recognised under IFRS 16 at the beginning and end of the first half of 2020:

		Thousands of euros						
	Note	Balance at 01/01/2020	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 30/06/2020
Current debt	23.2	2,471	-	(2,842)	(14)	2,369	936	2,920
Non-current debt	23.2	49,792	4,265	-	(24)	(2,369)	-	51,664
		<b>52,263</b>	<b>4,265</b>	<b>(2,842)</b>	<b>(38)</b>	<b>-</b>	<b>936</b>	<b>54,584</b>

### 15.3. Amounts recognised in the consolidated statement of profit or loss:

The table below depicts the impact of the Group's leases on "Depreciation and amortisation" and "Finance costs" in the consolidated statement of profit or loss for the first half of 2020:

		Thousands of euros		
		Depreciation	Finance expense	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land		372	640	785
Other land		496	113	550
Other assets		1,096	183	1,507
		<b>1,964</b>	<b>936</b>	<b>2,842</b>

(\*) In the first half of 2020, the Group capitalised €113 thousand of borrowing costs within the carrying amount of its forest cover.

Considering the leases in place at 30 June 2020, the depreciation charges and average annual interest expense related to the Group's right-of-use assets will be €2.9 million and €1.7 million, respectively, in the next five years.

## 16. Inventories

The breakdown of the Group's inventories at 30 June 2020 and 31 December 2019 is as follows:

Thousands of euros	30/06/2020	31/12/2019
Timber and biomass	29,795	19,388
Other raw materials	2,489	3,110
Spare parts (*)	10,734	9,854
Emission allowances	2,723	4,639
Finished goods and work in progress	19,791	21,745
Prepayments to suppliers	173	78
Impairment - Realisation value	(58)	(2,262)
	<b>65,647</b>	<b>56,552</b>

(\*) Presented net of impairment allowances of €15,013 thousand and €14,460 thousand at 30 June 2020 and 31 December 2019, respectively.

There are no restrictions on title to inventories.

It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that the coverage at the reporting date is adequate.

### 16.1. Emission allowances

The reconciliation of the opening and closing Group-owned emission carbon allowance balances for the six months ended 30 June 2020 is provided in the next table:

	1H20	
	Number of allowances	Thousands of euros
Opening balance	226,189	4,639
Allocations	114,695	2,780
Delivered (*)	(225,758)	(4,696)
<b>Closing balance</b>	<b>115,126</b>	<b>2,723</b>

(\*) Corresponds to the allowances used during the previous period.

In November 2013, the Spanish Parliament approved the New National Allocation Plan for the allocation of emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 114,695 tonnes of carbon emissions, valued at €2,780 thousand, in the first half of 2020.

“Current provisions” on the liability side of the consolidated statement of financial position includes €2,290 thousand in this respect at 30 June 2020, corresponding to the liability derived from the consumption of 114,786 tonnes of carbon in the first half of 2020 (note 21).

### 17. Trade and other receivables:

The breakdown at 30 June 2020 and 31 December 2019 of “Trade and other receivables” in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2020	31/12/2019
Trade receivables:		
Pulp	17,958	19,653
Energy	36,863	15,669
Other items	4,689	3,963
Receivable from associates (note 28)	54	-
Sundry receivables	5,623	4,050
Provision for impairment	(4,793)	(4,282)
	<b>60,394</b>	<b>39,053</b>

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €33,341 thousand at 30 June 2020. A portion of that receivable has been discounted using the Group's factoring facilities.

Spanish Royal Decree-Law 23/2020, passing economic reactivation measures in energy and other fields, took effect on 25 June 2020. Additional Provision Four of that piece of legislation stipulates that for the purposes of calculating the remuneration for operations (Ro) exclusively in respect of the period of effectiveness of the state of emergency in Spain, the applicable remuneration parameters are those prevailing at the date of approval of the legislation, other than the pool price and carbon allowance price parameters, which are to be estimated separately for the period of effectiveness of the state of emergency.

In the absence of more specific details about the new Ro parameters to be applied during the state of emergency, which the regulator is due to publish in an implementing order, ENCE has estimated the impact as follows:

- ENCE estimates that the Ro will be complemented to make up for the shortfall between the daily pool price during the state of emergency and €54.42, the mid-point of the price range applicable to 2020. That estimate implied the recognition of €13.7 million of additional revenue during the first half of 2020.
- ENCE has similarly estimated that the measure will have a negative impact on the 'Adjustment for tariff shortfall/surplus' concept in 2020 of €13.7 million, to which end it reduced the revenue recognised from energy sales by that amount in the first half of 2020 (note 9).

The two effects therefore set each other off in the 2020 statement of profit or loss; on the statement of financial position, however, the current account receivable from the regulator in respect of the energy sold in 2020 increases by €13.7 million, while the non-current account receivable in respect of the 'Adjustment for tariff shortfall/surplus' decreases by €13.7 million (note 24).

### **17.1. Factoring facilities**

The Group has drawn down €96,448 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €140,000 thousand at 30 June 2020 (€100,654 thousand and €132,407 thousand, respectively, at 31 December 2019). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.10% and 1.80% on the receivables discounted under those agreements.

## **18. Trade and other payables**

The breakdown at 30 June 2020 and 31 December 2019 of "Trade and other payables" in the consolidated statement of financial position is as follows:

Thousands of euros	30/06/2020	31/12/2019
Trade and other payables	203,591	154,578
Payable to associates (note 28)	275	-
Payable to fixed-asset suppliers	64,383	61,630
Employee benefits payable	7,172	9,271
Adjustments for tariff shortfall/surplus (note 24)	695	1,390
	<b>276,116</b>	<b>226,869</b>

The Group has drawn down €136,626 thousand under non-recourse reverse factoring agreements with an aggregate limit of €154,000 thousand at 30 June 2020 (€92,596 thousand and €151,000 thousand, respectively, at 31 December 2019). The balances arising from the use of reverse factoring facilities are classified as trade accounts payable.

## 19. Equity

### 19.1. Issued capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2020 was represented by 246,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90. All the shares enjoy identical voting and dividend rights.

Since ENCE's shares are represented by the book entry method, it is not possible to ascertain its precise shareholder structure. The table below presents significant direct and indirect holdings in the share capital and financial instruments issued by ENCE at 30 June 2020 and year-end 2019 as reported by the holders of those securities to the official registers of Spain's securities market regulator, the CNMV for its acronym in Spanish, or to the Company itself, in keeping with Spanish Royal Decree 1362/2007:

Shareholder	%	
	30/06/2020	31/12/2019
Juan Luis Arregui / Retos Operativos XXI, S.L.	29.44	29.44
Víctor Urrutia / Asúa Inversiones, S.L.	7.29	6.34
Jose Ignacio Comenge / La Fuente Salada S.L.	6.38	6.38
Bestinver Gestión S.G.I.I.C., S.A.	3.12	3.12
Invesco Limited	-	1.10
Treasury stock	1.42	1.34
Directors with ownership interest of < 3%	0.55	0.55
Free float	51.8	51.73
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The Company's shares are represented are officially listed on the Spanish stock exchanges and traded on the continuous market. All of its shares confer equal voting and dividend rights.

## 19.2. Earnings/(loss) per share

The basic and diluted earnings per share calculations for the six-month period ended 30 June 2020 are shown below:

Earnings/(loss) per share	30/06/2020
Group profit/(loss) attributable to owners of the parent (€ 000)	(25,370)
Weighted average ordinary shares outstanding (*)	242,786,532
Weighted average diluted shares (**)	264,908,538
<b>Basic earnings per share (euros)</b>	<b>(0.103)</b>
<b>Diluted earnings per share (euros)</b>	<b>(0.088)</b>
(*) Number of shares outstanding less those held as treasury stock.	
(**) Average number of ordinary shares outstanding plus potential issuable shares associated with financial instruments convertible into shares.	

The diluted earnings per share calculations use the Group's loss for the period attributable to owners of the Parent less the expense accrued, net of the related tax effect, in respect of the convertible financial instruments, which amounted to €2,111 thousand in 1H20.

## 19.3. Own shares

The reconciliation of "Own shares" at the beginning and end of the six-month period ended 30 June 2020 is as follows:

	1H20	
	No. of shares	Thousands of euros
Opening balance	3,297,853	11,783
Purchases	7,199,248	21,289
Sales	(7,011,133)	(21,222)
<b>Closing balance</b>	<b>3,485,968</b>	<b>11,850</b>

The own shares held by the Company at 30 June 2020 represent 1.42% of its share capital (1.34% at 31 December 2019) and were carried at €3,137 thousand (€2,968 thousand at 31 December 2019). Those shares were acquired at an average price of €3.40 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2019-2023 bonus plan" (note 8.2).

ENCE has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which ENCE's shares are traded, within the limits established at the Annual General Meeting and prevailing legislation, specifically, CNMV Circular 1/2017 on liquidity agreements.

#### 19.4. Valuation adjustments

The breakdown of "Valuation adjustments" at 30 June 2020 is provided below:

Thousands of euros	30/06/2020			31/12/2019		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve	54,102	13,509	40,593	54,102	13,509	40,593
Hedging transactions (note 25)						
IR swap	(9,792)	(2,448)	(7,344)	(6,822)	(1,706)	(5,116)
Energy purchases	(577)	(144)	(433)			
Foreign currency	(3,844)	(962)	(2,882)	(4,679)	(1,171)	(3,508)
	<b>39,889</b>	<b>9,955</b>	<b>29,934</b>	<b>42,601</b>	<b>10,632</b>	<b>31,969</b>

There was no movement in the land revaluation reserve during the first half of 2020. The changes in the fair value of the hedging transactions recognised directly against equity are recognised in the consolidated statement of comprehensive income for the six-month period ended 30 June 2020.

#### 19.5. Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" at the beginning and end of the first half of 2020 is as follows:

Thousands of euros	Balance at 01/01/2020	Reclassified to profit or loss	Tax effect	Balance at 30/06/2020
Convertible bonds (note 23)	10,913	-	-	10,913
Long-term Bonus Plan (note 8)	748	432	(107)	1,073
	<b>11,661</b>	<b>432</b>	<b>(107)</b>	<b>11,986</b>

#### 19.6. Corporate credit ratings

On 10 March 2020, Moody's lowered ENCE's corporate credit rating from Ba2 to Ba3 as a result of the downtrend in pulp prices and the circumstantial uncertainty generated by the coronavirus; in tandem, it improved its outlook from negative to stable, highlighting the growing contribution by the Renewable Energy business, the decision to postpone key investments and the Company's strong liquidity position. On 18 November 2019, Standard & Poor's reiterated its long-term credit rating of BB but changed its outlook from stable to negative as a result, mainly, of the correction in pulp prices.

#### 20. Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the first half of 2020 is as follows:

30 June 2020	Thousands of euros			
	Balance at	Profit/(loss)	Dividend	Balance at
Company	01/01/2020	attributable to NCI	payments	30/06/2020
Energía de la Loma, S.A.	4,473	145	(62)	4,556
Energías de la Mancha Eneman, S.A.	5,033	325	(639)	4,719
Bioenergía Santamaría, S.A.	398	73	(381)	90
Ence Energía Termollano, S.A.	8,346	199	(96)	8,449
<b>Total</b>	<b>18,250</b>	<b>742</b>	<b>(1,178)</b>	<b>17,814</b>

## 21. Provisions, impairment charges, guarantees and contingent liabilities

### 21.1. Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions for the six months ended 30 June 2020 is as follows:

1H20	Thousands of euros			
	Balance at	Additions/	Derecognitions	Balance at
	01/01/2020	(charges)	or decreases	30/06/2020
<b>Non-current:</b>				
Employee commitments (note 8.2)	427	186	-	613
Dismantling provision	9,345	97	-	9,442
Other	3,038	27	(292)	2,773
	<b>12,810</b>	<b>310</b>	<b>(292)</b>	<b>12,828</b>
<b>Current</b>				
Emission allowances (notes 9 & 16.1)	4,696	2,290	(4,696)	2,290
Discontinuation of pulp production in Huelva (note 12)	1,312	-	(406)	906
Pontevedra Environmental Pact (notes 9 & 29)	9,000	2,500	-	11,500
Other provisions	10,700	-	-	10,700
	<b>25,708</b>	<b>4,790</b>	<b>(5,102)</b>	<b>25,396</b>

“Other provisions” mainly recognises the maximum estimated amount that ENCE foresees having to pay to terminate certain agreements arranged in 2008, related with timber and finished product logistics services at the Navia biomill, which are no longer competitive in light of currently available alternatives.

### 21.2. Guarantees extended to third parties

At 30 June 2020, several financial institutions had extended the various Group companies the following guarantees:

	Thousands of euros
Government permitting - renewable energy power generation plants	95,921
Subsidised loans (note 23)	13,014
Receivables discounting lines (note 17)	8,000
Tax claims (note 21)	4,836
Execution of forest projects	4,404
Pontevedra concession (note 12)	3,050
Electricity market security deposit	2,101
Participation in irrigation community works	1,852
Environmental	1,603
Payments to suppliers	1,286
Puertollano works performance bond	1,241
Other	2,105
	<b>139,413</b>

The directors do not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

### 21.3. Contingent assets and liabilities

At 30 June 2020, the Group was party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below:

#### Energy sector regulations in Spain – Energy crops

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass.

These new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to abandon the management of its energy crop plantations in an orderly fashion, a process it concluded in 2015. Moreover, the regulatory changes were undertaken without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment and recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

As a result, on 14 July 2014, for the unlawful economic damages caused directly to ENCE and certain Group companies (Ence Energía, S.L. Unipersonal; Ence Energía Huelva, S.L. Unipersonal; Ence Energía Extremadura, S.L. Unipersonal; Silvasur Agroforestal, S.A. Unipersonal; and Ence Investigación y Desarrollo S.A. Unipersonal; hereinafter, the "ENCE Group Companies") on account of the undue retroactive application to periods prior to 14 July 2013 of the new remuneration regime introduced for facilities generating power from biomass sourced from energy crops, the ENCE Group Companies presented a claim for damages from the Spanish state (hereinafter, the "Claim") before the Spanish Ministry of Industry, Energy and Tourism (the "Energy Ministry"). Quantification of the award sought was conditional upon presentation of a report compiled by an independent expert.

Accordingly, on 31 July 2014, the ENCE Group Companies delivered a first report compiled by an independent expert which quantified the ongoing damages already sustained in respect of 'costs incurred' at

€51,190 thousand, albeit noting that the harmful consequences of the government's actions would continue to materialise in the immediate future.

Having delivered the documentation required by the Energy Ministry in order to complement/remedy the Claim on 28 January and 27 February, on 11 December 2017, another report was submitted, similarly compiled by the same independent expert, quantifying the damages caused by the application of the above-mentioned remuneration regime with retroactive effect at €63,300 thousand.

The case is currently pending ruling by the government.

#### Pontevedra public-domain concession

As a result of a Supreme Court ruling dated 11 July 2014 (upholding a ruling issued by the Appellate Court on 19 May 2011), the Pontevedra Provincial Coastal Service initiated proceedings seeking termination of the concession for the use of the public-domain coastal land on which ENCE's factory in this Spanish province sits.

That case was resolved by means of a resolution by the-then Ministry of Agriculture, Food and the Environment (currently the Ministry of Ecological Transition and Demographic Challenges, hereinafter, the "Environmental Ministry") on 24 July 2015. That resolution declared the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant in Placeres, the existing underwater discharge pipeline and the sports facilities, enabling the continuation of ENCE's activities at the Pontevedra Operations Centre.

The 24 July 2015 resolution was challenged by the town council of Pontevedra and a local association, *Asociación pola Defensa da Ría de Pontevedra* (hereinafter, the "APDR"), before the National Appellate Court (Chamber for Contentious Administrative Proceedings), giving rise to two separate proceedings.

In both cases ENCE is acting as co-defendant, upholding the legality of the Environmental Ministry's actions.

The proceedings brought by the town council of Pontevedra (Ordinary Proceedings 85/2016), seeking a full concession termination declaration, were dismissed by section four of the National Appellate Court on 7 December 2018, ordering the claimant to bear the legal costs. That sentence has not been appealed and is thus now a final ruling.

In the proceedings brought by the APDR (Ordinary Proceedings 373/2016), on 16 January 2020, section 4 of the National Appellate Court similarly dismissed the appeal lodged by APDR, ordering it to bear the legal costs. Due to the modification of the rules for calculating appeal deadlines as a result of the state of emergency, the claimant still has time to appeal the sentence.

Elsewhere, the Environmental Ministry, via the Directorate General of Coastal and Marine Sustainability (the "Directorate General"), issued another resolution on 20 January 2016 granting the extension of the public-domain concession for the land on which ENCE's factory in Pontevedra is located for a total term of 60 years (10 years of which subject to the performance of specific investments in the energy efficiency, water savings and environmental areas). That resolution has also been challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two environmentalist associations: Greenpeace Spain and the APDR.

Those challenges gave rise to four consecutive court proceedings before the National Appellate Court (Chamber for Contentious Administrative Proceedings), two of which have since been rolled into one,

leaving three. ENCE has appeared in court in all the cases in its capacity as co-defendant, arguing the legality of the actions of the Directorate General in extending the concession.

In all three lawsuits, the Directorate General has since acquiesced to the claimants' claims by means of written deeds submitted on 6 March 2019, despite having maintained strenuously and unanimously throughout the proceedings that the Ministerial Order/Resolution of 20 January 2016 was fully lawful. ENCE is opposing the acquiescence vehemently. The Directorate General's acquiescence happened when the proceedings brought by the APDR and Greenpeace Spain (on 3/9/2019 and 26/04/2019, respectively) were declared ready for sentencing.

As a result of the state's acquiescence, the Works Committees at ENCE's head offices and at the biomill in Pontevedra have appeared in court for all three cases.

As for the legal proceedings brought by the town council of Pontevedra, the case is in the final stages of processing and is close to being ready for sentencing.

The Company, in an act of transparency, published a price-sensitive notice on 15 March 2019, outlining its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex. It was estimated that that scenario would have a one-off and extraordinary impact of €185 million, of which €74 million would entail an outflow of cash (dismantling work, contract terminations and employee layoffs).

In addition, on 19 March 2019, the Environmental Ministry began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

The Company believes that the legal arguments in favour of the legality of the Ministerial Order of 20 January 2016 extending the concession for the use of the public-domain coastal land are solid and that it will possibly receive a favourable ruling in that respect. If it does not, based on the solidity of the arguments put forward in its case defending the validity of the contested Ministerial Order, the Company will exhaust all actions available to it in the legal system, including appeals at the highest courts of appeal.

#### Tax contingencies

The Spanish tax authorities concluded several tax inspections encompassing several Group companies during the first half of 2013. As a result of that process, the income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-payment interest of €6,730 thousand (in the opinion of the inspection team, the object of the assessments is not subject to fine), were signed under protest; of this balance, just €4,037 thousand would result in an outflow of cash.

ENCE appealed the assessments before the National Economic-Administrative Court, which rejected its appeal on 16 June 2016. ENCE lodged a new appeal against this ruling before the National Appellate Court, which was also overturned.

In light of the solidity of the line of defence put forward by ENCE and the strong probability that it has an appeal case, these assessments have been brought before the Supreme Court. In the opinion of ENCE and

its tax advisors, there are solid arguments in favour of a positive ruling on the appeals lodged before the latter court, which is why it has not recognised any provision in this respect.

#### Levy on the Value of Electricity Output ("generation levy")

Several ENCE Group companies have paid and subsequently claimed (firstly before the tax authorities and subsequently before the National Economic-Administrative Court) the reimbursement of sums unduly paid in the returns corresponding to the generation levy in 2013-2017, based on the grounds that the tax in question is not environmental in purpose and the fact that the regulations governing the tax go against European Community law and the principles of legal certainty, equality, ability to pay and non-confiscatory taxation enshrined in the Spanish Constitution. The amount being sought amounted to €83.7 million at 30 June 2020.

## 22. Financial instruments by category

The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings at 30 June 2020:

30 June 2020					
Thousands of euros	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 30/06/2020
Investments accounted for using the equity method		-	-	51	51
Derivative financial instruments	25	-	-	-	-
Trade and other receivables	17 & 28	60,394	-	-	60,394
Other financial assets	14.2 & 28	14,215	-	-	14,215
Cash and cash equivalents	14.1	336,126	-	-	336,126
<b>Total financial assets</b>		<b>410,735</b>	<b>-</b>	<b>51</b>	<b>410,786</b>
Derivative financial instruments	25	-	16,982	-	16,982
Trade payables	18 & 28	276,116	-	-	276,116
Other accounts payable	24	18,605	-	-	18,605
Bonds and other marketable securities	23.1	241,874	-	-	241,874
Bank borrowings	23.1	523,453	-	-	523,453
Other financial liabilities	23.2	116,968	-	-	116,968
<b>Total financial liabilities</b>		<b>1,177,016</b>	<b>16,982</b>	<b>-</b>	<b>1,193,998</b>

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable either directly or indirectly using valuation techniques (Level 2 inputs).

The convertible bonds issued by ENCE in 2018 were trading at 88.76% of par at 30 June 2020. The fair value of the rest of the Group's financial assets and liabilities is not significantly different from their carrying amounts.

## 23. Borrowings

### 23.1. Bank borrowings and capital markets issues

The breakdown of bank borrowings at 30 June 2020 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

			Maturity						
30 June 2020 - Thousands of euros	Limit	Drawn down	2020	2021	2022	2023	2024	Beyond	Total non-current
Borrowings - Pulp business									
Notes issued	151,916	151,916	-	-	-	151,916	-	-	151,916
Revolving credit facility	70,000	70,000	-	-	-	70,000	-	-	70,000
Bank loans	226,228	226,228	15,206	28,985	60,211	82,572	34,731	4,523	226,228
Arrangement fees	-	(1,696)	-	(600)	(609)	(419)	(35)	(35)	(1,696)
Interest and coupons payable and other	-	1,523	1,523	-	-	-	-	-	1,523
	448,144	447,971	16,729	28,385	59,602	304,069	34,696	4,488	447,971
Borrowings - Renewable Energy business									
Notes issued	93,000	93,000	-	-	-	-	-	93,000	93,000
Revolving credit facility	20,000	-	-	-	-	-	-	-	-
Bank loans	139,000	132,300	9,925	27,470	28,060	25,727	32,168	8,950	132,300
Project finance facility - Termollano	97,213	97,213	3,995	7,897	7,117	8,205	8,391	61,608	97,213
Arrangement fees	-	(5,337)	-	(1,316)	(1,069)	(816)	(576)	(1,560)	(5,337)
Interest and coupons payable and other	-	180	179	-	-	-	-	1	180
	349,213	317,356	14,099	34,051	34,108	33,116	39,983	161,999	317,356
	797,357	765,327	30,828	62,436	93,710	337,185	74,679	166,487	765,327

Going forward, debt service payments in the Pulp Business, assuming current borrowing levels, will be approximately €4.6 million to €7.7 million per annum. In the Renewable Energy business, those future payments are estimated at approximately €6.1 million to €8.0 million.

In addition, the Group has receivables non-recourse factoring facilities with a limit of €140,000 thousand (note 17) and non-recourse reverse factoring lines with a limit of €154,000 thousand (note 18).

At the date of authorising the accompanying financial statements for issue, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

ENCE's general risk management policy, as described in detail in the consolidated financial statements for the year ended 31 December 2019, remains fully effective as of the date of issuance of these condensed consolidated interim financial statements.

## **Borrowings - Pulp business**

### **Convertible bond issue and revolving credit facility**

On 5 March 2018, ENCE placed €160 million of bonds convertible into ordinary shares with qualified institutional investors.

The main terms and conditions of the issue:

Issue size:	€160,000,000
Face value:	€100,000
Ranking:	Senior unsecured
Issue date:	05/03/2018
Maturity:	05/03/2023
Coupon:	1.25%
Effective interest rate:	1.58%
Conversion price (*):	7.2635
Conversion premium:	40%
Conversion ratio (shares / bond):	13,767
Maximum no. of shares to be issued:	22,027,948
Potential dilution (% increase in share capital):	8.21%
Traded on:	Frankfurt stock exchange
ISIN	XS1783932863
Issuance costs:	€2,075,000

(\*) The conversion price changed to 7.5517 on 1 July 2020.

The bondholders are entitled to exercise their conversion rights at any time. ENCE, meanwhile, is entitled to prepay the issue at any time after 26 March 2021, so long as ENCE's share price exceeds €9.443 during a set period of time and at any time if 15% or less of the bonds remain outstanding.

The terms and conditions include, as is customary in convertible bond issues, a change of control clause (triggered in the event of the acquisition of 50% or more of the Company's voting shares or obtention of the right to appoint a majority of directors) which entitles the bondholders to call the conversion of the bonds at a price that varies depending on the remaining term to maturity but subject to a minimum equivalent to par value. Other clauses have the effect of potentially adjusting the conversion price as a function of the dividends paid out by ENCE annually.

The convertible bonds are unsecured and imply no restrictions on the use of capital. The bonds rank *pari passu* with the rest of the Company's unsecured and unsubordinated borrowings.

Having analysed the terms and conditions, ENCE concluded at the time of issuing the instrument that it constituted a compound instrument and measured the equity component at the time at €14,551 thousand and the liability component at €145,449 thousand, which is equivalent to an estimated coupon for a bond of similar characteristics with no conversion option of 3.25%. If the bondholders want to be repaid in cash they are only entitled to the bonds' par value plus any accrued and unpaid interest. All other cancellation options contemplate settlement in shares, applying the 'fixed-for-fixed' rule. This financing meets the requirements for recognition as new financing rather than the modification of existing financing.

Under the scope of this issue, the Group also arranged a €70 million revolving credit facility with a syndicate of Spanish and international banks. That facility accrues interest at a rate benchmarked to EURIBOR and matures in 2023. It was fully draw down in full during the first half of 2020. The interest rate on the facility may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing.

## **Loans**

During the first half of 2020, ENCE arranged 10 new loans in a total amount of €66.5 million. Of the total, €31.5 million are guaranteed by Spain's official credit institute, the ICO. The Group arranged the new loans to boost its liquidity in light of potential risks deriving from Covid-19 (note 4). A portion of the loans, with an aggregate face value of €10 million, accrues interest at fixed rates ranging between 1.75% and 2%. The

remainder accrues interest at EURIBOR plus a spread of between 1.2 and 3%. The loans mature between 2021 and 2025 and are totally unsecured.

In addition, at 30 June 2020, ENCE had arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan in a combined amount of €155 million; those loans fall due in 2023 and 2024. A portion of those loans, with a face value of €110 million, accrues interest at fixed rates ranging between 1.75% and 1.90%. The remainder mainly accrues interest at EURIBOR plus a spread of between 1.35% and 1.45%. Those loans are guaranteed by several Group companies belonging to the Pulp business (none of the Renewable Energy companies are guarantors).

### **Other**

The Group has arranged reverse factoring lines with a limit of €9,400 thousand which it had drawn down by €4,728 thousand at 30 June 2020; in light of their characteristics, those lines have been recognised as borrowings.

### **Borrowings - Renewable Energy business**

#### **Recourse borrowings**

On 25 November 2017, Ence Energía, S.L., the holding company for ENCE's Renewable Energy business, arranged a senior loan with a syndicate of 12 banks and one Spanish insurance company with a drawdown limit of €170 million, initially structured into four tranches; it also placed €50 million of notes in a private placement which was subscribed by a fixed-income fund.

On 8 December 2018, Ence Energía, S.L. arranged to increase the limit on that senior loan by €17 million and placed €43 million of notes in a private placement, which was subscribed by two fixed-income funds.

The key terms of those loans are as follows:

	Thousands of euros		Maturity	Interest rate (*)
	Undrawn	Drawn		
Senior notes (iv)	50,000	50,000	Dec. 2025 (ii)	3.45%
Tranche 1	56,000	56,000	Dec 2024	1.75% - 3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	60,000	58,500	Dec 2024	1.75% - 3.25%
Tranche 4	20,000	-	Dec 2024	1.25% - 2.75%
Senior notes (iv) and (v)	43,000	43,000	Dec. 2025 (ii)	3.45%
Tranche 5 (v)	17,000	11,800	Dec 2025	1.75% - 3.25%
	<b>252,000</b>	<b>225,300</b>		

- (i) 6-month EURIBOR plus a spread which varies depending on the leverage ratio (net debt-to-EBITDA) in the Renewable Energy business.
- (ii) Due in a single bullet payment on the date indicated.
- (iii) Provided to finance the construction of a new biomass power generation plant with installed capacity of 46 MW in Huelva which was commissioned on 1 February 2020 (note 12).
- (iv) The notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).

- (v) Provided to finance the construction of a new biomass power generation plant with installed capacity of 50 MW in Puertollano (Ciudad Real) which was commissioned on 1 April 2020 (note 12).

The main collateral provided to secure those loans is a pledge over the shares of the Group companies encompassed by the Renewable Energy business (other than those associated with the thermal solar power plant) and over their present and future assets and collection claims.

The financing similarly includes certain obligations, which are customary in these types of facilities, mainly related to the disclosure of specific business and financial information, compliance with certain solvency and profitability ratios and a requirement to maintain a minimum biomass stock buffer (warehoused and supply agreements), equivalent to three months' consumption.

The covenants also stipulate a cash sweep in the Renewable Energy business of at least €34.3 million, including any amounts drawn down under tranche 4, compliance with certain ratios related with the business's leverage, financial position and cash flow generation capabilities and certain restrictions regarding the payment of dividends and ability to secure additional financing.

The commissions paid and other charges incurred to arrange this funding totalled €5,813 thousand.

In order to hedge the risk deriving from this floating-rate facility, ENCE restructured the hedge agreements it had arranged for the purposes of its previous facilities. The new interest-rate swaps cover 81% of the financing drawn down and lock in an average rate of 1.35% (note 25).

Standard & Poor's assigned the Renewable Energy business's loan - considered "green" finance - an E1 rating, the highest score on its Green Evaluation spectrum.

This financing is not recourse to the Group companies comprising the Pulp business.

#### **Project finance facility at the Puertollano thermal solar power plant**

On 29 March 2019, Ence Energía Solar, S.L.U., 100%-owned by ENCE Energía, S.L.U., and Ence Energía Termollano, S.A., 90%-owned by Ence Energía Solar, S.L.U., arranged a project finance facility with a syndicate of four financial institutions to finance the acquisition of a 50-MW solar thermal power plant located in Puertollano (Ciudad Real); that acquisition closed at the end of 2018.

The amount of this project finance facility initially was €109,570; it matures on 31 December 2031. The key terms of the outstanding balance at 30 June 2020:

Thousands of euros	Drawn	Maturity	Interest rate
Tranche 1	21,470	Dec 2026	6m Euribor + 1.95% - 2.3%
Tranche 2	75,743	Dec 2031	6m Euribor + 1.95% - 2.3%
	<b>97,213</b>		

The proceeds were used to cancel the bridge loan arranged on 30 November 2018 by Ence Energía Solar, S.L.U. to initially finance the acquisition of the thermal solar plant and also to cancel €7,002 thousand contributed by IDAE (acronym in Spanish for the energy savings and diversification institute), the plant's minority shareholder.

The arrangement and other costs incurred to obtain this facility totalled €2,178 thousand.

The project finance facility includes guarantees related exclusively to the asset it finances (i.e., it is not recourse to the rest of the companies comprising the Pulp business), including a pledge over 90% of the shares of ENCE Energía Termollano, S.A. (the plant owner), over 100% of the shares of ENCE Energía Solar, S.L.U., and over its current and future assets and credit claims. It also implies a series of obligations related to the disclosure of certain business and financial information, which are customary in these types of facilities, and the requirement to comply with certain solvency and profitability ratios based on the consolidated financial information of Ence Energía Solar, S.L.U. Lastly, the facility includes certain restrictions, mainly related to the ability to pay dividends and obtain new financing and the requirement to maintain a cash sweep equivalent to coverage of 6 months' debt service.

Based on the corresponding analysis, it was concluded that this financing met the requirements for recognition as new financing rather than the modification of existing financial liabilities (the original bridge loan).

In order to hedge the risk deriving from this floating-rate financing facility, ENCE arranged interest-rate hedges with the project financiers for a notional amount equivalent to 70% of the drawdowns estimated over the term of the loan (note 25).

Standard & Poor's has assigned the facility - considered "green" finance - an E1 rating, the highest score on its Green Evaluation spectrum.

### 23.2. Other financial liabilities

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the reporting period is as follows:

30 June 2020 - Thousands of euros	Drawn down	Maturity					
		2020	2021	2022	2023	2024	Beyond
Other financial liabilities - Pulp business							
Financing granted by public organisms	60,988	3,916	3,319	5,848	8,070	8,155	31,680
Liabilities for right-of-use assets (note 15)	45,663	1,284	2,111	1,917	1,661	1,263	37,427
Other	1,396	1,396	-	-	-	-	-
	<b>108,047</b>	<b>6,596</b>	<b>5,430</b>	<b>7,765</b>	<b>9,731</b>	<b>9,418</b>	<b>69,107</b>
Other financial liabilities - Renewable Energy business							
Liabilities for right-of-use assets (note 15)	8,921	443	703	342	335	341	6,757
	<b>8,921</b>	<b>443</b>	<b>703</b>	<b>342</b>	<b>335</b>	<b>341</b>	<b>6,757</b>
	<b>116,968</b>	<b>7,039</b>	<b>6,133</b>	<b>8,107</b>	<b>10,066</b>	<b>9,759</b>	<b>75,864</b>

The line item "Financing granted by public organisms" corresponds mainly to loans obtained, usually at advantageous rates, to finance projects undertaken by ENCE to expand and upgrade the productive capacity of its pulp biomills, as well as its research and development work.

Most are loans extended under the scope of the so-called Re-industrialisation and Manufacturing Competitiveness Stimulus Programme and the proceeds are being used to finance certain investments at the Pontevedra and Navia pulp biomills. The loans are repayable over a 10-year term and bear interest at fixed rates ranging between 1.65% and 2.29%. There is a three-year grace period.

### 24. Other non-current liabilities:

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the reporting period is as follows:

30 June 2020 - Thousands of euros	Maturity							Total non-current
	Total	2020	2021	2022	2023	2024	Beyond	
Other non-current liabilities - Pulp business								
Adjustments for tariff shortfall/surplus	759	97	162	174	18	19	289	662
	<b>759</b>	<b>97</b>	<b>162</b>	<b>174</b>	<b>18</b>	<b>19</b>	<b>289</b>	<b>662</b>
Other non-current liabilities - Renewable Energy business								
Adjustments for tariff shortfall/surplus	14,226	598	1,285	1,381	1,108	1,190	8,664	13,628
Other	4,315	-	4,315	-	-	-	-	4,315
	<b>18,541</b>	<b>598</b>	<b>5,600</b>	<b>1,381</b>	<b>1,108</b>	<b>1,190</b>	<b>8,664</b>	<b>17,943</b>
	<b>19,300</b>	<b>695</b>	<b>5,762</b>	<b>1,555</b>	<b>1,126</b>	<b>1,209</b>	<b>8,953</b>	<b>18,605</b>

"Adjustments for tariff shortfall/surplus" includes the Group's payment obligation to the sector regulator, the CNMC, under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste (notes 6 & 17). The balance due in 2020 in this respect amounts to €695 thousand and is recognised in "Trade and other accounts payable" in the accompanying consolidated statement of financial position.

## 25. Derivative financial instruments

The breakdown of this consolidated statement of financial position heading at 30 June 2020 and 31 December 2019, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

Thousands of euros	Non-current assets		Non-current liabilities		Current liabilities	
	30/06/2020	31/12/2019	30/06/2020	31/12/2019	30/06/2020	31/12/2019
Cash flow hedges:						
IR swap	-	-	9,637	7,435	3,714	3,850
IR swap arrangement fee	-	-	(790)	(1,021)	-	-
Currency hedges	-	1,419	-	-	3,844	6,097
Electricity price hedges	-	-	-	-	577	-
<b>Total</b>	<b>-</b>	<b>1,419</b>	<b>8,847</b>	<b>6,414</b>	<b>8,135</b>	<b>9,947</b>

These financial instruments have been measured subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

The changes in the fair value of the derivatives designated as hedging instruments that were reclassified to profit or loss in 1H20 and 1H19 are shown below:

Thousands of euros - gain/(loss)	1H20	1H19
Impact on operating profit		
Currency hedges	(9,518)	(14,714)
Electricity price hedges (*)	(930)	-
Impact on net finance costs		
IR swap (note 10)	(1,118)	(656)
<b>Total</b>	<b>(11,566)</b>	<b>(15,370)</b>

(\*) It is recognised in "Cost of sales" in the accompanying consolidated statement of profit or loss.

During the first half of 2020, ENCE arranged swaps to hedge the risk of fluctuations in energy prices. Specifically, at 30 June 2020 it had written swaps over 111,000 MWh, locking in an average price of 43.74 per MWh.

The derivatives arranged by ENCE qualify for hedge accounting under the prevailing standard.

## 25.1. Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 30 June 2020:

Underlying	Maturity	Strike price	Strike price	Notional amount (USD m)
		Call	Put	
EUR/USD	3Q20	1.141	1.196	103.0
EUR/USD	4Q20	1.129	1.189	82.0
				<b>185.0</b>
EUR/USD	1Q21	1.096	1.172	77.0
EUR/USD	2Q21	1.095	1.165	35.0
				<b>112.0</b>

The contracts outstanding at 30 June 2020 cover approximately 76% and 38% of forecast pulp sales in the second half of 2020 and the first half of 2021, respectively.

Those instruments presented a negative market value of €3,844 thousand at 30 June 2020 (a negative market value of €4,678 thousand at year-end 2019).

Elsewhere, the sensitivity of its net profit and equity to dollar appreciation or depreciation against the euro as a result of the impact of the derivative financial instruments arranged by ENCE at 30 June 2020 is as follows: dollar depreciation of 10% would have the effect of increasing revenue and net profit by €11,256 thousand and €8,442 thousand, respectively. In contrast, dollar appreciation of 10% would have the effect of eroding revenue, revenue and net profit €29,170 thousand and €21,879 thousand, respectively.

## 25.2. Interest rate swaps

The interest rate derivatives arranged by the Group and outstanding at the reporting date are shown below:

Thousands of euros	Fair value	Notional amounts at reporting date:						
		2020	2021	2022	2023	2024	2025	2026
Pulp business	279	20,000	12,000	4,000	-	-	-	-
Renewable Energy business	13,072	247,953	218,413	188,781	160,371	46,314	37,422	31,913

The Group did not arrange any new interest-rate swaps during the first half of 2020; nor did it cancel any of the swaps in place at year-end 2019.

The sensitivity of net profit and equity to changes in interest rates as a result of the impact on the financial instruments arranged by the Group at 30 June 2020 is as follows: a 50 basis point increase in interest rates would reduce finance costs by approximately €672 thousand, increase net profit by approximately €503 thousand and increase equity by approximately €4,545 thousand. Conversely, a 50 basis point decline in interest rates would increase finance costs by approximately €672 thousand, decrease net profit by approximately €503 thousand and decrease equity by approximately €4,710 thousand.

## 26. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2020 and 31 December 2019 are shown below:

	Thousands of euros			
	30/06/2020		31/12/2019	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
<b>Non-current:</b>				
Deferred tax assets	63,306	-	54,042	-
Deferred tax liabilities	-	36,275	-	37,575
<b>Total</b>	<b>63,306</b>	<b>36,275</b>	<b>54,042</b>	<b>37,575</b>
<b>Current:</b>				
VAT	4,934	987	1,493	548
Current tax on profits for the year	6,850	625	8,641	438
Electricity generation levy	332	8,350	978	4,238
Sundry other taxes	697	3,616	719	3,035
<b>Total</b>	<b>12,813</b>	<b>13,578</b>	<b>11,831</b>	<b>8,259</b>

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the aggregate of the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes, which are then restated for eliminations and adjustments.

The statutory income tax rate in Spain is 25%.

## 26.1. Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position heading at the beginning and end of the first half of 2020 is as follows:

	Thousands of euros				
	Deferred tax assets				Deferred tax liabilities
	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	Total	
Opening balance	31,925	3,629	18,488	54,042	36,825
2019 income tax return	9	-	810	819	-
Estimated 2020 income tax	8,965	-	-	8,965	-
Change in fair value of hedging instruments	-	(434)	-	(434)	-
Recognition of goodwill (note 11)	-	-	-	-	(362)
Other	-	-	(86)	(86)	(188)
	40,899	3,195	19,212	63,306	36,275

(\*) Utilisation of tax losses is limited to 25% of taxable income

Spanish Law 27/2014 on Corporate Income Tax eliminated, with effect from 1 January 2015, the deadline for utilising tax losses, and extended the general term for utilising tax credits to 15 years.

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised within a period of approximately 10 years. In making this judgement, management factored in the outlook for the Pulp business following the recent capacity additions and the earnings stability contributed by the Renewable Energy business.

The deferred tax assets correspond mainly to asset impairment allowances and provisions for liabilities, charges, non-performance and other items that are not deductible at the time of recognition and the temporary limit on the deductibility of depreciation charges introduced in 2013 and 2014 which the Group began to revert in 2015.

## 26.2. Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying condensed consolidated interim financial statements.

## 27. Director and key management personnel pay and other benefits

Note 31 of the Group's 2019 consolidated financial statements details the agreements in force regarding the remuneration and other benefits provided to the members of the Company's Board of Directors and its key management personnel. At the Annual General Meeting on 31 March 2020, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2020-2022 (retrievable from [www.ence.es](http://www.ence.es)).

The table below summarises the most significant items of remuneration and benefits accrued during the six months ended 30 June 2020:

	Thousands of euros	
	1H20	1H19
<b>Board of Directors - in their capacity as directors.</b>		
<b>Type of remuneration:</b>		
Fixed remuneration	357	357
Per diems & other	437	428
	<b>794</b>	<b>785</b>
<b>Key management personnel:</b>		
Total remuneration (*)	<b>2,807</b>	<b>2,581</b>

(\*) The remuneration accrued by the Group's "key management personnel" in the first six months of 2020 and 2019 includes that accrued for the chairman and chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement.

The non-executive directors only receive the indicated fixed remuneration and attendance fees; they are excluded from the Company's short- and long-term performance-based bonus schemes.

ENCE has arranged insurance to cover its directors as a group against the following accident risks: death, permanent outright disability and permanent partial disability. In addition, it offers its directors and their spouses an annual medical check-up. It also has a health insurance policy in the name of the Honorary Chairman of the Board of Directors.

ENCE has not extended its directors any advances or loans. The directors did not conclude any transactions with ENCE or any its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis during the first half of either 2020 or 2019.

ENCE has no pension or alternative insurance related obligations to its directors, except for its Chairman & CEO, the latter in connection with the performance of his executive duties.

"Key management personnel" remuneration includes the fixed and estimated variable remuneration corresponding to the first six months of 2020 and 2019. Elsewhere, the Company provides the members of its Management Committee with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up.

Key management personnel comprise the officers who report directly to ENCE's Chairman & CEO or sit on the Management Committee, as well as the head of the Internal Audit function and any other executives the Board of Directors deems as such. Below is a list of the Group's key management personnel:

Name	Position
Ignacio de Colmenares y Brunet	Chairman & Chief Executive Officer
Alfredo Avello de la Peña	Finance, Corporate Development and Forest Assets Officer
Jordi Aguiló Jubierre	Pulp Operations Officer
Felipe Torroba Maestroni	Independent Energy Plants Officer
Alvaro Eza Bernaola	Supply Chain Officer
Reyes Cerezo Rodríguez-Sedano (ii)	General Secretary   Sustainability Officer
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
María José Zueras Saludas	Human Capital Officer
Faustino Martínez Rodríguez (i)	Health, Safety and Environment Manager
Luis Carlos Martínez Martín (iv)	Communication and Institutional Relations Officer
Fernando González-Palacios Carbajo (iii)	Planning and Control Manager
Ángel J. Mosquera López-Leyton	Internal Audit Manager

- (i) Joined ENCE on 1 April 2019
- (ii) Named Sustainability Officer on 19 December 2019
- (iii) Appointed to the Management Committee on 24 September 2019
- (iv) Luis Carlos Martínez Rodríguez resigned from ENCE on 15 May 2020

The Chairman & CEO and the members of the Management Committee enjoy certain company benefits, including mixed savings, life and accident insurance coverage. In terms of the savings portion of the policy, the beneficiaries contribute 1% of their fixed remuneration to the plan and the Company contributes an additional amount equivalent to 5.25% of the latter; the risk component is borne 50/50. The contingencies covered by the insurance include retirement, total permanent disability, full permanent disability, severe disability and death. The sum of capital underwritten is equivalent to 35 times' their fixed monthly remuneration (twice that in the event the contingencies result from an accident). ENCE also provides the members of its Management Committee with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up.

The Chairman & CEO is entitled to a termination benefit equivalent to one year's pay if the Company terminates his contract, unless the termination is the result of a breach attributable to him or he decides to leave totally voluntarily (two years' pay in the event of a change of control). That same agreement includes a two-year non-compete clause. The Chairman & CEO's remuneration also includes the premium paid for a retirement insurance policy in his name. The benefit payable under this plan is one year's remuneration, to be received upon termination of his contract, so long as this happens at the age of 62 or over.

The contracts with the Pulp Operations Officer, the Independent Energy Plants Officer and the Supply Chain Officer include non-compete clauses ranging between one and two year vis-a-vis firms and activities considered analogous to those of ENCE.

## 28. Related-party transactions

There were no related-party transactions during the first half of 2020 other than those performed with entities consolidated using the equity method.

## 28.1. Transactions with investees accounted for using the equity method

The period-end balances outstanding with investees accounted for using the equity method:

30 June 2020	Miles de Euros		
	Current loans	Current receivables	Current payables
Oleoenergía de Puertollano, S.L.	36	-	-
Captación de Servicios Forestales, S.L.	-	54	275
	<b>36</b>	<b>54</b>	<b>275</b>

The transactions performed with investees accounted for using the equity method of consolidation during the first six months of 2020 were as follows:

1H20	Thousands of euros	
	Purchases	Services provided
Captación de Servicios Forestales, S.L.	195	54
	<b>195</b>	<b>54</b>

There were no transactions with equity-accounted investees in the first half of 2019.

## 29. Environmental management

A strong environmental commitment is part of ENCE's vision and one of the guiding principles of its sustainability policy. Indeed, ENCE's very business model helps protect the environment as follows:

- ✓ As a leading European manufacturer of eucalyptus pulp, it puts renewable and recyclable products on the market that can be substituted for other materials with a bigger carbon footprint, such as plastics.
- ✓ By generating power from renewable sources, it is contributing to the decarbonisation of the generation mix and preventing harmful emissions.

In addition, ENCE cares for the areas surrounding its operating facilities meticulously, minimising the use of resources and implementing all of the measures within its reach to reduce the environmental impact of its activities in terms of waste generation, emissions, discharges, noise and biodiversity.

ENCE's environmental commitment translates into significant investments to introduce prevailing best available techniques and improve process efficiency. It also strives to continually improve its environmental performance, an effort which is spearheaded by its senior management and shared by the entire organisation.

ENCE extends its commitment to caring for the environment to every link in its value chain: from its forestry activities to its pulp production and renewable energy generation activities, emphasising the potential environmental ramifications of its activities and of its supply chain, urging its suppliers to similarly meet the highest standards of environmental excellence.

ENCE is also mindful of the world's pressing environmental challenges such as climate change and the need to protect biodiversity and transition towards a circular economy and factors these concerns into its environmental strategy and targets.

### Compliance and best available techniques

ENCE's environmental commitment is underpinned by (i) rigorous and exhaustive compliance with prevailing legislation, which establishes the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources; and (ii) adaptation to the best available techniques (BAT) reference documents (BREFs) for the pulp and paper industry and for large combustion plants approved by the European Commission.

The integrated environmental permits held by each of the biomills and energy plants establish the environmental requirements for industrial facilities. The goal is to prevent, or at least minimise, and control air, water and soil emissions with a view to protecting the environment as a whole.

To that end, the permits set emission limits for each facility based on best available techniques as well as surveillance plans in respect of all relevant environmental parameters. ENCE avails of all measures within its reach to meet or even surpass the limits set in the permits and reports to the corresponding authorities on its performance in this respect on a timely basis.

### Environmental management systems

Framed by its aspiration to make a real contribution to protecting the environment, ENCE's environmental management efforts go beyond compliance with prevailing legislation. ENCE implemented its total quality management (TQM) programme as a model for cultural and management practice transformation, which addresses matters related to quality, health and safety, environmental protection and pollution prevention as one, in 2011. Under the scope of that model it has defined its environmental policy, which sets the Group's general objectives in this arena and a series of key improvement targets that are clearly focused on the environment and aimed at:

- 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

Under the scope of the TQM model, ENCE has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

At its biomills in Pontevedra and Navia and the energy operations centres in Huelva and Termollano, ENCE has developed an integrated management system with the overriding goal of ensuring that all of the Company's activities are carried out under the scope of the management policy set by senior management and the defined targets and goals are met. This integrated system is certified by an accredited organism which audits it annually. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement. The integrated management systems comply with the following international standards:

- UNE-EN-ISO 9001 - quality management
- UNE-EN-ISO 14001 - environmental management
- ISO 45001 - workplace health and safety management

- UNE-EN-ISO 50001 - energy management

The Navia and Pontevedra biomills and the Huelva energy operations centre also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables continued participation by these facilities in this scheme, each of which was the first in their respective regions to assume this demanding voluntary commitment which only a limited number of companies uphold today.

The excellent environmental records of ENCE's biomills means that the pulp produced in Pontevedra and Navia has carried the Nordic Swan seal (the official Scandinavian ecolabel, created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway) certifying compliance with the most stringent environmental standards since 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.

In addition, the pulp made at the Navia and Pontevedra biomills has been certified as a qualifying raw material in accordance with Commission Decision (EU) 2019/70 of 11 January 2019 establishing the EU Ecolabel criteria for graphic paper and the EU Ecolabel criteria for tissue paper and tissue products.

#### **Climate change and carbon footprint mitigation**

ENCE's business model directly helps combat climate change. Thanks to the power it generates from renewable sources, ENCE is helping to change the Spanish energy model, contributing a type of energy - that generated from biomass - that is not only renewable but is also manageable, a trait other renewable generation technologies do not present.

The use of surplus biomass represents a sustainable energy alternative with major environmental and emission-reducing benefits and contributes to the transition towards a low-carbon energy model, in line with European Union guidelines and Spanish energy policy. ENCE's commitment to mitigating climate change is embodied in its 10-Point Declaration on the Sustainability of Biomass, which includes a pledge to minimise carbon emissions all along the biomass value chain.

Meanwhile, with its pulp-making business, ENCE is helping to change society's consumption patterns by offering renewable, recyclable products with smaller carbon footprints than alternative products such as plastic.

In parallel to the contribution it makes through its business model, ENCE is working to reduce the greenhouse gas emissions generated by its operations. To that end, in 2019, it conducted exhaustive analysis of the carbon footprint of the organisation and its products, using 2018 as the base year for reference purposes.

That exercise was conducted in keeping with the GHG Protocol Corporate Accounting and Reporting Standard and its calculation tools for the pulp and paper industry and ISO 14064-1:2019 for calculation of the organisation's carbon footprint and ISO 14067:2018 for calculation of the products' footprint, benchmark documents in Europe and Spain as far as emissions are concerned. The results for the base year were then submitted for assessment by an independent external expert to provide reasonable assurance as to their accuracy and the appropriateness of the calculation protocol and tools.

### **29.1. Pulp**

#### **Navia biomill**

In October 2019, the Navia biomill upgraded and optimised the facility's technology. That work included the implementation of best available practices in a significant number of productive processes that will in turn

lead to an increase in capacity of 80,000 ADt, as well as improving the biomill's environmental performance by enhancing equipment and system technology throughout the productive process.

The results of that environmental upgrade effort were consolidated over the course of the first half of 2020, tangible in the form of higher-quality discharges and lower emissions of total particles and SO<sub>2</sub>. The main environmental improvements introduced:

- Optimisation of the recovery boiler which will increase the production of steam and the current electrostatic precipitators' ability to eliminate particles, adding a new field. Emissions were 23% lower year-on-year in the first half of 2020.
- Optimisation of the evaporation line, making better use of the condensates (thermal and direct) from the line with the aim of achieving dry material concentration levels of 80%. That work drove a 75% year-on-year reduction in SO<sub>2</sub> emissions from this particular point in the first half of 2020.
- Also, improvements in the lime kilns and furnaces to fine-tune the preparation of the white liquor, improving the ability of the existing electrostatic precipitator to reduce particles by 16%, while enhanced control over the nitrogen oxides generated in it has reduced emissions by 13%. The environmental upgrade thrust continues with plans for new modifications at the burners at one of the kilns (#1) which will cement the trend already observed in the first half of 2020.
- The improvements made at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, in addition to enhancing the ventilation and refrigeration systems at the biological treatment facility, have driven a further reduction in the organic material present in the biomill's wastewater; specifically, chemical oxygen demand (COD), expressed in terms of the ratio of organic material per tonne of pulp produced, has declined by 30%, rendering the biomill far more efficient and reducing its water footprint despite the growth in output.
- The reuse of condensates in a new washer and the generation of less contaminating condensates is enabling the biomill to make even better internal use of water. Water consumption at the Navia biomill decreased by 14% year-on-year in the first half of 2020. ENCE plans to take advantage of the annual stoppage to make further improvements designed to reduce the biomill's water footprint.
- Maximum utilisation of the existing back-pressure turbine's capacity to increase its energy yield (from 40 MWe to 44 MWe) by boosting the steam originating from the bark furnace and making use of the low and medium pressure steam extracted from the turbine.

Kraft pulp mills generate odorous compounds, which is why ENCE has been working for years in Navia to improve its processes, facilities and operations in order to prevent and at least manage its odorous gases. It is working towards a 'zero odour' target. That effort is articulated around a Zero Odour Plan which began in 2010, since when odour emissions from point sources have been slashed by 98%; indeed, in the first half of 2020, odour measured in minutes decreased by 24% year-on-year.

During the first half of 2020, the Navia biomill certified its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, making it one of the first companies in Spain to obtain this certificate, with recovery ratios of over 97%. This certification adds to those already earned and renewed in external audits of the integrated management system, e.g., renewal of the environmental and quality management certification by organisations accredited to provide UNE-EN-ISO 14001:20015 certification and of the Community eco-management and audit scheme (EMAS); those

reviews have not revealed any shortcomings and endorse ENCE's steady progress towards environmental excellence.

#### **Contribution to the surroundings in Navia**

ENCE strives to improve the reputation of its facilities in the vicinity of its Navia biomill by highlighting the effort made to care for the environment and its role as an engine for economic growth in the town, specifically a source of wealth and employment in that part of Asturias. To that end, it has planned and executed a community relations plan which encompasses all of the activities related with local and regional entities, neighbourhood, sports, cultural and community associations and environmentalists. That plan also pools and channels all the information generated by the biomill to its community stakeholders and provides for sponsorship and patronage activities in the area.

The most important such initiative is the two-year collaboration agreement with the Navia town council, signed in July 2017. A new agreement is due to be executed in July 2020. That agreement contemplates earmarking €100,000 to sponsorship of community and environmental activities each year; a commitment to ensuring that 50% of new hires hail from the municipality; priority contracting of local suppliers; the development of job skills by offering work practice to university graduates and post-graduates and support for projects that enhance and care for nature in Navia.

Under the scope of that agreement, ENCE has spearheaded the sponsorship and patronage of multiple community, cultural and sports events and helped with the donation of gear to local residents.

#### **Pontevedra biomill**

Kraft pulp mills generate odorous compounds during certain stages of the process which, if not managed correctly, can escape into the air, generating nuisance smells in the vicinity of the biomill. Aware of this, in Pontevedra ENCE has been working for years to improve its processes, facilities and operations in order to prevent and at least manage its odorous gases. It is working towards a 'zero odour' target. That effort is articulated around a Zero Odour Plan which began in 2010, since when odour emissions from point sources have been slashed by 98%.

In terms of its wastewater, the Pontevedra biomill etched out further improvements in the first half of 2020, consolidating the trend of 2019. All of the biomill's wastewater readings are well below the limits set in the permit, notable among which its chemical oxygen demand (COD) - the key measure of wastewater quality - which outperformed the limit by 64%, coming in at 2.51 kg/ADt, compared to the stipulated cap of 7 kg/ADt.

The trend in this metric confirms the progress the biomill has made on improving the quality of its end wastewater. Note, additionally, that COD in Pontevedra is 87% better than the upper end of the reference range set for this parameter in the pulp sector BREF.

Efficient management of water resources, particularly reduction of water consumption, is one of the biomill's environmental priorities, to which end it has continued to introduce specific measures to foster water usage efficiency and reuse. Thanks to that effort, ENCE managed to cut this biomill's water consumption per tonne of pulp produced further in the first half of 2020, cementing a 25% reduction in this metric over the past five years.

During the first half of 2020, the Pontevedra biomill certified its energy management system under the ISO 50001 standard. That certification endorses ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, translating into real and quantifiable savings in energy costs.

ENCE also applies circular economy principles in its own productive processes, prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. As part of that ongoing effort, in 2019, the Pontevedra biomill attained certification in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, making it one of the first companies in Spain

and the first in its manufacturing sector to obtain it. That milestone evidences the excellence of ENCE's waste management model. Indeed, it has cut waste generation by 25% since 2014 and achieved recovery rates of over 99%.

Elsewhere, the process of getting the Madrid regional environmental authorities to authorise a subsidiary called *Sostenibilidad y Economía Circular S.L.* as a waste manager continued. The aim is to create a mobile plant capable of making soil improvers for use in the recovery of degraded land (mines, refills, etc.).

Lastly, in keeping with its commitment to transparent reporting, the Pontevedra biomill's environmental readings are available for consultation on its website, at [www.encepontevedra.com](http://www.encepontevedra.com).

#### **Pontevedra Environmental Pact**

ENCE and the environment department of the regional government of Galicia entered into an "Environmental Pact" on 28 June 2016 triggering the rollout of a five-year programme comprising environment-related investments and projects designed to contribute to economic development in Pontevedra and Galicia and boost the sustainability of the activities performed by ENCE at its Pontevedra Operations Centre under the scope of its corporate social responsibility strategy.

The Pact is a legal concept provided for in Galician legislation and already used by ENCE and the regional government in the past. Under such a pact, a company undertakes to bring its environmental management beyond that stipulated in prevailing environmental legislation by pursuing best available techniques in this arena.

Under the pact, ENCE has committed to:

- Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- Fostering job creation by using regional forest resources.
- Creating a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- Installing a biomass-fuelled co-generation plant and three bioenergy centres, which is expected to entail €94 million of capital expenditure.
- Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:
  - I. A commitment to contribute up to €15 million to any investments mandated by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the city of Pontevedra;
  - II. A commitment to contribute up to €5 million to the refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to the construction of a football pitch in the vicinity of Lourizán;
  - III. Creation of a framework agreement for application in tandem with ENCE's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

Effectiveness of these commitments and projects is contingent upon effectiveness and survival of ENCE's concession rights in Pontevedra and the grant of the necessary permits and authorisations, which have been applied for from the competent bodies of the regional government of Galicia, some of which are still being processed.

The Pact was modified via addenda signed on 16 January 2017, 6 March 2018 and 16 September 2019, as a result of which, exceptionally and with effect solely from 2017 to 2018, ENCE assumed the commitments outlined in the "Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy", which contemplates annual funding of up to €3 million. The 2018 addendum also included the commitment to contribute up to €5 million to upgrading and modernising the urban waste treatment plant located in the city of Pontevedra and up to €3 million to the construction of a new building to serve as the head offices of the Research Centre, in the event the regional government of Galicia contracted and executed the related works that year. The addendum signed in 2019 includes an agreement to negotiate a new addendum to cover 2020.

### **Sustainable forestry management**

ENCE maintained its position and role as the leading private forest manager and a key player in the timber-based product market in Spain throughout the first half of 2020. It also reinforced its position as benchmark buyer of agricultural and energy biomass to supply its plants.

ENCE manages the forest value chain end-to-end (from plantation to harvesting); those assets include forest land it owns and acreage operated under consortia and leased from third parties through its forest management companies, Silvasur and Norte Forestal. As part of a project dubbed Cantabrian Loyalty, ENCE works to strike management and technical assistance agreements designed to enhance the management of land owned by over 58 owners and neighbourhood forest associations with over 1,000 hectares between them; to date, it has closed 21 agreements encompassing a total of 479 hectares.

Beyond the management of its own forest land, ENCE continues to reinforce its purchasing of standing timber (where ENCE is responsible for the purchase, harvesting and transport of the timber) and of timber straight from suppliers (where ENCE purchases directly from timber specialists). Both activities are managed by the Group's corporate supply chain department.

In both cases - forest management and purchases from third parties - the management and sustainability requirements are identical and are framed by an integrated forest management system which is in turn articulated around applicable regulatory requirements and the benchmark sustainable forestry management and chain of custody standards: FSC® (Forest Stewardship Council®) (with license numbers FSC-C099970 and FSC-C081854) and PEFC® (Programme for the Endorsement of Forest Certification Schemes).

In relation to primary agricultural biomass (direct by-product), ENCE continued to work on the framework for implementing the 10-Point Declaration on the Sustainability of Biomass presented by ENCE in 2017; it is already systematically monitoring and assessing the key indicators for which there is a staggered implementation schedule, framed by the Company's Master Sustainability Plan. In addition to an outreach effort with benchmark NGOs and the compliance effort (which is far more intense for forest-derived biomass), another source of guidance is the sustainability thrust defined in the new European Renewable Energy Directive (RED II), the contents of which will be layered into the Declaration when it is updated during the second half of 2020. As with timber, the sustainability requirements are adapted for the various sources of production (managed forest land, purchase of standing timber and/or direct purchases from traders) for verification purposes.

During the first half of 2020, 985,671 tonnes of biomass were supplied to the energy plants, 36.6% of which came from crops, 42.2% from forest waste and the rest from industrial sources.

The corporate supply chain department is tasked with ensuring that all the raw materials sourced for the production of timber and energy, whether produced on owned forests or purchased from third parties (standing timber and directly from traders), comply with prevailing legal and regulatory requirements.

The procurement of timber and biomass has positive effects on society, one of the main ones being the generation of income and jobs in rural communities, with knock-on effects on the economy in areas in which raw material production activities constitute one of the key ways of earning a living. ENCE's contribution to the rural economy goes beyond development of its direct businesses by helping its stakeholders expand their capabilities: financing schemes for certification groups; nursery discounts; transfer of know-how to forest owners and companies; training and education; biomass collection technology developments; assistance with regulatory compliance for forest owners and companies etc., all with the aim of accelerating genuine sector development framed by the Group's environmental and community policies. It is worth highlighting the fact that during the lockdown derived from the state of emergency declared to curb the transmission of Covid-19 in Spain, it was possible to maintain the Group's procurement activities (framed by stringent safety standards), reinforcing its value for society, specifically the provision of safe-haven work for the Group's suppliers and partners.

Reinforcement of the benchmark regulatory framework, specifically aspects related with compliance with the European due diligence regulation with respect to the legal origin of timber (EUTR), remains a core, value-adding sector thrust. ENCE continues to drive adoption of that framework all along its supply chain, ensuring that end products always come from traceable sources in stringent compliance with applicable legal requirements. More specifically, ENCE is working intensely not only with the sector but also the public authorities to implement best oversight techniques in this respect and to share them with its partners, with which it engages continuously with the aim of communicating the desirable and expected management requirements, including voluntary aspects (essentially social and environmental) aimed at achieving forest asset longevity, impact minimisation, structural and specific diversity preservation, alternative uses for goods and services, ongoing innovation, forestry principles in rural areas, active engagement with stakeholders and forest certification.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 86% and 73%, at the reporting date, respectively. Dual certification (PEFC+FSC), an initiative being spearheaded by ENCE in the marketplace, remains high, at standard-setting levels (86% and 66% of incoming timber at Navia and Pontevedra, respectively). During the first half of 2020, the total volume of certified timber received at the biomills was 1,330,111.73m<sup>3</sup>.

ENCE leveraged the tracts of forest under its management to produce 157,813m<sup>3</sup> of timber (98.8%-certified) and 65,000 tonnes of forestry biomass. ENCE invested more than €6.6 million in its forest assets, money which was earmarked primarily to forestry care, reforestation, infrastructure upgrades and fire protection. That production and investment effort, framed by environmental and social sustainability criteria, constitutes an important direct contribution by the Company to the rural economy.

ENCE's end-to-end forestry activities were audited during the first half of 2020 by the chain of custody experts, PEFC and FSC, without incident. Exceptionally, on account of the pandemic and attendant lockdown, the sustainable forest management audits were postponed this year to the second half of the year and are currently scheduled for July (PEFC) and November (FSC). ENCE continues to collaborate with the research work being done by the FSC's certifier (ASI) as part of the FSC's transaction verification policy.

On the technical management front, the following benchmark projects stand out:

- ENCE presented the results of its “Study of the nutrient cycle in *Eucalyptus globulus* plantations devoted to the production of biomass” carried out in collaboration with the AgroForestry Department of the University of Huelva between 2018 and 2019.
- A total of 5,109 hectares of plantations received biological treatment. Of the total, 3,348 hectares corresponded to owned forests, 1,698 hectares to forest associations and 63 hectares to forests owned by individuals.
- Since the Group embarked on this pest control strategy in 2016, over 160,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner.
- Rollout of a programme for the selection of trees that are more resistant to the *Teratosphaeria nubilosa* fungus. A next-generation clone (F2) has been pre-selected based on the assessment of its resistance to the fungus.
- Eight new plots were planted during the first half. Fourteen trials were also evaluated and analysed and the partial results were communicated.
- The programme to select the trees most resistant to the disease is ongoing.
- Reinforcement of the supply of *Eucalyptus globulus* and *E. nitens* plants to the sector. This falls under the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best materials for planting and recommendations regarding the best forestry care solutions for each situation.
- Project designed to draw out oversized timber in order to attract more mature plantations, with high tonnage per hectare, onto the market.
- Agricultural biomass supply project at the energy plants in southern Spain supported by remote detection technology for early alert purposes and promoting the recovery of agricultural by-products, thereby preventing them from being burned and unlocking value.
- Improving the genetic traits of the plants grown at and/or sold by the Norfor Nurseries:
  - Reduction in the production of *E. globulus* plants grown from seed (from 1 million seedlings sold in 2018 to 582,000 in 2019 and a target of half a million in 2020).
  - Increase in the sale of cloned *E. globulus* (from 1.27 million plants sold in 2018 to 1.38 million in 2019 and a target of 1.6 million in 2020).
  - Sale of a clone, called Colunga, tolerant of the *Teratosphaeria nubilosa* fungus. In 2019 ENCE installed a field of mother trees consisting of 50,000 specimens of that clone at the Silvasur Nursery in Huelva, a move that will enable the Company to increase production considerably.
  - Improving the genetic quality of the seeds used to grow the *E. nitens*. The percentage of seedlings grown from seeds sourced from select orchards increased from 43% of sales in 2019 to 53% in the first half of 2020.
  - Negotiation of the collective bargaining agreement for Norte Forestal under which that entity's Nursery employees work.
- Forest operations efficiency and automation improvement project. Under the scope of this project ENCE carried out a host of activities that have been very well received by contractors. For example, planters specially adapted for certain kinds of forest land (subsoil and ledges) were designed and built for the

direct application of manure and hydro-gel using GPS technology (on the steering wheel). Other new pieces of equipment are currently being trialled, such as remote-controlled clearing machines and drones that measure timber and plantations.

- Satellite-enabled early fire alert systems. Developed and implemented this year, during which the daily fire risk index alert system has also been improved.
- Technology-enabled mobility. XOne - Project Tierra. For the planning and monitoring of forest operations. For the monitoring of engagement with forest owners with a view to bringing their land under management.
- A forest machinery course was run to train employees in how to use the machines in order to increase the pool of sector professionals and foster job creation while striving to foster environmental awareness in parallel.
- Creation of a taskforce to boost the productivity of the *Eucalyptus globulus* in Asturias by developing and disseminating smallholding joint management models, improving fertility and developing a web for the provision of practical tips for sustainable eucalyptus management, including a tool for predicting the species' productivity in each location. That project is fully financed by European funds and is being carried out in conjunction with other key firms, research centres and institutions with a vested interest in the forestry sector in Asturias.
- The improvements embarked on last year on the logistics management front are now fully consolidated in terms of the reorganisation of work, geo-mapping of loads within the vehicle allocation process, fleet diversification and flexibility, the introduction of LNG-propelled trucks, logistics process digitalisation, etc.

The universe of R&D activities undertaken in fields related with ENCE's direct business interests constitute an important source of technical support and know-how which ENCE strives to share with the sector via forums and talks. That effort shares know-how related with aspects such as forest care, plant selection, pest control, legal compliance and forestry certification with owners, suppliers and the sector in general, feeding a continuous debate on how to improve the sector, to which end the authorities and civil society are similarly engaged.

ENCE participates in the main sector associations as a partner in some instances and as an observer in others. It engages actively in sector debates, the development of regulatory and technical tools and advocates for new requirements aligned with its sustainability policies.

## 29.2. Renewable Energy business

In the first half of 2020, ENCE consolidated the implementation of the projects executed in 2019 aimed at adapting the energy operations centres for implementation of best available techniques ahead of effectiveness in 2021 of the BREF for Large Combustion Plants. The focus during the initial phase of adaptation was on preparing for compliance with the new emission limits, planning different emission treatment systems depending on each power plant's needs. The rest of the interventions needed to introduce all the required technological, operational and managerial improvements will be concentrated in 2020 and, while not associated with specific new thresholds, will enable ENCE not only to guarantee compliance with the various regulatory requirements but also to achieve sustained environmental excellence. That is reflected in the completed reports for the Enemansa and Merida plants for the first half of the year; at the Huelva and Lucena plants, the work will be concentrated in the second half of the year. The last milestone will be the revisions to the environmental permits planned for 2020-2021.

In 2020, ENCE is also continuing to execute the so-called Reliability of Environmental Indicator Measurements project, planning and implementing the improvements to be made to the continuous

emissions measurement equipment at the Huelva, Merida and Lucena plants. That effort is being complemented by specific internal and external training initiatives.

Framed by its circular economy strategy, ENCE is prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. In fact, the percentage of waste sent to landfill in the first half of 2020 remained below 10% at all the biomass plants. During the first half of 2020 significant progress was made on the application to have the ash generated at the Huelva plant classified as byproduct.

ENCE plays a key role in helping other sectors to close the circle, e.g., it helps the agriculture sector by using vine shoots and olive pomace produce power. Not only does ENCE address the issue of what to do with that waste, it monetises it and prevents potential environmental damage as a result, for example, of uncontrolled burning or other non-sustainable forms of treatment.

Key initiatives planned for the second half of 2020 include the implementation of ISO 14001-certified management systems at the Merida plant and the new biomass plant in Puertollano; zero waste certification; and the drafting of water consumption rationalisation plans.

#### **Huelva operations centre**

The Huelva operations centre is a prime example of the production of power from biomass as it is home to two important plants (HU41 and HU50), along with a recently commissioned new build (HU46). The HU46 plant was commissioned during the first half of 2020.

On the environmental front, all of this facility's wastewater readings, both the volume discharged and the main indicators tracking the quality of the effluents discharged, remained below the thresholds stipulated in the environmental permit. New investments are planned for the second half of 2020 in order to improve the analysis of the centre's water readings to make further progress on the targets for enhancing the use of water and for separating the effluents and treating them onsite.

Projects to improve the air quality and noise levels were ongoing; specifically, action plans for reducing particle emissions from diffuse sources continued to be designed and executed. A noise map was drawn up at the plant, factoring in the installations to be dismantled.

As for waste, it is worth flagging the application to have the plant's ash waste classified as a byproduct so that it can be used in the production of fertilisers. Work also continued on a range of projects researching the use of ash and slag in mine restoration, as soil improvers and also as a byproduct in the manufacture of fertilisers.

Lastly, in terms of the dismantling of the pulp-making facilities, in 2020, the work continued as scheduled, complying notably with the stipulated workplace safety and environmental standards, particularly those related with diffuse emissions, noise and waste management.

A 858 kWp photovoltaic solar facility was commissioned to supply the plant onsite during the reporting period.

#### **Merida operations centre**

In 2020 Merida continued to comply with its wastewater and emissions requirements.

The investments made in 2019 to install selective non-catalytic reduction (SNCR) technology to reduce NOx emissions in combustion gases were fine-tuned in the first half of 2020. That technology is currently being tested under warranty and is producing very positive results. The project is framed by the process of readying the centre for more stringent emissions controls ahead of looming effectiveness of the Best Available Techniques.

Within the plant's operational management, a series of periodic activities have been adapted and introduced to encourage ENCE's employees, operations and maintenance subcontractors and other people

working at the plant to keep sustainability in mind. For example, waste handling awareness courses, the implementation of a suggestions box for ideas for how to improve the plant's environmental performance and monitoring of the environmental oversight programme designed for the facility.

With the aim of furthering the sustainable economy model at this centre, meetings have taken place with the Extremadura regional government's sustainability team addressing the possibility of emulating the degraded mine land recovery project in Salamanca into the region. The authorities have expressed interest in this circular economy initiative and work is underway to speed up the permitting process.

Lastly, the plant continues to collaborate with other companies in the region on the LIFE ICIRBUS Circular Economy project, researching how to recover the ash produced in the furnace. This project is in its final phase and the results for the harvests collected at which this fertiliser was used are being analysed. The prototype has been installed and is operating continuously at the Lobón (Badajoz) urban waste treatment plant.

In Merida, ENCE is also participating in the Life Renatural NZEB sustainable construction project, the goal of which is to develop buildings which consume barely any energy and have a low carbon footprint, using natural and recycled materials and products.

It is also worth highlighting the financial effort being made to reduce the plant's noise impact in the surrounding areas: phase one, involving a number of interventions at the furnace area, is underway and will be expanded on during a second phase that will start following the corresponding assessment.

#### **Enemansa operations centre**

The improvements made to this plant's environmental performance in 2019 were consolidated in the first half of 2020, specifically enhanced management of the discharges by connecting the plant up with the municipal treatment facility. As a result, the ability to send discharges outside of the plant has been reestablished and the separation of the various flows within the plant has been improved.

As for air emissions, all of the plant's existing emission points comply with the limits stipulated in its integrated environmental permit.

On the noise management front, work continued on the projects planned and follow-up targets set for 2020.

#### **La Loma operations centre**

During the first half of 2020, ENCE further fine-tuned the implementation of a forced evaporation system for the plant's discharges and continued to diversify the evaporation systems, modifying the discharge point and separating the discharges.

As for emissions, aware of the air quality situation in the town near Villanueva del Arzobispo, the plant boasts excellent results in terms of the particle emissions from the biomass plant.

On the waste management front, again taking a circular economy approach, this facility continues to manage its ash as a byproduct and not as waste, having filed the corresponding information with Spain's environment ministry and notified the regional department of the environment.

#### **Lucena operations centre**

Rollout of the projects executed in 2019, most notably the fitting of a bag filter at the biomass furnace emissions point, was completed during the first half of 2020.

The atmospheric emissions and wastewater readings remained within the limits established in the environmental permit. It is worth noting that ENCE plans to improve the combustion process further in 2020 so as to proactively bring the current emissions readings down further.

#### **Termollano operations centre**

ENCE received notification of the modification of its existing waste authorisation during the first half of 2020 and is planning to execute the indicated modification during the second half of the year. The limits set in the authorisation will be met at all times.

Among the various upgrade investment projects planned for this facility, the study into how to improve the solar field to prevent the potential leakage of thermal fluid was completed. A benchmarking exercise is also underway with respect to the improvements being made to heat transfer fluid management at the plant to ensure sustained application of prevailing best available techniques at the Puertollano plant.

### **30. Events after the reporting date**

In July 2020, ENCE arranged swaps to hedge the risk of fluctuations in electricity pool prices in 2021. Specifically, it has written swaps over 516,840 MWh at an average price of 43.44 per MWh.

## **Appendix**

**Condensed consolidated statement of financial position at 30 June 2019 and 30 June 2020 and condensed consolidated statement of profit or loss and of cash flows for the six-month periods ended 30 June 2020 and 2019 for the PULP and ENERGY businesses.**

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2020 AND 31 DECEMBER 2019

Thousands of euros	30 June 2020				31 Dec. 2019			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>NON-CURRENT ASSETS:</b>								
Intangible assets:								
Goodwill	-	5,796	-	5,796	-	6,066	-	6,066
Other intangible assets	15,372	54,392	(14,150)	55,614	14,925	55,300	(14,390)	55,835
Property, plant and equipment	635,087	626,470	(13,390)	1,248,167	647,322	592,710	(1,728)	1,238,304
Biological assets	73,669	232	-	73,901	78,731	345	-	79,076
Non-current financial assets:								
Securities portfolio	325,940	-	(325,940)	-	312,378	-	(312,378)	-
Equity-accounted investments	50	1	-	51	48	1	-	49
Loans to group companies and associates	75,177	-	(75,177)	-	75,177	-	(75,177)	-
Hedging derivatives	-	-	-	-	1,419	-	-	1,419
Other financial assets	2,633	5,401	-	8,034	2,184	5,175	-	7,359
Deferred tax assets	46,553	16,753	-	63,306	38,622	15,420	-	54,042
	<b>1,174,481</b>	<b>709,045</b>	<b>(428,657)</b>	<b>1,454,869</b>	<b>1,170,806</b>	<b>675,017</b>	<b>(403,673)</b>	<b>1,442,150</b>
<b>CURRENT ASSETS:</b>								
Inventories	50,410	15,237	-	65,647	44,850	11,702	-	56,552
Trade and other receivables								
Trade receivables, third parties	54,690	31	-	54,721	29,214	5,789	-	35,003
Receivable from group companies and associates	3,119	33,061	(36,126)	54	6,744	10,178	(16,922)	-
Other receivables	4,152	1,467	-	5,619	3,501	549	-	4,050
Tax receivables	4,961	1,002	-	5,963	2,116	1,074	-	3,190
Income tax receivable	6,260	590	-	6,850	6,900	1,741	-	8,641
Current financial assets:								
Loans to group companies and associates	808	152	(924)	36	-	36	-	36
Other financial assets	6,136	9	-	6,145	4,441	9	-	4,450
Cash and cash equivalents	227,778	108,348	-	336,126	101,311	120,903	-	222,214
Other current assets	3,560	282	-	3,842	1,667	163	-	1,830
	<b>361,874</b>	<b>160,179</b>	<b>(37,050)</b>	<b>485,003</b>	<b>200,744</b>	<b>152,144</b>	<b>(16,922)</b>	<b>335,966</b>
<b>TOTAL ASSETS</b>	<b>1,536,355</b>	<b>869,224</b>	<b>(465,707)</b>	<b>1,939,872</b>	<b>1,371,550</b>	<b>827,161</b>	<b>(420,595)</b>	<b>1,778,116</b>

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2020 AND 31 DECEMBER 2019

Thousands of euros	30 June 2020				31 Dec. 2019			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>EQUITY:</b>								
Issued capital	221,645	22,604	(22,604)	221,645	221,645	22,604	(22,604)	221,645
Share premium and parent company reserves	339,446	77,604	(77,604)	339,446	334,463	77,604	(77,604)	334,463
Parent company retained earnings (prior-year losses)	(5,573)	(30,423)	30,423	(5,573)	(43,666)	(28,634)	28,632	(43,668)
Reserves in fully-consolidated companies	103,764	(3,097)	(31,802)	68,865	159,469	(10,201)	(33,598)	115,670
Interim dividend	-	-	-	-	(12,493)	-	-	(12,493)
Translation differences	11	-	-	11	10	-	-	10
Own shares - parent company shares	(11,850)	-	-	(11,850)	(11,783)	-	-	(11,783)
Valuation adjustments	37,076	(7,142)	-	29,934	36,860	(4,891)	-	31,969
Other equity instruments	11,867	119	-	11,986	11,545	116	-	11,661
Other owner contributions	-	249,813	(249,813)	-	-	222,890	(222,890)	-
Profit for the year	(24,306)	(2,944)	1,880	(25,370)	309	5,315	3,585	9,209
<b>Equity attributable to owners of the parent</b>	<b>672,080</b>	<b>306,534</b>	<b>(349,520)</b>	<b>629,094</b>	<b>696,359</b>	<b>284,803</b>	<b>(324,479)</b>	<b>656,683</b>
<b>Non-controlling interests</b>	<b>-</b>	<b>17,814</b>	<b>-</b>	<b>17,814</b>	<b>-</b>	<b>18,250</b>	<b>-</b>	<b>18,250</b>
<b>TOTAL EQUITY</b>	<b>672,080</b>	<b>324,348</b>	<b>(349,520)</b>	<b>646,908</b>	<b>696,359</b>	<b>303,053</b>	<b>(324,479)</b>	<b>674,933</b>
<b>NON-CURRENT LIABILITIES:</b>								
Borrowings:								
Bonds and other marketable securities	150,393	91,481	-	241,874	148,692	91,249	-	239,941
Bank borrowings	267,656	193,903	-	461,559	155,000	202,903	-	357,903
Other financial liabilities	100,217	8,282	-	108,499	98,944	8,259	-	107,203
Derivative financial instruments	142	8,705	-	8,847	157	6,257	-	6,414
Grants	6,010	1,545	-	7,555	5,446	1,304	-	6,750
Deferred tax liabilities	22,744	17,488	(3,957)	36,275	22,994	18,598	(4,017)	37,575
Non-current provisions	3,285	9,543	-	12,828	3,381	9,429	-	12,810
Non-current accruals and deferred income	3	3,331	-	3,334	2	3,374	-	3,376
Other non-current liabilities	663	17,942	-	18,605	4,673	21,432	-	26,105
Borrowings from Group companies and associates	-	75,177	(75,177)	-	-	75,177	(75,177)	-
	<b>551,113</b>	<b>427,397</b>	<b>(79,134)</b>	<b>899,376</b>	<b>439,289</b>	<b>437,982</b>	<b>(79,194)</b>	<b>798,077</b>
<b>CURRENT LIABILITIES:</b>								
Borrowings:								
Bank borrowings	29,922	31,972	-	61,894	1,131	25,150	-	26,281
Other financial liabilities	7,830	639	-	8,469	7,695	347	-	8,042
Derivative financial instruments	4,562	3,573	-	8,135	6,244	3,703	-	9,947
Current borrowings from group companies and associates	116	807	(923)	-	-	-	-	-
Trade and other payables								
Trade payables, third parties	206,709	69,132	-	275,841	181,416	45,453	-	226,869
Borrowings from Group companies and associates	33,339	3,066	(36,130)	275	10,588	6,334	(16,922)	-
Income tax payable	16	609	-	625	438	-	-	438
Taxes payable	6,127	6,826	-	12,953	4,365	3,456	-	7,821
Current provisions	24,541	855	-	25,396	24,025	1,683	-	25,708
	<b>313,162</b>	<b>117,479</b>	<b>(37,053)</b>	<b>393,588</b>	<b>235,902</b>	<b>86,126</b>	<b>(16,922)</b>	<b>305,106</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,536,355</b>	<b>869,224</b>	<b>(465,707)</b>	<b>1,939,872</b>	<b>1,371,550</b>	<b>827,161</b>	<b>(420,595)</b>	<b>1,778,116</b>

**First-half 2020 Financial Report**  
**Ence Energía y Celulosa, S.A. and subsidiaries**

**ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019**

Thousands of euros	1H20				1H19			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>Continuing operations:</b>								
Revenue	267,871	95,956	(1,864)	361,963	308,138	80,818	(2,789)	386,167
Gains/(losses) on hedging transactions	(9,518)	-	-	(9,518)	(14,714)	-	-	(14,714)
Changes in inventories of finished goods and work in progress	(1,953)	-	-	(1,953)	10,260	-	-	10,260
Own work capitalised	1,381	(977)	-	404	4,502	199	-	4,701
Other operating income	1,301	1,952	(1,104)	2,149	2,145	40	(1,867)	318
Grants taken to income	1,534	496	-	2,030	1,573	515	-	2,088
Operating income subtotal	260,616	97,427	(2,968)	355,075	311,904	81,572	(4,656)	388,820
Cost of sales	(144,579)	(29,915)	1,864	(172,630)	(136,237)	(22,342)	2,789	(155,790)
Employee benefits expense	(39,028)	(6,447)	-	(45,475)	(39,869)	(6,003)	-	(45,872)
Depreciation and amortisation charges	(28,008)	(20,348)	761	(47,595)	(26,522)	(13,724)	-	(40,246)
Depletion of forest reserve	(6,670)	(209)	-	(6,879)	(4,532)	(24)	-	(4,556)
Impairment of and gains/(losses) on disposal of fixed assets	839	(1,592)	1,179	426	1,716	(102)	-	1,614
Impairment of financial assets	(574)	(177)	-	(751)	(1,132)	-	-	(1,132)
Other operating expenses	(70,061)	(34,031)	1,104	(102,988)	(70,129)	(27,567)	1,867	(95,829)
Operating expenses subtotal	(288,081)	(92,719)	4,908	(375,892)	(276,705)	(69,762)	4,656	(341,811)
<b>OPERATING PROFIT/(LOSS)</b>	<b>(27,465)</b>	<b>4,708</b>	<b>1,940</b>	<b>(20,817)</b>	<b>35,199</b>	<b>11,810</b>	<b>-</b>	<b>47,009</b>
<b>Finance income:</b>								
From marketable securities & other financial instruments:								
Group companies and associates	1,319	-	(1,319)	-	1,283	-	(1,283)	-
Third parties	19	3	-	22	228	252	-	480
<b>Finance costs</b>								
Group companies and associates	-	(1,319)	1,319	-	-	(1,283)	1,283	-
Third-party borrowings	(6,713)	(6,336)	-	(13,049)	(5,617)	(7,844)	-	(13,461)
Net exchange gains/(losses)	360	(23)	-	337	682	(13)	-	669
Impairment of and gains/(losses) on disposal of financial assets	161	-	-	161	(140)	-	-	(140)
<b>NET FINANCE COST</b>	<b>(4,854)</b>	<b>(7,675)</b>	<b>-</b>	<b>(12,529)</b>	<b>(3,564)</b>	<b>(8,888)</b>	<b>-</b>	<b>(12,452)</b>
Share of profit/(loss) of investees accounted for using the equity method	2	-	-	2	-	-	-	-
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(32,317)</b>	<b>(2,967)</b>	<b>1,940</b>	<b>(33,344)</b>	<b>31,635</b>	<b>2,922</b>	<b>-</b>	<b>34,557</b>
Income tax	8,011	765	(60)	8,716	(7,848)	(298)	-	(8,146)
<b>PROFIT/(LOSS) FOR PERIOD FROM CONTINUING OPERATIONS</b>	<b>(24,306)</b>	<b>(2,202)</b>	<b>1,880</b>	<b>(24,628)</b>	<b>23,787</b>	<b>2,624</b>	<b>-</b>	<b>26,411</b>
Profit/(loss) for the period from continuing operations attributable to non-controlling interests	-	742	-	742	-	1,435	-	1,435
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (*)</b>	<b>(24,306)</b>	<b>(2,944)</b>	<b>1,880</b>	<b>(25,370)</b>	<b>23,787</b>	<b>1,189</b>	<b>-</b>	<b>24,976</b>

(\*) 100% from continuing operations

## ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 2019

Thousands of euros	1H20				1H19			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Profit before tax from continuing operations	(32,317)	(2,967)	1,940	(33,344)	31,635	2,922	-	34,557
Adjustment for:								
Depreciation and amortisation	34,678	20,557	(761)	54,474	31,536	13,267	-	44,803
Changes in provisions and other deferred expense (net)	11,678	4,824	-	16,502	7,404	1,874	-	9,278
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	(1,000)	1,592	(1,179)	(587)	(1,702)	102	-	(1,600)
Adjustments for tariff shortfall/surplus (electricity market)	(7,091)	(14,971)	-	(22,062)	473	2,400	-	2,873
Finance income and costs (net)	5,223	7,651	-	12,874	3,379	8,874	-	12,253
Grants taken to income	(513)	(127)	-	(640)	(499)	(127)	-	(626)
	<b>42,975</b>	<b>19,526</b>	<b>(1,940)</b>	<b>60,561</b>	<b>40,591</b>	<b>26,390</b>	<b>-</b>	<b>66,981</b>
<b>Changes in working capital:</b>								
Inventories	(4,837)	(4,526)	-	(9,363)	(17,093)	(2,995)	-	(20,088)
Trade and other receivables	(8,789)	(7,403)	-	(16,192)	4,855	4,843	-	9,698
Short-term investments	(1,695)	-	-	(1,695)	(4,693)	-	-	(4,693)
Trade payables, other payables and other liabilities	28,567	9,536	-	38,103	8,600	2,994	-	11,594
	<b>13,246</b>	<b>(2,393)</b>	<b>-</b>	<b>10,853</b>	<b>(8,331)</b>	<b>4,842</b>	<b>-</b>	<b>(3,489)</b>
<b>Other cash flows from operating activities:</b>								
- Interest paid (net)	(2,393)	(7,346)	-	(9,739)	(1,382)	(6,774)	-	(8,156)
- Income tax paid	3	1,008	-	1,011	(5,119)	(155)	-	(5,274)
	<b>(2,390)</b>	<b>(6,338)</b>	<b>-</b>	<b>(8,728)</b>	<b>(6,501)</b>	<b>(6,929)</b>	<b>-</b>	<b>(13,430)</b>
<b>Net cash from operating activities</b>	<b>21,514</b>	<b>7,828</b>	<b>-</b>	<b>29,342</b>	<b>57,394</b>	<b>27,225</b>	<b>-</b>	<b>84,619</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
<b>Payments for investments:</b>								
Property, plant and equipment	(35,332)	(39,720)	26,923	(48,129)	(91,248)	(89,992)	14,390	(166,850)
Intangible assets	(2,149)	(329)	-	(2,478)	11,693	(14,624)	-	(2,931)
Financial assets	43	7	-	50	(114)	(25)	-	(139)
	<b>(37,438)</b>	<b>(40,042)</b>	<b>26,923</b>	<b>(50,557)</b>	<b>(79,669)</b>	<b>(104,641)</b>	<b>14,390</b>	<b>(169,920)</b>
<b>Proceeds from disposals:</b>								
Property, plant and equipment and biological assets	122	-	-	122	399	23	-	422
Financial assets	290	-	-	290	4,123	-	-	4,123
	<b>412</b>	<b>-</b>	<b>-</b>	<b>412</b>	<b>4,522</b>	<b>23</b>	<b>-</b>	<b>4,545</b>
<b>Net cash used in investing activities</b>	<b>(37,026)</b>	<b>(40,042)</b>	<b>26,923</b>	<b>(50,145)</b>	<b>(75,147)</b>	<b>(104,618)</b>	<b>14,390</b>	<b>(165,375)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>								
<b>Proceeds from/(payments for) equity instruments:</b>								
Proceeds from issuance of own equity instruments	-	26,923	(26,923)	-	-	14,390	(14,390)	-
Buyback of own equity instruments	(21,289)	-	-	(21,289)	(58,998)	-	-	(58,998)
Disposal of own equity instruments	20,779	-	-	20,779	48,419	-	-	48,419
	<b>(510)</b>	<b>26,923</b>	<b>(26,923)</b>	<b>(510)</b>	<b>(10,579)</b>	<b>14,390</b>	<b>(14,390)</b>	<b>(10,579)</b>
<b>Proceeds from/(repayments of) financial liabilities:</b>								
Group companies and associates	3,908	(3,908)	-	-	(222)	222	-	-
Proceeds from issuance of convertible bonds	(2)	5	-	3	(121)	-	-	(121)
Increase/(decrease) in bank borrowings, net of issuance costs	140,890	(2,696)	-	138,194	-	(35,889)	-	(35,889)
Repayment of other borrowings	(298)	-	-	(298)	705	(6,997)	-	(6,292)
Payments under finance leases	(2,177)	(665)	-	(2,842)	(2,149)	(362)	-	(2,511)
Grants received	168	-	-	168	61	(31)	-	30
	<b>142,489</b>	<b>(7,264)</b>	<b>-</b>	<b>135,225</b>	<b>(1,726)</b>	<b>(43,057)</b>	<b>-</b>	<b>(44,783)</b>
<b>Dividends and payments on other equity instruments</b>								
Dividends paid to ENCE shareholders	-	-	-	-	(13,214)	-	-	(13,214)
Dividends paid to minority shareholders	-	-	-	-	-	(845)	-	(845)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,214)</b>	<b>(845)</b>	<b>-</b>	<b>(14,059)</b>
<b>Net cash from /(used in) financing activities</b>	<b>141,979</b>	<b>19,659</b>	<b>(26,923)</b>	<b>134,715</b>	<b>(25,519)</b>	<b>(29,512)</b>	<b>(14,390)</b>	<b>(69,421)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>126,467</b>	<b>(12,555)</b>	<b>-</b>	<b>113,912</b>	<b>(43,272)</b>	<b>(106,905)</b>	<b>-</b>	<b>(150,177)</b>
Cash and cash equivalents - opening balance	101,311	120,903	-	222,214	148,161	200,462	-	348,623
Cash and cash equivalents - closing balance	227,778	108,348	-	336,126	104,889	93,557	-	198,446

First-half 2020 Financial Report



Ence Energía y Celulosa, S.A. and subsidiaries

## **ENCE Energía y Celulosa, S.A. and subsidiaries**

Interim Group management report for the  
six months ended 30 June 2020

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## Ence Energía y Celulosa, S.A. and subsidiaries

### Interim Group management report for the six months ended 30 June 2020

#### 1. Introduction

This interim Group Management Report has been drawn up in keeping with the recommendations included in CNMV (Spain's securities market regulator) Circular 3/2018 on interim reporting by issuers with securities admitted to trading on organised exchanges with respect to half-yearly financial statements, interim management reports and, as warranted, quarterly financial reports. It should be read in conjunction with the Group Management Report for 2019.

An integral part of this interim Group Management Report, and appended thereto, is the Group earnings report for the second quarter of 2020, which includes an analysis of ENCE's business performance during the first half of the year and provides additional details about the markets it operates in and the key trends in the main earnings, cash flow and capital structure indicators. That same report also includes information about ENCE's recent share price performance and the alternative performance measures (APMs) used, which are defined and reconciled with the amounts presented in the condensed consolidated financial statements for the six months ended 30 June 2020.

The reader should also note that the information provided in this interim Group Management Report is complemented by the detailed disclosures provided in note 4 of the accompanying condensed consolidated interim financial statements regarding the impacts of the Covid-19 pandemic on ENCE and by the environmental disclosures provided in note 29 thereof.

#### 2. Organisational structure

The highest governing bodies at Ence Energía y Celulosa, S.A. (the "Company") are the Annual General Meeting and the Board of Directors, vested with the duties stipulated in company law and the bylaws. The Board of Directors is tasked with supervision, management and control of ENCE. It is responsible for calling the Annual General Meetings; authorising the financial statements; approving its financial and non-financial information and its publication; approving the directors' remuneration regime within the limits established at the AGM; evaluating the performances of its committees, chairman, directors and the board as a whole and of the CEO; debating and approving the business plan of the Company and its Group, including definition and revision as needed of its mission and values and its financial, social and environmental objectives; approving corporate policies, including, among others, the sustainability policy, the risk control and management policy and the dividend policy; determining the Company's and Group's corporate governance regime; and approving the corporate crime prevention and detection model.

The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders, framed by the observation of its corporate social responsibility and sustainability principles.

The Board of Directors is made up of executive, proprietary, external and independent directors. The Board has an Executive Chairman; the chairmanship is currently held by the CEO. The positions of Board Secretary and Vice-Secretary are currently held by two individuals who are not directors.

The Board of Directors is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over these bodies and setting the guidelines under which they should operate.

The Board is supported by an Executive Committee (in which it has delegated all of the powers that can be delegated) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Sustainability Committee.

The Chairman and CEO is responsible for the Company's everyday management. He is supported in this work by the Management Committee, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the Supply Chain Officer, the Financial, Corporate Development and Forest Assets Officer, the Human Capital Officer, the Sales Manager, the Health, Safety and Environment Manager, the Sustainability Officer and General Secretary and the Planning and Control Manager. The officers report directly to the Company's CEO.

At the executive level, the Company is also assisted by a Compliance Committee, an Executive Sustainability Committee and an Operational Excellence Committee.

The Compliance Committee reports to the Audit Committee and is made up of the heads of the corporate Human Capital and Health, Safety and Environment Departments, the General Secretary and the head of the Internal Audit Department, who chairs it. The Compliance Committee's duties in respect of the Company's Code of Conduct include fostering familiarity with it and its application, communication and enforcement at ENCE; overseeing its application at all Group companies; issuing binding interpretations of the Code; approving and implementing rules and procedures to implement and enforce it; and receiving notifications submitted via ENCE's whistle-blowing channel and issuing the corresponding findings and responses.

As for the Corporate Crime Prevention and Detection Protocol, the Compliance Committee controls, supervises and evaluates compliance with the rules and procedures set down in the Crime Prevention Protocol, updating them regularly as required, to ensure that all of the controls and oversight measures established by the Company to prevent or mitigate the risk of criminal conduct within the organisation are duly identified and detailed. This Committee is also in charge of drawing up plans for remedying, updating, creating or modifying the measures and controls that constitute ENCE's Corporate Crime Prevention and Detection Protocol.

It additionally supervises compliance with all of the regulations related with the General Data Protection Regulation.

The Executive Sustainability Committee reports to the Board's Sustainability Committee and is made up of the CEO, who chairs it, the General Secretary and Sustainability Officer and the heads of the corporate Health, Safety and Environment Department, Human Capital, Pulp, Independent Energy Plant Operations, Finance and Corporate Development and Supply Chain. That committee's permanent members also include the head of corporate sustainability and the designated sustainability officers in each business unit. Its main duties include execution at the operating level of the corporate sustainability strategy set by the Board committee, work which includes setting targets and monitoring their delivery. That committee also approves ENCE's membership of sector or cross-sector initiatives for the promotion of sustainability and establishes the channels for engaging with stakeholders. It also coordinates the preparation of the non-financial reports for presentation to the Board's Sustainability Committee.

The Operational Excellence Committee is made up of the CEO, who chairs it, the members of the Management Committee and the management teams at the pulp biomills and the energy plants. That committee meets weekly to monitor the pulp biomills' and the energy plants' key performance indicators with respect to employee safety, environmental matters, workplace climate, sales matters related with customers and products, operational and cost indicators and matters related with the procurement of timber and biomass.

In addition, ENCE has an Internal Audit Department which reports directly to the Audit Committee.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former in the case of the wholly-owned subsidiaries, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. Indeed, the Company is the sole director of its Group companies, other than those in which there are non-controlling interests.

The companies with non-controlling interests are: Energía la Loma, S.A., Energías de la Mancha ENEMAN, S.A., Bioenergía Santamaría, S.A. and Ence Energía Termollano, S.A., in which Ence Energía, S.L.U, 100%-owned by Ence Energía y Celulosa, S.A., holds ownership interests of 64.06%, 68.42%, 70% and 90%, respectively.

The above five companies are governed by a board of directors and the other shareholders are represented on three of them.

### 3. Key risks and sources of uncertainty

ENCE's enterprise risk management (ERM) system is a process that is embedded within the organisation and is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. Various areas of the Company participate in the process, each with specific responsibilities which, combined, constitute the end-to-end system.

ENCE identifies and evaluates emerging risks continuously and systematically. It also monitors developments with respect to risks identified and those that have dissipated or materialised in prior years. The purpose of this monitoring and control process is to ensure execution and effectiveness of the agreed-upon action plans and guarantee continuous supervision of the Company's key risk factors.

The result of this process is the Risk Register and Map, which are presented to the Management Committee for joint debate and review. Subsequently, the Risk Register and Map are presented to the Audit Committee for approval and subsequent reporting to the Board of Directors.

ENCE's risk control and management process assigns the following specific roles and responsibilities:

1. The risk management officers are tasked with executing the action plans and establishing the controls needed to provide the agreed-upon response to the risks identified within their respective purviews.
2. Throughout the year the Internal Audit Department closely monitors the level of progress on executing the risk mitigation plans, providing the Board's Audit Committee with regular updates on these matters.
3. The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.
4. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's ERM system, monitoring to that end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

ENCE's ERM system takes into consideration the possible threats to delivery of the strategic objectives of all of the Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

This system encompasses the entire Group, understood as each and every one of the companies in which Ence Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investees.

The ERM contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

1. Strategic
2. Operations
3. Financial Information and Reporting
4. Regulatory Compliance

The risks addressed by ENCE's ERM model are in turn classified as follows:

1. Environmental Risks
2. Risks associated with Decision-Making Information
3. Financial Risks
4. Organisational Risks
5. Operational Risks
6. Corporate Crime Risks
7. Tax Risks
8. Climate Change Related Risks

In keeping with ENCE's Risk Management and Control Policy, the Company has a methodology for assigning specific risk appetite thresholds depending on the activities involved. Its risk tolerance levels are contingent upon ensuring that rewards and potential risks are fully understood before decisions are made, to which end it establishes reasonable risk management measures as required.

ENCE analyses each situation based on the risk-reward trade-off. This analysis contemplates multiple factors including strategy, stakeholder expectations, prevailing legislation, the environment and third-party relations.

1. ENCE takes a zero-tolerance stance towards any situation which could compromise the health or safety of its employees.
2. ENCE similarly takes a zero-tolerance stance towards any situation in which the performance of any of activity could cause damage to its facilities, surroundings, the environment, the Group's reputation or the continuity of the business.
3. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to the Company.
4. ENCE has a team of external advisors and expert in-house staff who lay down the guidelines for ensuring compliance with tax requirements so that it assumes no risk whatsoever in this arena.
5. ENCE's appetite for situations related to product research, development and innovation can be described as moderate, the aim being to provide solutions that fully satisfy its customers' needs so that the Company remains a benchmark in the pulp market.
6. In addition, aware of the prevailing economic complexity, ENCE is committed to the pursuit of financial discipline such that it can control the organisation's overall debt and maintain enough liquidity to ensure its ability to service its payment obligations and fund its priority investments. Against this backdrop, its risk appetite for speculative financial trades is low.

7. Nevertheless, a significant percentage of ENCE's transactions are exposed to the exchange rate between the dollar (\$) and the euro (€). ENCE, knowledgeable of the prevailing economic situation and trends in the rate of exchange between these two currencies, has defined a low risk appetite strategy in this arena, managing its currency exposure rigorously in keeping with the guidelines set by the Executive Committee of the Board of Directors and the Finance Department, as warranted.

The chief risks to delivery of the organisation's fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

**Goal: Financial Discipline**

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to impose financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

To mitigate this risk factor, first and foremost, ENCE goes to lengths to reduce its production costs. In addition, ENCE has a Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, if necessary and the prices are right, financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on the Company's earnings.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically with the aim of arranging financial hedges to mitigate currency exposure if necessary.

A number of forward currency contracts were arranged during the first half of 2020 covering approximately 77% of forecast sales for the second half of 2020.

c) TRADE CREDIT RISK - PULP BUSINESS

In the pulp market it is possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

ENCE has a credit insurance policy, which has been renewed until 31 December 2022, which covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

To mitigate this risk, ENCE also has a Credit Committee which is tasked with continuously monitoring outstanding receivables balances and available insurance coverage.

d) LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and equity markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its 2019-2023 Business Plan.

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteed business continuity in any pulp price scenario.
2. Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.
3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp business is around 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4.5 times.
4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp business and using bank financing and raising money from institutional investors in the Renewable Energy business.

Each of the Group's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

e) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

It is feasible that the state, regional and/or local tax authorities could make further changes to current tax regulations, such as changes/reforms to corporate and/personal income tax, which could directly affect ENCE and its earnings.

To mitigate this risk, ENCE has a team of in-house specialists who work together with external tax advisors and experts and have established internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

**Goal: Enhancing the Company's Productive Capacity**

ENCE uses the most environmentally-friendly technology possible in all its production processes and uses total quality management (TQM) methodology to boost its competitive positioning and the quality of its products. However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its productive facilities.

This target is exposed to factory obsolescence risk. In the absence of an investment and maintenance plan to address facility obsolescence, ENCE cannot guarantee delivery of the various operations centres' targets and the biomills' and energy plants' installations, machinery and equipment could become impaired.

In order to manage the risks that could jeopardise delivery of this strategic objective, ENCE works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) review of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

**Goal: New Product Development**

ENCE attempts to differentiate its products from those of its competitors while building a globally recognised brand in parallel. Here the main risks include that of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

The strategy adopted to satisfy customers' needs is to reduce risk by enhancing productive processes and maintaining a customer complaints/claims management system. In the first half of 2020, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it shored up its salesforce quantitatively and qualitatively with a view to identifying customers' specific needs in order to factor them into the Company's product range.

**Goal: Minimising the Cash Cost**

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective, thus translating into a loss of competitiveness for ENCE: inflation in the cost of acquiring chemical products, fuel, gas, industrial supplies and spare parts, logistics and transportation costs, strike action, the economic fallout from sector and environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

ENCE attempts to mitigate the risk of price changes by having the Corporate Supply Chain Department periodically monitor the performance of its main suppliers with a view to taking corresponding action (search for alternative products, identification of more competitive goods and services, enhancement of the firm's bargaining power and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall of timber supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually with higher logistics costs, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers. Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of the development of superior technology by its competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility for the Company. ENCE's

technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

***Goal: Increasing ENCE's Market Share***

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a deterioration in contractual sales terms, a shift in customers' production mixes, a contraction in demand for its products and evolving market preferences.

ENCE's Marketing Plan for 2020 is designed to reinforce the presence and positioning of the Company's products in the European market and materialises in initiatives aimed at: (i) increasing the customer base in order to reduce concentration risk; (ii) differentiating ENCE's products by means of plans to enhance the properties and qualities of its pulp; and (iii) improving customer service.

In addition, ENCE continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

***Goal: Streamlining of Post-Production Logistics***

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

End product stockouts can occur as a result of *ad-hoc* technical incidents in the productive process (breakdowns, bottlenecks, etc.) resulting in lower than initially-planned product availability. This situation can lead to the failure to deliver within the agreed-upon deadlines, causing damage to the end customer and to ENCE's reputation, generating costs deriving from contract non-performance and ultimately adversely impacting the Company's earnings. These events can also trigger the cancellation of orders by our customers thereby increasing stock levels. To minimise this risk, the Pulp Business reviews the production, sales and logistics plans as a whole in order to identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

***Goal: Minimising the Impact of our Operations on the Environment***

Generally speaking, the activities performed by ENCE in both its Pulp and Renewable Energy businesses are carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities where it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise or aesthetic contamination as a result of its industrial activities.

ENCE mitigates this risk by reducing the impact its operations have on the environment by means of its integrated quality, environment and safety management system which is certified under the UNE-EN-ISO 14001 environmental management standard, by providing education about how to prevent environmental risks, writing insurance policies, conducting audits and implementing inspection, oversight and control measures, framed by a preventative approach. Note that in 2019, the Group also continued to invest to make its facilities more environmentally-friendly.

**Goal: Business Continuity**

The Pontevedra biomill's original concession of 1958 was extended for a term of 60 years (starting from 8 November 2013) by the then Ministry of Agriculture, Food and Environment via a resolution dated 20 January 2016 by virtue of: (i) Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act; and (ii) the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014). That resolution was challenged by the Council of Pontevedra and two environmental associations (Greenpeace Spain and *Asociación Pola Defensa da Ría de Pontevedra* or the APDR), giving rise to three court cases before the National Appellate Court's Chamber for Contentious Administrative Proceedings, in which the Ministry, along with ENCE in its capacity as co-defendant, had been defending the legality of the concession extension.

On 8 March 2019, the newly-named Ministry of Ecological Transition presented written deeds effectively acquiescing in all three lawsuits. In other words, it requested to have Greenpeace's and the APDR's claims upheld, despite having previously argued throughout all of the proceedings that the Resolution of 20 January 2016 was lawful. Ence is opposing the state's acquiescence vehemently.

The cases taken by Greenpeace and the APDR are pending sentencing. As for the lawsuit taken by the City Council of Pontevedra, the Appellate Court, which is not conditioned by the state's acquiescence, has decided to continue to hear the case, which is currently in the concluding phase.

Although ENCE and its legal counsel believe that both the appeals lodged and the arguments put forward by the state government to substantiate its acquiescence lack legal grounds, in order to act transparently, on 15 March 2019, the Company filed a price-sensitive notice in which it provided its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex.

The Company estimates that in the unlikely event that operations have to be discontinued, that development would have an extraordinary impact on its statement of profit or loss of €185 million. Of that sum, €74 million would entail an outflow of cash: €43 million for dismantling work; €16 million to terminate existing contracts (based on the prior experience of dismantling the former mill in Huelva); and €15 million related with employee layoffs. The remaining €111 million would correspond to asset impairment charges and would not, accordingly, affect cash.

In addition, on 19 March 2019, the Ministry of Ecological Transition began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The reason given by the Ministry for amending the Regulations is to bring them in line with the Public Authority Property Act in keeping with reports and rulings recently issued by the state attorney's office (report 611/2018 and ruling 25/18). The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

The concession term matter lies at the crux of the above-mentioned draft bill, which, as opposed to the prevailing regulation which contemplates the possibility of extending the term by a maximum of 75 years, features a new interpretation, namely that the maximum concession term of 75 years refers to both the initial term of the concession and any extension thereof.

Given the legal uncertainty generated by the change in the state's criteria regarding the extension of ENCE's concession in Pontevedra, the Company's Board of Directors has decided to freeze all growth capital expenditure at this biomill not already contracted and to embark on the engineering work needed to concentrate those investments at the Navia biomill, reiterating in the interim the targets for growth, diversification and financial discipline approved in the 2019 - 2023 Business Plan.

ENCE engages continuously with the various authorities with a view to correctly executing the various agreed-upon investments, as well as a host of initiatives and projects in the local community.

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, regular audits, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

***Goal: Guaranteeing Worklife Quality and Workplace Health and Safety***

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, guided by stringent compliance with prevailing legislation in Spain. Certain situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk, the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. In parallel, it has drawn up contingency plans for specific situations to ensure safety compliance in the field.

Note in this regard that since the onset of the Covid-19 pandemic in Spain, framed by the universe of regulations and recommendations issued by the authorities, ENCE has been working to establish, by means of **protocols**, measures for the prevention of transmission of the coronavirus across its workplaces and the various activities comprising its value chain, an effort it has been coordinating continuously with its employees' representatives with the overriding goal of ensuring the safety of the entire **ENCE FAMILY**.

The main purpose of the protocols is to set down the **measures for safeguarding** ENCE and partner firm employees vis-a-vis Covid-19, i.e., preventing contagion so as to avoid spreading of the virus and enable the workplaces to continue to function to the extent possible.

Since ENCE issued its first benchmark protocol for the prevention of Covid-19 transmission on **24 February 2020**, it has updated it continuously, rounding out its contents in respect of all of ENCE's business areas and value chain and fine-tuning the contents as required to reflect unfolding developments and the attendant regulations and recommendations issued by the authorities.

In order to reinforce protection of all of the people who work for ENCE, directly and indirectly, and their families, ENCE has set up a **system for auditing implementation of the Covid-19 controls** to ensure stringent compliance with every aspect thereof. The results of those audits are reviewed by the Company's governing bodies.

***Goal: Regulatory and Reporting Compliance***

The EU-endorsed Best Available Techniques Reference Document (BREF) for the sector took effect in 2017. Companies have until 2020 to fully adapt to the new requirements. The BREF requirements are more stringent than the prior requirements in terms of production and emissions depending on process types, geographic location and local environmental conditions, triggering the need for new environmental investments and control systems.

The strategy employed by ENCE to tackle this risk factor is two-fold. Firstly, ENCE staff have reached out to the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account. In parallel, the most important environmental investments required at all of the Operations Centres to adapt to the new regulations were analysed and approved by ENCE's Investment Committee during the first half of 2020.

In addition, following effectiveness of Spanish Law 1/2015 (of 30 March 2015), amending the Criminal Code and regulating in greater detail the criminal liability of legal persons, in 2015, ENCE implemented a Corporate Crime Detection and Prevention Risk Management and Control System which includes a plethora of measures and controls designed to prevent or at least mitigate to the extent possible the risk of commission of any form of crime at the organisation and ensure the lawfulness of all actions taken by the Company's staff and executives in the course of discharging their professional duties.

During the first half of 2020, ENCE formulated and implemented policies and procedures for mitigating its exposure to specific crimes, framed by its commitment to complying with the corporate crime prevention model certified by AENOR in accordance with the UNE 19601:2017 standard on criminal compliance management systems.

#### ***Goal: Tax Risk Control***

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining ENCE's tax risk management and control policy.

ENCE has a dedicated tax division and receives specific tax counselling to ensure its in-house guidelines guarantee compliance with prevailing tax regulations, framed by a zero risk tolerance approach in this arena.

#### **4. Events after the reporting date**

No significant events have occurred between the reporting date and the date of authorising these condensed consolidated interim financial statements for issue that have not been disclosed therein.

#### **5. Corporate governance**

Complete information about ENCE's corporate governance system is available on its website: [www.ence.es](http://www.ence.es).

#### **6. Repurchase/(sale) of own shares**

The disclosures concerning own shares and related transactions in the first half of 2020 are provided in note 19 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2020.

## **Appendix**

### **Second-quarter 2020 earnings report**

The condensed consolidated interim financial statements for the six months ended 30 June 2020 and the corresponding interim Group management report for ENCE Energía y Celulosa, S.A. and its subsidiaries, prepared under the IFRS adopted by the European Union, were authorised for issue by the directors of the Parent on 28 July 2020 and span 69 sheets of ordinary paper (the financial statements on pages 1 to 5 and the accompanying explanatory notes on pages 6 to 69), while the management report spans 14 sheets, numbered from 1 to 14, plus a 34-page appendix. All of the above-listed sheets have been witnessed by the Board's Secretary and this last sheet has been signed by all the Parent's Directors.

In addition, for the purposes of article 11.1 of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the interim financial report of Ence Energía y Celulosa, S.A. and its subsidiaries in respect of the first six months of 2020, which disclosures include the pertinent condensed consolidated financial information, the undersigning directors make the following statement of responsibility: "to the best of their knowledge, the aforementioned condensed consolidated interim financial statements for the six months ended 30 June 2020, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the interim Group management report includes a fair analysis of the required disclosures".

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Juan Luis Arregui Ciarso

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Ignacio de Colmenares y Brunet

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Javier Echenique Landiribar

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