# Third-quarter 2020 Earnings Report

27 October 2020

Overall ESG score: 82

CONTENTS

# 1. EXECUTIVE SUMMARY

| Market figures | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| BHKP (USD/t) average price | 680.0 | 816.5 | *(16.7%)* | 680.4 | *(0.1%)* | 680.1 | 916.1 | *(25.8%)* |
| Average exchange rate (USD/€) | 1.16 | 1.12 | *4.3%* | 1.10 | *6.0%* | 1.12 | 1.13 | *(0.4%)* |
| BHKP (€/t) average price | 584.0 | 731.6 | *(20.2%)* | 619.7 | *(5.8%)* | 606.4 | 813.7 | *(25.5%)* |
| Average pool price (€/MWh) | 37.6 | 46.2 | *(18.7%)* | 23.3 | *61.5%* | 31.9 | 49.9 | *(36.0%)* |

*Source: Bloomberg*

| Operating Metrics | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **Pulp production (t)** | **221,802** | **261,280** | ***(15.1%)*** | **258,860** | ***(14.3%)*** | **742,423** | **726,624** | ***2.2%*** |
| **Pulp sales (t)** | **236,438** | **266,356** | ***(11.2%)*** | **246,584** | ***(4.1%)*** | **756,258** | **704,306** | ***7.4%*** |
| Average sales pulp price (€/t) | 383.6 | 481.9 | *(20.4%)* | 416.8 | *(8.0%)* | 406.9 | 549.4 | *(25.9%)* |
| Cash cost (€/t) | 372.8 | 376.4 | *(1.0%)* | 375.1 | *(0.6%)* | 376.2 | 389.0 | *(3.3%)* |
| **Renewable Energy sales volume (MWh)** | **384,170** | **300,761** | ***27.7%*** | **354,508** | ***8.4%*** | **997,115** | **783,413** | ***27.3%*** |
| Average sales price - Pool + Ro (€/MWh) | 100.1 | 105.6 | *(5.2%)* | 97.6 | *2.7%* | 98.3 | 102.7 | *(4.3%)* |
| Remuneration for investment (€ m) | 15.9 | 15.9 | *0.0%* | 15.9 | - | 47.6 | 47.6 | *0.0%* |

| P&L € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Revenue from Pulp business | 110.7 | 154.3 | *(28.3%)* | 128.8 | *(14.1%)* | 378.5 | 462.4 | *(18.1%)* |
| Revenue from Renewable Energy business | 54.6 | 47.9 | *14.1%* | 50.8 | *7.6%* | 150.6 | 128.7 | *17.0%* |
| Consolidation adjustments | (0.4) | (1.2) | | (1.1) | | (2.3) | (4.0) | |
| **Total revenue** | **164.9** | **200.9** | *(17.9%)* | **178.4** | *(7.6%)* | **526.9** | **587.1** | *(10.3%)* |
| Pulp business EBITDA | (1.8) | 18.3 | *n.s.* | 3.4 | *n.s.* | 7.1 | 85.0 | *(91.7%)* |
| *Margin %* | **-2%** | **12%** | *(13.5) p.p.* | **3%** | *(4.3) p.p.* | **2%** | **18%** | *(16.5) p.p.* |
| Renewable Energy business EBITDA | 15.5 | 15.9 | *(2.2%)* | 15.5 | *0.0%* | 42.4 | 41.6 | *2.0%* |
| *Margin %* | **28%** | **33%** | *(4.8) p.p.* | **31%** | *(2.2) p.p.* | **28%** | **32%** | *(4.1) p.p.* |
| **EBITDA** | **13.7** | **34.2** | *(59.9%)* | **19.0** | *(27.6%)* | **49.4** | **126.5** | *(60.9%)* |
| *Margin %* | *8%* | *17%* | *(8.7) p.p.* | *11%* | *(2.3) p.p.* | *9%* | *22%* | *(12.2) p.p.* |
| Depreciation, amortisation and forestry depletion | (25.4) | (24.7) | *3.1%* | (27.9) | *(9.0%)* | (79.9) | (69.5) | *15.0%* |
| Impairment of and gains/(losses) on fixed-asset disposals | 0.0 | 0.4 | *(87.6%)* | (0.0) | *n.s.* | 0.5 | 2.0 | *(76.3%)* |
| Other non-ordinary results of operations | (1.3) | (1.1) | *19.0%* | (1.3) | - | (3.8) | (3.2) | *19.0%* |
| **EBIT** | **(12.9)** | **8.9** | *n.s.* | **(10.3)** | *25.9%* | **(33.7)** | **55.9** | *n.s.* |
| Net finance cost | (7.7) | (6.0) | *28.8%* | (6.9) | *10.6%* | (20.7) | (19.0) | *9.1%* |
| Other finance income/(cost) results | (0.8) | 1.7 | *n.s.* | (0.5) | *78.3%* | (0.3) | 2.3 | *n.s.* |
| **Profit before tax** | **(21.4)** | **4.7** | *n.s.* | **(17.6)** | *21.2%* | **(54.7)** | **39.2** | *n.s.* |
| Income tax | 5.4 | (1.0) | *n.s.* | 4.6 | *18.5%* | 14.2 | (9.1) | *n.s.* |
| **Net income** | **(15.9)** | **3.7** | *n.s.* | **(13.0)** | *22.2%* | **(40.6)** | **30.1** | *n.s.* |
| Non-controlling interests | (0.5) | (0.8) | *(38.8%)* | (0.5) | *(1.5%)* | (1.3) | (2.3) | *(44.7%)* |
| **Atributable Net Income** | **(16.5)** | **2.9** | *n.s.* | **(13.6)** | *21.3%* | **(41.8)** | **27.8** | *n.s.* |
| Earnings per share (Basic EPS) | (0.07) | 0.01 | *n.s.* | (0.06) | *21.3%* | (0.17) | 0.11 | *n.s.* |

| Cash flow € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **13.7** | **34.2** | *(59.9%)* | **19.0** | *(27.6%)* | **49.4** | **126.5** | *(60.9%)* |
| Change in working capital | 16.1 | (1.6) | *n.s.* | 5.5 | *190.8%* | 27.0 | (5.1) | *n.s.* |
| Maintenance capex | (4.2) | (9.2) | *(54.7%)* | (3.9) | *6.7%* | (13.2) | (21.7) | *(38.9%)* |
| Net interest Payment | (4.0) | (1.7) | *133.0%* | (7.3) | *(45.1%)* | (13.7) | (9.9) | *39.2%* |
| Income tax received/(paid) | (0.2) | (1.5) | *(89.3%)* | (0.2) | *(17.1%)* | 0.9 | (6.8) | *n.s.* |
| **Normalised free cash flow** | **21.5** | **20.2** | *6.3%* | **13.1** | *63.8%* | **50.3** | **83.1** | *(39.5%)* |
| Other collection (payments) and non cash expenses (revenues) | (8.8) | 3.4 | *n.s.* | (8.9) | *(1.5%)* | (17.2) | 12.5 | *n.s.* |
| Payments for 2019 expansion capex | (18.9) | (31.5) | *(40.2%)* | (7.5) | *151.5%* | (48.6) | (186.6) | *(73.9%)* |
| Payments for 2019 sustainability capex | (1.8) | (10.2) | *(82.3%)* | (2.4) | *(25.9%)* | (13.6) | (26.8) | *(49.4%)* |
| Disposals | 0.3 | 0.1 | *128.4%* | - | *n.s.* | 0.7 | 4.7 | *(85.5%)* |
| **Free cash flow** | **(7.7)** | **(17.9)** | *(57.2%)* | **(5.7)** | *34.4%* | **(28.5)** | **(113.1)** | *(74.8%)* |
| Dividends from the parent | - | (11.0) | - | - | *n.s* | - | (24.3) | *(100.0%)* |

| Net debt € m | Sep-20 | Dec-19 | Δ% |
|---|---|---|---|
| Net financial debt Pulp business | 350.4 | 305.7 | *14.6%* |
| Net financial debt Renewable Energy business | 205.8 | 207.0 | *(0.6%)* |
| **Net financial debt** | **556.2** | **512.7** | *8.5%* |

- ✓ **All of Ence's activities - pulp production, forest management and renewable power generation - were declared 'essential' under Spanish Royal Decree 463/2020 of March 14, 2020.**
- ✓ **Prompt and ongoing application of Ence's internal protocols for the prevention and minimisation of COVID-19 risks for the Group's people and operations have enabled it to operate fully throughout the first and subsequent waves of the health crisis, with no jobs lost.**
- ✓ **The annual maintenance shutdowns were successfully carried out at both biomills during the third quarter, duly safeguarding the health and safety of the 850 professionals involved in the work. The shutdowns had been initially scheduled for the first half of the year but had to be postponed on account of the mobility restrictions imposed during the lockdown.**
- ✓ **Pulp production and sales were 2% and 7% higher year-on-year, respectively, in the first nine months of 2020, but down 15% and 11%, respectively, in the third quarter due to the above-mentioned shutdowns.**
- ✓ **Ence's cash cost improved by 1% year-on-year in 3Q20 to €373/tonne, despite the reduction in output and sales on account of the annual maintenance shutdowns. In 9M20, the cash cost improved by 3% year-on-year (equivalent to a reduction of €13/tonne) to €376/tonne.**
- ✓ **Hardwood pulp (BHKP) prices have been at a 10-year low since the end of 2019 while dollar depreciation implied an additional year-on-year reduction in euro prices of 6% in 3Q20.**
- ✓ **In the pulp business, Ence recorded a loss at the EBITDA level of €1.8m in 3Q20 and a profit of €7.1m in 9M20 (down 92% from 9M19), shaped by the 26% decrease in the average sales price.**
- ✓ **Looking to 2021, Ence has hedged a sales price of $770/tonne for 193,200 tonnes of pulp; this price is $90/tonne above current benchmark prices in Europe.**
- ✓ **Elsewhere, sales in the Renewable Energy business increased by 28% year-on-year in 3Q20 and by 27% year-on-year in 9M20 thanks to the commissioning of two new agricultural and forestry biomass plants at the end of the first quarter: a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real.**
- ✓ **EBITDA in the Renewable Energy business was flat quarter-on-quarter in 3Q20 and 2% higher year-on-year in 9M20, at €42.4m, thanks to the contribution by the new plants, which offset the 6% drop in the average sales price to the floor set by the regulator (regulatory collar).**
- ✓ **The Group generated €50m of normalised free cash flow in 9M20 (€23m stripping out the improvement in working capital).**
- ✓ **The Group's net debt at the September close stood at €556m (€513m at year-end 2019), €350m in the Pulp business and €206m in the Renewable Energy business. Both businesses are financed using long-term debt with no leverage-related covenants in the Pulp business.**
- ✓ **In order to maximise liquidity and lock in the ability to respond to any business scenario, Ence has increased its financing facilities by €172m so far this year, negotiated the deferral until 2021 of €51m of capex payments and stepped up the use of its undrawn factoring and reverse factoring lines. As a result, unrestricted cash had increased by 59% to €360m at 30 September 2020. Of that sum, €237m corresponds to the Pulp business and €122m to the Renewable Energy business.**
- ✓ **In February, the Board of Directors decided to postpone the outstanding expansion investments contemplated for the Pulp business, framed by its commitment to keep net debt-to-EBITDA in this segment below 2.5x (assuming mid-cycle prices).**
- ✓ **Ence has set itself the goal of reducing greenhouse gas emissions from the Pulp business by 25% in 5 years (2025).**
- ✓ **Development of the 405-MW pipeline of grid-authorised renewable capacity, for which locations have been secured, remains pending the announcement of the next capacity auction under the scope of Spain's National Renewable Energy Plan. Meanwhile, the permitting process continues and is expected to finalise between 3Q21 and 1Q22.**
- ✓ **Lastly, Ence continues to defend the legality of the extension of its concession in Pontevedra until 2073 in the courts. An initial court ruling is expected in the coming months. The legal proceedings could take as long as four years, including appeals, which Ence will take to the highest possible level.**

## 2. PULP BUSINESS

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

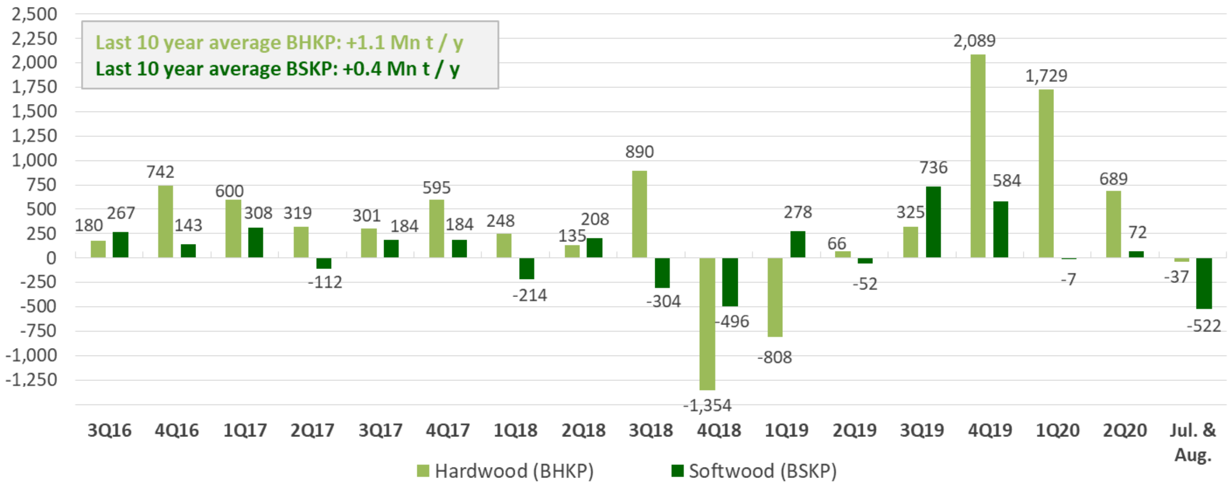
Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process,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

### 2.1. Pulp market trends

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

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

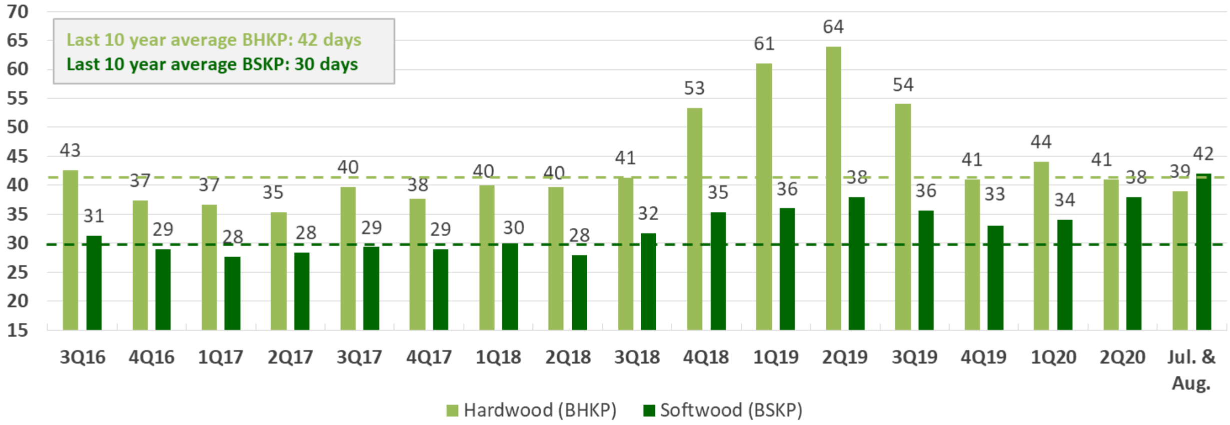
**Year-on-year change in global demand for pulp, last five years (tonnes, 000)**




Source: Ence, PPPC–G100

In general, the pulp market continued to function normally during the first nine months of the year, despite the global spread of COVID-19. In August, PPPC updated its statistics for the first half of 2020 to include the figures corresponding to the Brazilian producers, showing a tighter pulp market than initially estimated. Demand for pulp increased by 5.0% during the first eight months of 2020, equivalent to 2.1 million tonnes; with respect to the same period from the previous year, which had been affected by destocking by the paper industry. The replenishment of stocks, coupled with growth in demand for tissue paper and hygiene products, has offset the drop in demand for printing and writing papers as a result of the lockdown measures taken to curb COVID-19 around the world.

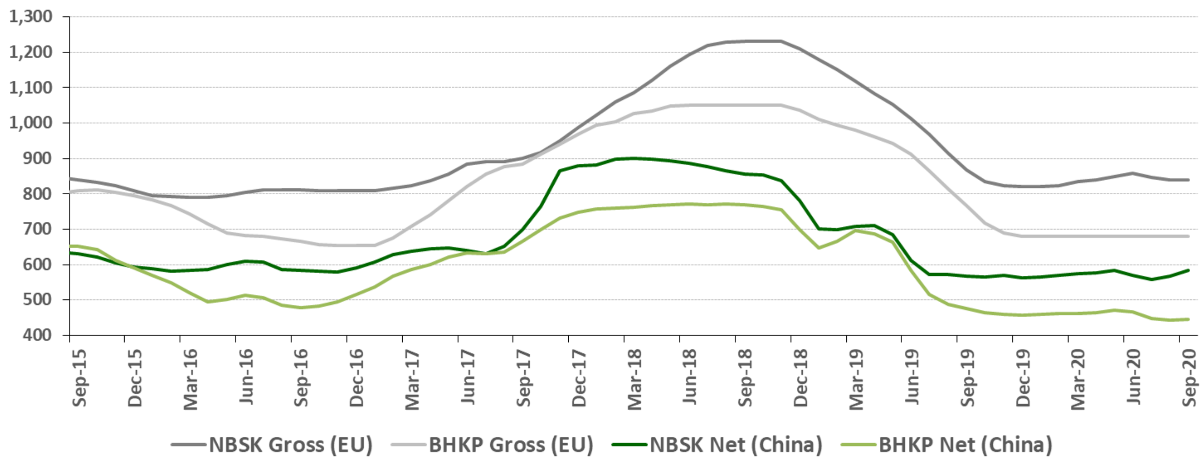
**Pulp producer inventories during the last five years (quarterly average in no. of days)**




Source: Ence, PPPC–G100

Producer inventories remained close to normal levels during the first eight months of the year, despite the fact that some producers had to postpone their maintenance shutdowns back to the second half of the year due to the pandemic and the adverse effect of the lockdown measures on demand for printing and writing papers during the second quarter. Hardwood pulp (BHKP) inventories are below their 10-year average, while softwood pulp (BSKP) inventories are above theirs.

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




Source: FOEX

At the September close, BHKP prices remained at $680/tonne (gross) in Europe and $449/tonne (net) in China, while BSKP prices had firmed by $20/tonne throughout the year to $840/tonne (gross) in Europe and by $40/tonne to $598/tonne (net) in China. The spread between hardwood and softwood pulp prices is at record levels, fostering the substitution of the latter for the former. Those net prices are around $170/tonne below the trailing 10-year averages and below the estimated cash costs of the least efficient producers.

For 2021, Ence has hedged a sales price of $770/tonne for 193,200 tonnes of pulp; this price is $90/tonne above current benchmark prices in Europe.

## 2.2. Revenue from pulp sales

The global spread of COVID-19 and the measures taken around the world to contain it have not had a significant impact on Ence's business operations. Pulp sales volumes declined by 11.2% year-on-year in 3Q20 to 236,438 tonnes, reflecting the delay of the maintenance shutdowns at both biomills as a result of the restrictions imposed on mobility during the initial lockdown. In 9M20, pulp sales volumes were 7.4% higher year-on-year, at 756,258 tonnes.

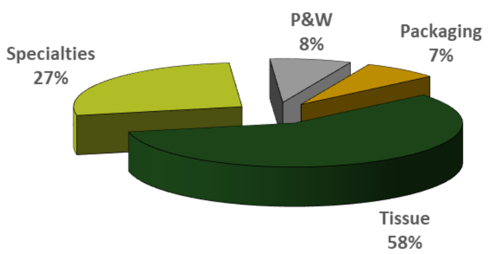
| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **Pulp sales (t)** | **236,438** | **266,356** | *(11.2%)* | **246,584** | *(4.1%)* | **756,258** | **704,306** | *7.4%* |
| Average sales price (€/t) | 383.6 | 481.9 | *(20.4%)* | 416.8 | *(8.0%)* | 406.9 | 549.4 | *(25.9%)* |
| **Pulp sales revenue (€ m)** | **90.7** | **128.4** | *(29.3%)* | **102.8** | *(11.7%)* | **307.7** | **386.9** | *(20.5%)* |

During the third quarter, Ence sold 14,636 tonnes of pulp from its inventories in order to maintain service levels throughout the shutdowns. As a result, pulp inventories ended September at 40,940 tonnes, compared to 56,900 tonnes at year-end 2019.

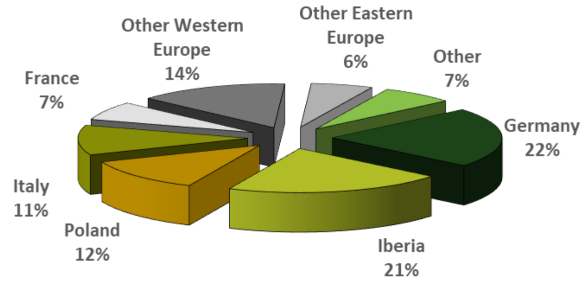
Ence's average sales price decreased by 8% quarter-on-quarter in 3Q20 to €383.6/tonne, mainly due to the dollar depreciation against the euro; year-on-year, the average sales price decreased by 20.4% in 3Q20, mainly as a result of the downtrend in benchmark prices in Europe. In the first nine months of 2020, Ence's average sales price was 25.9% lower year-on-year.

The combination of the two factors resulted in a year-on-year reduction in revenue from pulp sales of 29.3% to €90.7m in 3Q20 and of 20.5% to €307.7m in 9M20.

**Breakdown of revenue by end product**




**Breakdown of revenue by geographic market**




The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 58% of revenue from pulp sales in 9M20, followed by the specialty paper segment, at 27%. The printing and writing paper segment accounted for 8% of sales and packaging, the remaining 7%.

Most of the pulp produced by Ence is sold in Europe, namely 93% of revenue from pulp sales in 9M20. Germany and Iberia accounted for 22% and 21% of total revenue, respectively, followed by Poland (12%), Italy (11%) and France (7%). The other Western European countries accounted for 14% of the total, with the rest of Eastern Europe representing 6%.

Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp in specialty segments, accounted for 10% of sales in the first nine months of the year.

## 2.3. Pulp production and the cash cost

Prompt and rigorous application of Ence's internal protocols for the prevention and minimisation of COVID-19 risks for the Group's staff and operations enabled it to operate normally throughout the first nine months of the year.

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

| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Navia pulp production | 135,652 | 141,284 | *(4.0%)* | 143,353 | *(5.4%)* | 421,973 | 388,425 | *8.6%* |
| Pontevedra pulp production | 86,150 | 119,996 | *(28.2%)* | 115,507 | *(25.4%)* | 320,450 | 338,199 | *(5.2%)* |
| **Pulp production (t)** | **221,802** | **261,280** | *(15.1%)* | **258,860** | *(14.3%)* | **742,423** | **726,624** | *2.2%* |

Pulp production decreased by 15.1% year-on-year in 3Q20 to 221,802 tonnes, reflecting the postponement of the maintenance shutdowns at both biomills until the third quarter as a result of the mobility restrictions imposed during the initial lockdown.

The annual maintenance work was carried out at both biomills in July, lasting 25 days in Pontevedra and seven days in Navia. The company took advantage of the shutdowns to introduce several energy efficiency improvements and to fine-tune a second pulp drying line Navia. On the sustainability front, the company made investments to reduce emissions, odours, waste and timber consumption. In 2019 the annual shutdowns took place during the first half of the year: the Pontevedra biomill was stopped for 10 days during 1Q19 and the Navia biomill, for 12 days in 2Q19. The Navia biomill was also idled for 37 days in 4Q19 to add new capacity.

In 9M20, pulp sales volumes increased by 2.2% year-on-year to 742,423 tonnes. Pulp production at the Navia biomill increased by 8.6% as a result of the addition of 80,000 tonnes of capacity during the fourth quarter of 2019, while output at the Pontevedra biomill fell by 5.2% as a result of the longer-than-usual maintenance shutdown carried out in 3Q20.

| Figures in €/t | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Wood cost | 201.4 | 208.1 | *(3.2%)* | 206.1 | *(2.3%)* | 204.0 | 209.2 | *(2.5%)* |
| Conversion costs | 108.9 | 103.8 | *4.9%* | 105.9 | *2.9%* | 111.1 | 111.8 | *(0.7%)* |
| Sales and logistic costs | 27.6 | 31.3 | *(11.7%)* | 28.9 | *(4.6%)* | 29.5 | 31.1 | *(5.3%)* |
| Overheads | 34.9 | 33.2 | *5.0%* | 34.2 | *1.9%* | 31.6 | 36.7 | *(14.1%)* |
| **Total cash cost** | **372.8** | **376.4** | *(1.0%)* | **375.1** | *(0.6%)* | **376.2** | **389.0** | *(3.3%)* |

Ence's cash cost was €372.8/tonne in the third quarter, down 1.0% (or €4/tonne) year-on-year and 0.6% (€2/tonne) quarter-on-quarter, despite higher unit costs associated with the maintenance shutdowns. In 9M20, the cash cost improved by 3.3% year-on-year (or €13/tonne) thanks to a €5/tonne reduction in wood costs, a €5/tonne reduction in unit overheads, a €2/tonne reduction in sales, marketing and logistics costs and a €1/tonne reduction in unit conversion costs.

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

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

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

| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Navia energy sales | 137,043 | 144,521 | *(5.2%)* | 143,745 | *(4.7%)* | 419,528 | 383,644 | *9.4%* |
| Pontevedra energy sales | 51,118 | 59,009 | *(13.4%)* | 67,298 | *(24.0%)* | 180,136 | 170,561 | *5.6%* |
| **Energy sales linked to the pulp process (MWh)** | **188,161** | **203,529** | *(7.6%)* | **211,043** | *(10.8%)* | **599,664** | **554,205** | *8.2%* |
| Average sales price - Pool + Ro (€/MWh) | 82.1 | 91.1 | *(9.9%)* | 78.5 | *4.6%* | 79.6 | 91.4 | *(12.8%)* |
| Remuneration for investment (€ m) | 2.6 | 2.6 | *0.1%* | 2.6 | *0.0%* | 7.7 | 7.7 | *0.1%* |
| **Revenues from energy sales linked to pulp (€ m)** | **18.0** | **21.1** | *(14.7%)* | **19.1** | *(5.8%)* | **55.4** | **58.3** | *(4.9%)* |

The sale of energy in connection with pulp production decreased by 7.6% year-on-year in the third quarter, to 188,161 MWh, as a result of the decline in production associated with the maintenance work carried out during the quarter. In 9M20, the sale of energy associated with pulp production increased by 8.2% to 599,664 MWh.

Average sales prices, on the other hand, declined by 9.9% year-on-year to €82.1/MWh in 3Q20 and by 12.8% year-on-year in 9M20 to €79.6/MWh, as a result of the correction in pool prices, which dipped the average selling price to its regulatory minimum.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - decreased by 14.7% year-on-year in 3Q20 to €18m and by 4.9% year-on-year in 9M20 to €55.4m.

## 2.5. Revenue from forestry and other activities

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

| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **Forestry and other revenue (€ m)** | **2.0** | **4.8** | *(59.0%)* | **6.9** | *(71.6%)* | **15.4** | **17.2** | *(10.5%)* |

Revenue from forestry activities amounted to €2.0m in 3Q20 compared to €4.8m in 3Q19 as a result of restrictions on forestry operations during the summer. On the contrary, as the rainfall during the third quarter of 2019 was higher, there were fewer restrictions that year. In 9M20, revenue from forestry activities declined by 10.5% year-on-year to €15.4m.

## 2.6. Statement of profit or loss

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **Total net revenue** | **110.7** | **154.3** | *(28.3%)* | **128.8** | *(14.1%)* | **378.5** | **462.4** | *(18.1%)* |
| **EBITDA** | **(1.8)** | **18.3** | *n.s.* | **3.4** | *n.s.* | **7.1** | **85.0** | *(91.7%)* |
| *EBITDA margin* | *-2%* | *12%* | *(13.5) p.p.* | *3%* | *(4.3) p.p.* | *2%* | *18%* | *(16.5) p.p.* |
| Depreciation and amortisation | (13.8) | (15.7) | *(11.9%)* | (14.1) | *(2.1%)* | (41.8) | (42.2) | *(0.9%)* |
| Depletion of forestry reserves | (0.7) | (2.0) | *(62.9%)* | (3.2) | *(77.6%)* | (7.4) | (6.5) | *14.0%* |
| Impairment of and gains/(losses) on fixed-asset dispos | (0.4) | 0.5 | *n.s.* | (0.1) | *n.s.* | 0.5 | 2.2 | *(78.4%)* |
| Other non-recurring gains/(losses) | (1.3) | (1.1) | *19.0%* | (1.3) | *-* | (3.8) | (3.2) | *0.2 p.p.* |
| **EBIT** | **(18.0)** | **0.1** | *n.s.* | **(15.3)** | *17.7%* | **(45.5)** | **35.3** | *n.s.* |
| *EBIT margin* | *-16%* | *0%* | *(16.3) p.p.* | *-12%* | *(4.4) p.p.* | *-12%* | *8%* | *(19.6) p.p.* |
| Net finance cost | (3.5) | (2.3) | *53.9%* | (2.8) | *24.1%* | (8.9) | (6.4) | *38.5%* |
| Other financial results | (0.8) | 1.7 | *n.s.* | (0.4) | *86.7%* | (0.3) | 2.3 | *n.s.* |
| **Profit before tax** | **(22.3)** | **(0.5)** | *n.s.* | **(18.5)** | *20.3%* | **(54.6)** | **31.2** | *n.s.* |
| Income tax | 5.5 | 0.3 | *n.s.* | 4.6 | *19.2%* | 13.5 | (7.5) | *n.s.* |
| **Net Income** | **(16.8)** | **(0.1)** | *n.s.* | **(14.0)** | *20.7%* | **(41.2)** | **23.7** | *n.s.* |

Ence reported a loss at the EBITDA level in its Pulp business of €1.8m in 3Q20, down €5.2m from 2Q20, driven by the 8% drop in the average sales price, mainly attributable to exchange rate trends. Third-quarter EBITDA was also affected by the lower seasonal contribution from the sale of timber to third parties and a €1.5m impairment provision recognised against pulp inventories.

In 9M20, EBITDA declined by 91.7% year-on-year to €7.1m as a result of a 25.9% decrease in the average sales price, which was partially offset by the 3.3% improvement in the cash cost and a 7.4% growth in pulp sales volumes.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a loss of €0.3m in 3Q20 and of €9.8m in 9M20, compared to losses of €8.7m in 3Q19 and of €23.4m in 9M19.

In addition, 9M20 EBITDA includes other expenses, net of other income, that are not included in the cash cost, of €6.4m. The income and expenses not included in the cash cash include the EBITDA generated on the sale of timber to third parties, investments in the communities that surround the Group's biomills, working capital provisions, non-recurring staff costs and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were relatively flat at €41.8m in 9M20 (-0.9%), while forest depletion charges increased by 14% to €7.4m as a result of more intense use of timber sourced from proprietary plantations.

Impairment and gains/(losses) on the disposal of assets, in the amount of €0.5m in 9M20, mainly includes the reversal of the impairment charges recognised on the remaining assets in Huelva, which were transferred to the Renewable Energy business during the first quarter, thus completing the full separation of the two units' assets. Other non-recurring operating charges include a €3.8m provision for expenses under Ence's Environmental Pact in Pontevedra, signed in June 2016.

Lastly, net finance cost increased by €2.5m year-on-year to €8.9m in 9M20, in line with the growth in gross borrowings. 'Other finance income/costs' include €0.3m of exchange rate losses on working capital.

As a result, the Pulp business posted a net loss of €16.8m in the third quarter and of €41.2m in the first nine months of the year, compared to a loss of €0.1m and a profit of €23.7m in the same periods of the previous year, respectively.

## 2.7. Statement of cash flows

Net cash flow from Ence's operating activities resulted in a €4.2m outflow in 3Q20 and generated net cash of €17.4m in 9M20, compared to net cash inflows of €32.3m and €89.7m in 3Q19 and 9M19, respectively. The decline is mainly attributable to the aforementioned decrease in EBITDA.

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **(1.8)** | **18.3** | *n.s.* | **3.4** | *n.s.* | **7.1** | **85.0** | *(91.7%)* |
| Non cash expenses / (income) | (2.0) | 7.4 | *n.s.* | (1.5) | *37.4%* | (0.4) | 12.6 | *n.s.* |
| Other collections / (payments) | (0.7) | 0.6 | *n.s.* | (0.1) | *n.s.* | (0.5) | 0.9 | *n.s.* |
| Change in working capital | 3.2 | 13.3 | *(75.8%)* | 6.5 | *(50.0%)* | 16.5 | 5.0 | *230.3%* |
| Income tax received / (paid) | (0.0) | (1.5) | *(98.3%)* | 0.0 | *n.s.* | (0.0) | (6.6) | *(99.7%)* |
| Net interest received / (paid) | (2.8) | (5.8) | *(52.0%)* | (0.6) | *n.s.* | (5.2) | (7.2) | *(28.0%)* |
| **Net cash flow from operating activities** | **(4.2)** | **32.3** | *n.s.* | **7.7** | *n.s.* | **17.4** | **89.7** | *(80.7%)* |

Non-cash expenses and income include €1.9m in 3Q20 and €9m in 9M20 related with the impact of the regulatory collar on energy sales associated with the production of pulp which are collected over the remaining regulatory life of the plants.

Change in working capital implied a cash inflow of €3.2m in 3Q20 and of €16.5m in 9M20, due mainly to the increase in trade payables as a result of greater reliance on reverse factoring lines.

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Inventories | 3.5 | 5.6 | *(36.5%)* | (12.0) | *n.s.* | (1.3) | (11.5) | *(88.8%)* |
| Trade and other receivables | 2.4 | 2.9 | *(18.4%)* | (6.6) | *n.s.* | (6.4) | 7.7 | *n.s.* |
| Financial and other current assets | 2.9 | 3.3 | *(12.1%)* | 0.0 | *n.s.* | 1.2 | (1.4) | *n.s.* |
| Trade and other payables | (5.5) | 1.6 | *n.s.* | 25.1 | *n.s.* | 23.0 | 10.2 | *125.7%* |
| **Change in working capital** | **3.2** | **13.3** | *(75.8%)* | **6.5** | *(50.0%)* | **16.5** | **5.0** | *230.3%* |

As of the September close, Ence had drawn down €66.5m of non-recourse factoring facilities in the Pulp business, compared to €74.4m at year-end 2019. Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €106.8m at the September close, compared to €82.1m at year-end.

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Maintenance capex | (2.6) | (6.3) | *(58.7%)* | (2.9) | *(10.0%)* | (9.3) | (15.4) | *(39.8%)* |
| Expansion capex | (7.6) | (34.0) | *(77.7%)* | (4.3) | *77.2%* | (28.8) | (91.4) | *(68.5%)* |
| Sustainability capex and other | (1.1) | (7.7) | *(85.3%)* | (2.1) | *(47.2%)* | (10.7) | (20.7) | *(48.4%)* |
| Financial investments | (0.0) | (0.0) | *(22.4%)* | 0.0 | *n.s.* | 0.0 | (0.2) | *n.s.* |
| **Investments** | **(11.3)** | **(48.1)** | *(76.4%)* | **(9.3)** | *22.0%* | **(48.8)** | **(127.7)** | *(61.8%)* |
| Disposals | 0.3 | 0.1 | *128.4%* | - | *n.s.* | 0.7 | 4.6 | *(85.4%)* |
| **Net cash flow used in investing activities** | **(11.1)** | **(47.9)** | *(76.9%)* | **(9.3)** | *19.2%* | **(48.1)** | **(123.1)** | *(60.9%)* |

The cash outflow from investing activities amounted to €11.1m in 3Q20 and €48.1m in 9M20, which represent year-on-year declines of 76.9% and 60.9%, respectively; as the Group made major investments under the scope of its Strategic Plan during these periods in 2019.

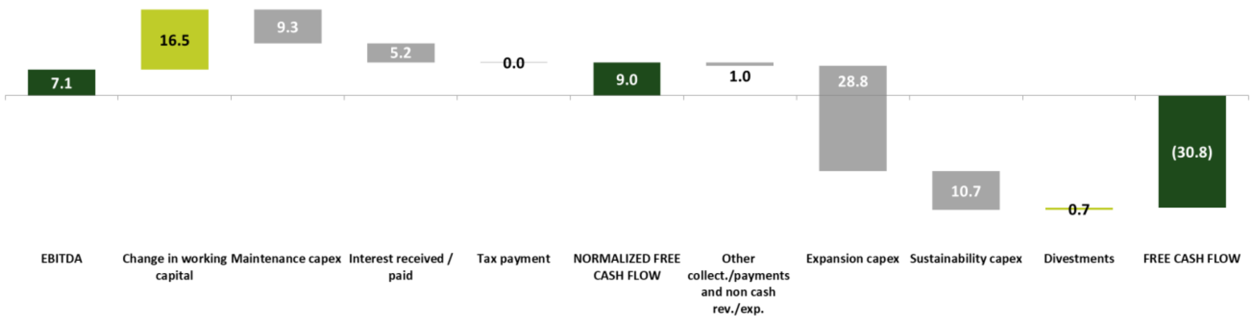
Firstly, maintenance capex was reduced to €2.6m in 3Q20 and to €9.3m in 9M20, compared to €6.3m and €15.4m in the same periods of 2019, respectively.

Secondly, payments for efficiency and growth capex were reduced to €7.6m in 3Q20 and to €28.8m in 9M20, compared to €34m and €91.4m in the same periods of 2019, respectively. Those payments are mainly related with the capacity added in 2019.

Thirdly, sustainability-related capex was kept at €1.1m in 3Q20 and €10.7m in 9M20, compared to €7.7m and €20.7m in the same periods of 2019, respectively. Those investments are largely related with a range of initiatives targeted at reinforcing safety and reducing odour, noise and water consumption at the biomills, an effort that will make Ence more competitive in the long run.

Lastly, the proceeds from disposals include the sale of a residual interest in a non-core Group investee for €0.4m in 1Q20 and income of €0.3m generated by the dismantling of the former industrial complex in Huelva.

As a result, normalised free cash flow in the Pulp business amounted to €9m in 9M19, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €30.8m.



## 2.8. Change in net debt

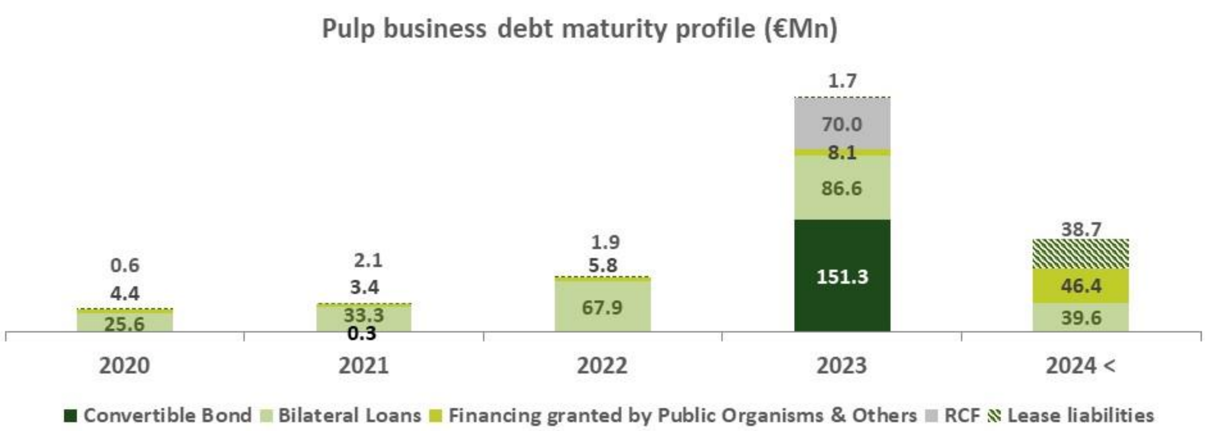
The Pulp business had €350.4m of net debt at 30 September 2020, €45.7m of which corresponds to lease liabilities. That balance marks growth of €44.7m from year-end 2019.

| Figures in € m | Sep-20 | Dec-19 | Δ% |
|---|---|---|---|
| Non-current financial debt | 494.1 | 361.1 | *36.8%* |
| Current financial debt | 48.6 | 6.7 | *n.s.* |
| **Gross financial debt** | **542.6** | **367.8** | *47.5%* |
| Non-current lease contracts | 43.0 | 41.5 | *3.5%* |
| Current lease contracts | 2.1 | 2.1 | *0.0%* |
| **Financial liabilities related to lease contracts** | **45.1** | **43.7** | *3.4%* |
| Cash and cash equivalents | 234.1 | 101.3 | *131.0%* |
| Short-term financial investments | 3.3 | 4.4 | *(26.4%)* |
| **Net financial debt Pulp business** | **350.42** | **305.7** | *14.6%* |

Due to the cyclical nature of the pulp business, it is financed with covenant-free long-term debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €237.4m.

In light of the uncertainty sparked by the global spread of COVID-19 and with the aim of maximising its liquidity, the Company drew down a €70 million revolving credit facility due May 2023 during the first quarter (which was undrawn at year-end 2019). In addition, during the second and third quarters it arranged €102m of new credit lines with maturity dates ranging until 2025.

The gross debt of €542.6m at the September close corresponds mainly to the €151.6m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €253.0m on its bilateral loans, including the €70m revolving credit facility, and a series of loans totalling €68.1m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



# 3. RENEWABLE ENERGY BUSINESS

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

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

The new agricultural and forestry biomass plants in Huelva (46 MW) and Ciudad Real (50 MW) were brought on line on 31 January and 31 March 2020, respectively, marking delays with respect to the initially planned timing due to the health crisis induced by COVID-19.

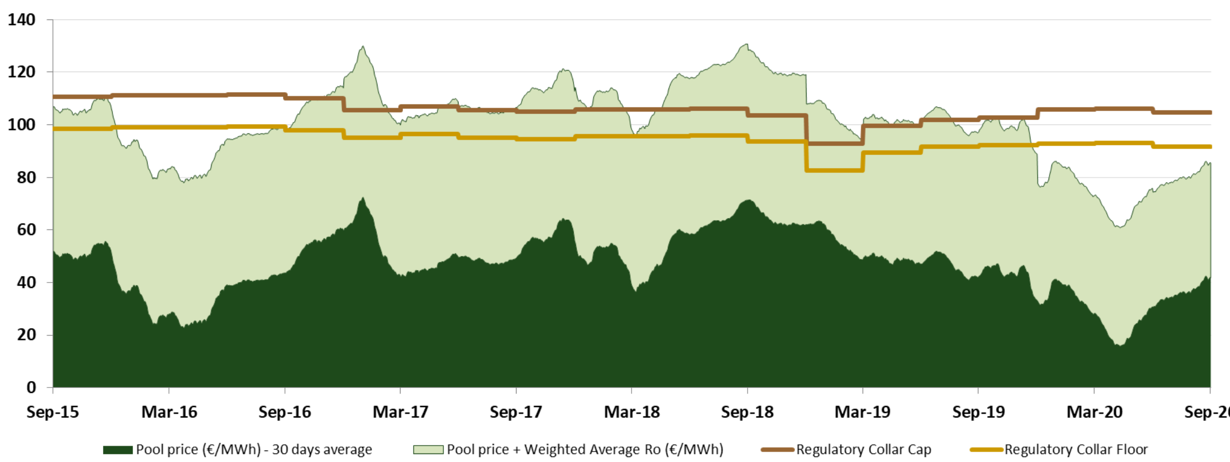
## 3.1. Electricity market trends

The average pool price in Spain declined by 18.7% year-on-year in 3Q20 to €37.6/MWh and by 36% in 9M20 to €31.9/MWh.

| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Average pool price (€/MWh) | 37.6 | 46.2 | *(18.7%)* | 23.3 | *61.5%* | 31.9 | 49.9 | *(36.0%)* |

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

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




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

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

## 3.2. Energy sales

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

The volume of energy sold increased by 27.7% year-on-year and by 8.4% quarter-on-quarter to 384,170 MWh in 3Q20, thanks to the contribution made by two new biomass plants, a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real, commissioned on 31 January and 31 March, respectively. In 9M20, energy sales volumes increased by 27.3% year-on-year.

| | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Huelva 41 MW - Biomass | 24,695 | 51,176 | *(51.7%)* | - | *n.s.* | 52,833 | 99,942 | *(47.1%)* |
| Jaén 16 MW - Biomass | 24,622 | 13,788 | *78.6%* | 21,927 | *12.3%* | 70,730 | 53,895 | *31.2%* |
| Ciudad Real 16 MW - Biomass | 22,990 | 23,955 | *(4.0%)* | 25,910 | *(11.3%)* | 56,260 | 69,873 | *(19.5%)* |
| Córdoba 27 MW - Biomass | 50,852 | 44,759 | *13.6%* | 47,187 | *7.8%* | 148,331 | 144,883 | *2.4%* |
| Ciudad Real 50 MW - Solar thermal plant | 27,843 | 28,059 | *(0.8%)* | 19,127 | *45.6%* | 52,676 | 67,345 | *(21.8%)* |
| Huelva 50 MW - Biomass | 64,154 | 98,846 | *(35.1%)* | 81,122 | *(20.9%)* | 232,249 | 238,713 | *(2.7%)* |
| Mérida 20 MW - Biomass | 41,527 | 40,179 | *3.4%* | 33,776 | *22.9%* | 110,781 | 108,763 | *1.9%* |
| Huelva 46 MW - Biomass | 60,319 | - | - | 64,482 | *(6.5%)* | 145,106 | - | - |
| Ciudad Real 50 MW - Biomass | 67,170 | - | - | 60,979 | *10.2%* | 128,148 | - | - |
| **Energy sales (MWh)** | **384,170** | **300,761** | *27.7%* | **354,508** | *8.4%* | **997,115** | **783,413** | *27.3%* |
| Average sales price - Pool + Collar + Ro (€/MWh) | 100.1 | 105.6 | *(5.2%)* | 97.6 | *2.7%* | 98.3 | 102.7 | *(4.3%)* |
| Remuneration for investment (€ m) | 15.9 | 15.9 | *0.0%* | 15.9 | - | 47.6 | 47.6 | *0.0%* |
| **Revenue (€ m)** | **54.6** | **47.9** | *14.1%* | **50.8** | *7.6%* | **146.4** | **128.7** | *13.8%* |
| Revenue (€ m) | - | - | - | - | - | 4.1 | - | - |
| **Revenue (€ m)** | **54.6** | **47.9** | *14.1%* | **50.8** | *7.6%* | **150.6** | **128.7** | *17.0%* |

The 50-MW biomass plant in Huelva underwent its annual maintenance shutdown during the third quarter, having been delayed from the second quarter as a result of the mobility restrictions imposed during the health crisis. In addition, the annual maintenance shutdown scheduled for the 16-MW biomass plant in Ciudad Real for the fourth quarter was brought forward to the third quarter.

Elsewhere, the 41-MW biomass plant in Huelva resumed operations at the end of August, having fixed the turbine which broke in March, one quarter later than anticipated as a result of COVID-19.

The average third-quarter sales price of €100.1/MWh was 5.2% lower than the 3Q19 equivalent as a result of the downtrend in pool prices, which drove Ence's average sale price to the floor contemplated by the regulator. In 9M20, the average sales price of €98.3/MWh was 4.3% lower than in 9M19, when the average included a provision equivalent to €1.9/MWh for the temporary suspension of the electricity generation levy which had no impact at the EBITDA level. On a like-for-like basis, the average 9M20 sale price would have been 5.7% lower year-on-year.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). That accounting treatment implied the recognition of revenue of €7.4m in 3Q20 and of €22.4m in 9M20, compared to a reduction in revenue of €0.1m and €2.3m, respectively, in that same connection in the same periods of 2019.

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

Lastly, 9M20 revenue includes €4.1m corresponding to the energy sold by the new biomass plants during testing in the first quarter, before their consolidation; that revenue was recognised along with the corresponding expenses so that the impact at the EBITDA level was neutral.

In total, and factoring in remuneration for investment, unchanged, the Renewable Energy business posted revenue of €54.6m in 3Q20, up 14.1% year-on-year, and of €150.6m in 9M20, representing 17% growth.

## 3.3. Statement of profit or loss

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **54.6** | **47.9** | *14.1%* | **50.8** | *7.6%* | **150.6** | **128.7** | *17.0%* |
| **EBITDA** | **15.5** | **15.9** | *(2.2%)* | **15.5** | *0.0%* | **42.4** | **41.6** | *2.0%* |
| *EBITDA margin* | *28%* | *33%* | *(4.8) p.p.* | *31%* | *(2.2) p.p.* | *28%* | *32%* | *(4.1) p.p.* |
| Depreciation and amortisation | (11.3) | (7.0) | *61.1%* | (11.1) | *1.9%* | (31.6) | (20.7) | *52.6%* |
| Depletion of forestry reserves | (0.0) | (0.0) | *n.s.* | (0.0) | *18.4%* | (0.3) | (0.0) | *n.s.* |
| Impairment of and gains/(losses) on fixed-asset dispo: | (0.1) | (0.1) | *114.3%* | (0.5) | *(72.8%)* | (1.7) | (0.2) | *n.s.* |
| **EBIT** | **4.1** | **8.8** | *(53.7%)* | **3.9** | *3.7%* | **8.8** | **20.6** | *(57.4%)* |
| *EBIT margin* | *7%* | *18%* | *(11.0) p.p.* | *8%* | *(0.3) p.p.* | *6%* | *16%* | *(10.2) p.p.* |
| Net finance cost | (4.2) | (3.7) | *13.1%* | (4.1) | *1.3%* | (11.8) | (12.5) | *(5.9%)* |
| **Profit before tax** | **(0.1)** | **5.2** | *n.s.* | **(0.2)** | *(63.3%)* | **(3.0)** | **8.1** | *n.s.* |
| Income tax | 0.0 | (1.3) | *n.s.* | 0.1 | *(75.0%)* | 0.8 | (1.6) | *n.s.* |
| **Net Income** | **(0.0)** | **3.8** | *n.s.* | **(0.1)** | *(56.3%)* | **(2.3)** | **6.5** | *n.s.* |
| Non-controlling interests | (0.5) | (0.8) | *(38.8%)* | (0.5) | | (1.3) | (2.3) | *(44.7%)* |
| **Atributable Net Income** | **(0.6)** | **3.0** | *n.s.* | **(0.6)** | *(11.1%)* | **(3.5)** | **4.2** | *n.s.* |

EBITDA in the Renewable Energy business amounted to €15.5m in 3Q20, which was flat compared to 2Q20 and 2.2% lower than in 3Q19 as a result of the drop in the average sales price to the floor set by the regulator, coupled with higher fixed costs associated with the annual shutdown of the 50-MW Huelva plant and the restarting of the 41-MW Huelva plant. In 9M20, the Renewable Energy business recorded EBITDA growth of 2% to €42.4m, thanks to the contribution by the two new plants, which offset the above-mentioned drop in the average sales price.

Below the EBITDA line, it is worth highlighting the year-on-year growth in depreciation and amortisation charges of 52.6% in 9M20 to €31.6m as a result of the addition of two new biomass plants during the first quarter and the transfer of the remaining Pulp business assets in Huelva.

Impairment losses amounted to €1.7m in 9M20 and related mainly to charges for the costs of dismantling the remaining industrial assets in Huelva which were transferred from the Pulp business during the first quarter.

Net finance costs amounted to €11.8m, which is down 5.9% from 9M19, which included the fees incurred to arrange non-recourse, long-term project finance for the 50-MW solar thermal plant in Ciudad Real.

As a result, the Renewable Energy business posted a net loss of €0.6m in 3Q20 and of €3.5m in 9M20, compared to a profit of €3.0m in 3Q19 and of €4.2m in 9M19.

## 3.4. Statement of cash flows

Net cash generated by operating activities amounted to €21m in 3Q20 (€0.6m in 3Q19) and €28.9m in 9M20 (€27.8m in 9M19). The difference is largely attributable to diverging trends in working capital and the effect of the regulatory collar, which is recognised as revenue but has no impact on cash as it is collected over the various plants' regulatory lives (€22.4m in 9M20).

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **15.5** | **15.9** | *(2.2%)* | **15.5** | *0.0%* | **42.4** | **41.6** | *2.0%* |
| Non cash expenses / (incomes) | (6.0) | 0.7 | *n.s.* | (7.4) | *(18.6%)* | (16.3) | 4.8 | *n.s.* |
| Other collections / (payments) | 0.0 | (0.4) | *n.s.* | (0.0) | *n.s.* | (0.0) | (0.9) | *(97.7%)* |
| Change in working capital | 12.9 | (15.0) | *n.s.* | (0.9) | *n.s.* | 10.5 | (10.1) | *n.s.* |
| Income tax received / (paid) | (0.2) | 0.0 | *n.s.* | (0.2) | *(18.7%)* | 0.8 | (0.1) | *n.s.* |
| Net interest received / (paid) | (1.2) | (0.6) | *94.5%* | (6.7) | *(81.8%)* | (8.6) | (7.4) | *15.7%* |
| **Net cash flow from operating activities** | **21.0** | **0.6** | *n.s.* | **0.4** | *n.s.* | **28.9** | **27.8** | *3.7%* |

The change in working capital implied cash inflows of €12.9m in 3Q20 and of €10.5m in 9M20, compared to outflows of €15m and €10.1m in 3Q19 and 9M19, respectively.

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Inventories | 1.1 | 0.6 | *90.6%* | (0.9) | *n.s.* | (3.5) | (2.4) | *42.0%* |
| Trade and other receivables | (1.6) | (13.1) | *(88.2%)* | (9.7) | *(83.9%)* | (9.0) | (8.3) | *8.2%* |
| Trade and other payables | 13.4 | (2.4) | *n.s.* | 9.6 | *38.9%* | 22.9 | 0.6 | *n.s.* |
| **Change in working capital** | **12.9** | **(15.0)** | *n.s.* | **(0.9)** | *n.s.* | **10.5** | **(10.1)** | *n.s.* |

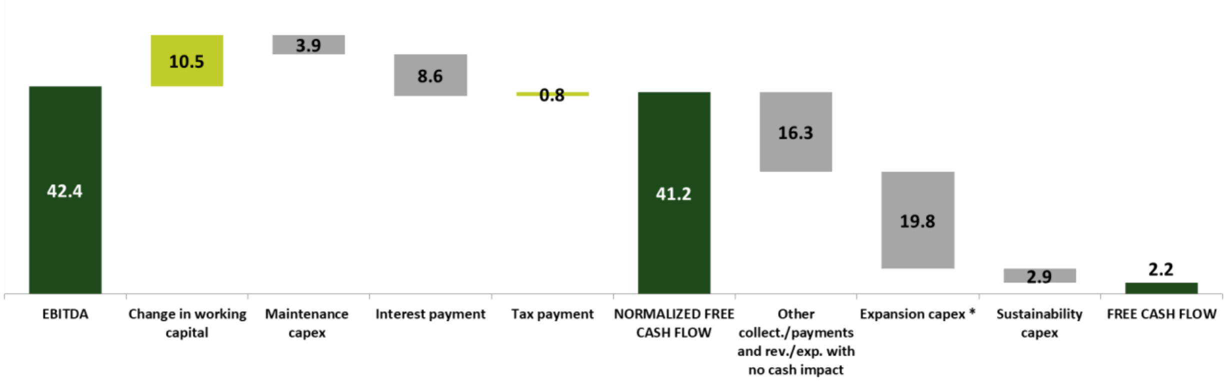
As of the September close, the Renewable Energy business had drawn down its factoring lines by €28.9m, compared to €26.3m at year-end 2019. The Renewable Energy business has also arranged several non-recourse reverse factoring facilities, which were drawn down by €22.1m at the September close, compared to €10.5m at year-end.

| Figures in € m | 3Q20 | 3Q19 | Δ% | 2Q20 | Δ% | 9M20 | 9M19 | Δ% |
|---|---|---|---|---|---|---|---|---|
| Maintenance capex | (1.5) | (2.8) | *(45.8%)* | (1.0) | *55.4%* | (3.9) | (6.2) | *(36.7%)* |
| Efficiency and expansion capex | (11.3) | (12.0) | *(5.6%)* | (3.2) | *249.5%* | (46.8) | (109.6) | *(57.3%)* |
| Sustainability capex and other | (0.7) | (2.4) | *(72.7%)* | (0.3) | *141.9%* | (2.9) | (6.1) | *(52.7%)* |
| Financial investments | 0.0 | (0.0) | *n.s.* | (0.0) | *n.s.* | 0.0 | (0.1) | *n.s.* |
| **Investments** | **(13.5)** | **(17.3)** | *(21.9%)* | **(4.5)** | *200.0%* | **(53.5)** | **(121.9)** | *(56.1%)* |
| Disposals | - | - | *n.s.* | - | *n.s.* | - | 0.0 | *(100.0%)* |
| **Net cash flow from investing activities** | **(13.5)** | **(17.3)** | *(21.9%)* | **(4.5)** | *200.0%* | **(53.5)** | **(121.9)** | *(56.1%)* |

The cash outflow from investing activities amounted to €13.5m in 3Q20 and €53.5m in 9M20, representing year-on-year declines of 21.9% and 56.1%, respectively. Recall that the Group incurred significant expenditure in 2019 in order to build the two new biomass plants commissioned during the first quarter of 2020.

Efficiency and growth investments of €46.8m in the first nine months of the year include the transfer during the first quarter of the remaining Huelva assets by the Pulp business at a value of €26.9m, thus completing the separation of the two units' assets; the transfer had no impact on the the Group's consolidated cash flows. The remaining €19.8m corresponds largely to outstanding payments due on the new biomass plants.

Maintenance and sustainability capex totalled €2.9m in 9M20, down 52.7% year-on-year.




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

As a result, normalised free cash flow in the Renewable Energy business amounted to €41.2m in 9M20, while free cash flow net of efficiency, growth and sustainability capex, excluding the impact of the Pulp business assets transferred, which had no impact on the Group's consolidated statement of cash flows, amounted to €2.2m. That balance also includes the regulatory collar adjustment recognised during the quarter in the amount of €22.4m.

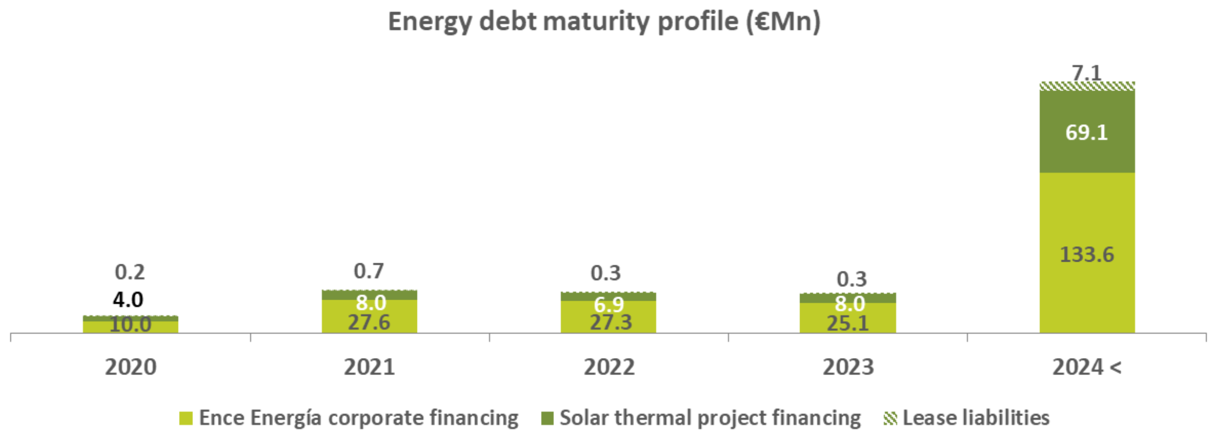
### 3.5. Change in net debt

The Renewable Energy business had €205.8m of net debt at 30 September 2020 (€8.7m of which corresponds to lease liabilities), which is down €1.2m from year-end 2019.

| Figures in € m | Sep-20 | Dec-19 | Δ% |
|---|---|---|---|
| Non-current financial debt | 285.8 | 294.2 | *(2.9%)* |
| Current financial debt | 33.8 | 25.1 | *34.4%* |
| **Gross financial debt** | **319.6** | **319.3** | *0.1%* |
| Non-current lease contracts | 8.0 | 8.3 | *(3.2%)* |
| Current lease contracts | 0.7 | 0.3 | *93.1%* |
| **Financial liabilities related to lease contracts** | **8.7** | **8.6** | *0.7%* |
| Cash and cash equivalents | 122.4 | 120.9 | *1.2%* |
| Short-term financial investments | 0.0 | 0.0 | - |
| **Net financial debt Renewable Energy business** | **205.8** | **207.0** | *(0.6%)* |

Cash amounted to €122.4m at the September close and the ratio of net debt-to-LTM EBITDA in the Renewable Energy business stood at 3.9x.

This unit's €319.6m of gross borrowings at the September close corresponded mainly to the €223.6m drawn down under the corporate finance facility and the €96m drawn under the project finance facility arranged by the solar thermal plant. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



# 4. CONSOLIDATED FINANCIAL STATEMENTS

## 4.1. Statement of profit or loss

| Figures in € m | 9M20 Pulp | 9M20 Energy | 9M20 Adjustments | 9M20 Consolidated | 9M19 Pulp | 9M19 Energy | 9M19 Adjustments | 9M19 Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **378.5** | **150.6** | **(2.3)** | **526.9** | **462.4** | **128.7** | **(4.0)** | **587.1** |
| Other income | 7.4 | 1.8 | (1.7) | 7.5 | 13.9 | 1.8 | (3.1) | 12.6 |
| Foreign exchange hedging operations results | (9.9) | - | | (9.9) | (23.5) | - | | (23.5) |
| Cost of sales and change in inventories of finished produ | (211.3) | (44.7) | 2.3 | (253.8) | (199.5) | (35.4) | 4.0 | (230.9) |
| Personnel expenses | (57.0) | (10.1) | | (67.1) | (62.2) | (9.1) | | (71.2) |
| Other operating expenses | (100.8) | (55.1) | 1.7 | (154.2) | (106.2) | (44.5) | 3.1 | (147.6) |
| **EBITDA** | **7.1** | **42.4** | | **49.4** | **85.0** | **41.6** | | **126.5** |
| *EBITDA margin* | *2%* | *28%* | | *9%* | *18%* | *32%* | | *22%* |
| Depreciation and amortisation | (41.8) | (31.6) | 1.2 | (72.3) | (42.2) | (20.7) | | (62.9) |
| Depletion of forestry reserves | (7.4) | (0.3) | | (7.7) | (6.5) | (0.0) | | (6.5) |
| Impairment of and gains/(losses) on fixed-asset disposal: | 0.5 | (1.7) | 1.7 | 0.5 | 2.2 | (0.2) | | 2.0 |
| Other non-ordinary operating gains/(losses) | (3.8) | - | | (3.8) | (3.2) | - | | (3.2) |
| **EBIT** | **(45.5)** | **8.8** | **2.9** | **(33.7)** | **35.3** | **20.6** | | **55.9** |
| *EBIT margin* | *-12%* | 6% | | -6% | *8%* | 16% | | *10%* |
| Net finance cost | (8.9) | (11.8) | | (20.7) | (6.4) | (12.5) | | (19.0) |
| Other finance income/(costs) | (0.3) | (0.0) | | (0.3) | 2.3 | (0.0) | | 2.3 |
| **Profit before tax** | **(54.6)** | **(3.0)** | **2.9** | **(54.7)** | **31.2** | **8.1** | | **39.2** |
| Income tax | 13.5 | 0.8 | | 14.2 | (7.5) | (1.6) | | (9.1) |
| **Net Income** | **(41.2)** | **(2.3)** | **2.8** | **(40.6)** | **23.7** | **6.5** | | **30.1** |
| Non-controlling interests | - | (1.3) | | (1.3) | - | (2.3) | | (2.3) |
| **Atributable Net Income** | **(41.2)** | **(3.5)** | **2.8** | **(41.8)** | **23.7** | **4.2** | | **27.8** |
| Earnings per Share (EPS) | (0.17) | (0.01) | | (0.17) | 0.10 | 0.02 | | 0.11 |

## 4.2. Balance sheet

| Figures in € m | Sep - 20 Pulp | Sep - 20 Energy | Sep - 20 Adjustments | Sep - 20 Consolidated | Dec - 19 Pulp | Dec - 19 Energy | Dec - 19 Adjustments | Dec - 19 Consolidated |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | 16.1 | 59.3 | (14.0) | 61.4 | 14.9 | 61.4 | (14.4) | 61.9 |
| Property, plant and equipment | 636.0 | 619.9 | (12.5) | 1,243.3 | 647.3 | 592.7 | (1.7) | 1,238.3 |
| Biological assets | 73.1 | 0.2 | | 73.3 | 78.7 | 0.3 | | 79.1 |
| Non-current investments in Group companies | 326.0 | 0.0 | (325.9) | 0.0 | 312.4 | 0.0 | (312.4) | - |
| Non-current borrowings to Group companies | 75.2 | - | (75.2) | - | 75.2 | 0.0 | (75.2) | - |
| Non-current financial assets | 3.9 | 8.7 | | 12.6 | 3.6 | 5.2 | | 8.7 |
| Deferred tax assets | 50.7 | 17.1 | | 67.8 | 38.6 | 15.4 | | 54.0 |
| **Total non-current assets** | **1,181.0** | **705.3** | **(427.7)** | **1,458.6** | **1,170.8** | **675.0** | **(403.7)** | **1,442.2** |
| Inventories | 45.3 | 14.1 | | 59.5 | 44.9 | 11.7 | | 56.6 |
| Trade and other accounts receivable | 71.6 | 34.1 | (37.0) | 68.6 | 41.6 | 17.6 | (16.9) | 42.2 |
| Income tax | 5.7 | 0.6 | | 6.3 | 6.9 | 1.7 | | 8.6 |
| Other current assets | 1.1 | (0.2) | | 0.9 | 1.7 | 0.2 | | 1.8 |
| Hedging derivatives | 1.8 | - | - | 1.8 | 0.0 | - | - | - |
| Current financial investments in Group companies | 0.8 | 0.2 | (0.9) | 0.0 | - | 0.0 | (0.0) | - |
| Current financial investments | 3.3 | 0.0 | | 3.3 | 4.4 | 0.0 | | 4.5 |
| Cash and cash equivalents | 234.1 | 122.4 | | 356.5 | 101.3 | 120.9 | | 222.2 |
| **Total current assets** | **363.7** | **171.2** | **(37.9)** | **496.9** | **200.7** | **152.1** | **(16.9)** | **336.0** |
| **TOTAL ASSETS** | **1,544.7** | **876.5** | **(465.6)** | **1,955.5** | **1,371.5** | **827.2** | **(420.6)** | **1,778.1** |
| **Equity** | **659.1** | **323.8** | **(348.6)** | **634.3** | **696.4** | **303.1** | **(324.5)** | **674.9** |
| Non-current borrowings | 537.1 | 293.8 | | 830.8 | 402.6 | 302.4 | | 705.0 |
| Non-current loans to Group companies | - | 75.2 | (75.2) | - | - | 75.2 | (75.2) | - |
| Non-current derivatives | 2.0 | 9.9 | | 11.8 | 0.2 | 6.3 | | 6.4 |
| Deferred tax liabilities | 23.1 | 17.3 | (3.9) | 36.5 | 23.0 | 18.6 | (4.0) | 37.6 |
| Non-current provisions | 3.0 | 9.6 | | 12.6 | 3.4 | 9.4 | | 12.8 |
| Other non-current liabilities | 5.3 | 18.4 | | 23.6 | 10.1 | 26.1 | | 36.2 |
| **Total non-current liabilities** | **570.4** | **424.1** | **(79.1)** | **915.4** | **439.3** | **438.0** | **(79.2)** | **798.1** |
| Current borrowings | 50.7 | 34.5 | | 85.2 | 8.8 | 25.5 | | 34.3 |
| Current derivatives | -1.9 | 3.8 | | 1.8 | 6.2 | 3.7 | | 9.9 |
| Trade and other account payable | 239.9 | 87.5 | (37.0) | 290.4 | 196.4 | 55.2 | (16.9) | 234.7 |
| Short-term debts with group companies | 0.1 | 0.8 | (0.9) | - | 0.0 | - | - | - |
| Income tax | 0.0 | 0.9 | | 0.9 | 0.4 | - | | 0.4 |
| Current provisions | 26.3 | 1.3 | | 27.6 | 24.0 | 1.7 | | 25.7 |
| **Total current liabilities** | **315.2** | **128.6** | **(37.9)** | **405.8** | **235.9** | **86.1** | **(16.9)** | **305.1** |
| **TOTAL EQUITY AND LIABILITIES** | **1,544.7** | **876.5** | **(465.6)** | **1,955.5** | **1,371.5** | **827.2** | **(420.6)** | **1,778.1** |

## 4.3. Statement of cash flows

| Figures in € m | 9M20 Pulp | 9M20 Energy | 9M20 Adjustments | 9M20 Consolidated | 9M19 Pulp | 9M19 Energy | 9M19 Adjustments | 9M19 Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Consolidated profit/(loss) for the period before tax** | **(54.6)** | **(3.0)** | **2.9** | **(54.7)** | **31.2** | **8.1** | | **39.2** |
| Depreciation and amortisation | 49.2 | 31.9 | (1.2) | 79.9 | 49.4 | 20.0 | | 69.5 |
| Changes in provisions and other deferred expense | 13.1 | 6.3 | | 19.4 | 15.9 | 2.7 | | 18.6 |
| Impairment of gains/(losses) on disposals intangible asset | (0.6) | 1.7 | (1.7) | (0.6) | (2.2) | 0.2 | | (2.0) |
| Net finance result | 8.8 | 11.8 | | 20.6 | 4.3 | 12.5 | | 16.9 |
| Regulatory collar | (9.0) | (22.4) | | (31.4) | 0.6 | 2.3 | | 2.9 |
| Government grants taken to income | (0.7) | (0.2) | | (0.9) | (0.8) | (0.2) | | (1.0) |
| **Adjustments to profit** | **60.7** | **29.1** | **(2.9)** | **86.9** | **67.4** | **37.5** | | **104.9** |
| Inventories | (1.3) | (3.5) | | (4.7) | (11.5) | (2.4) | | (13.9) |
| Trade and other receivables | (6.4) | (9.0) | | (15.4) | 7.7 | (8.3) | | (0.6) |
| Current financial and other assets | 1.2 | - | | 1.2 | (1.4) | - | | (1.4) |
| Trade and other payables | 23.0 | 22.9 | | 45.9 | 10.2 | 0.6 | | 10.8 |
| **Changes in working capital** | **16.5** | **10.5** | | **26.9** | **5.0** | **(10.1)** | | **(5.1)** |
| Interest paid | (5.2) | (8.6) | | (13.7) | (2.5) | (7.4) | | (9.9) |
| Dividends received | - | - | | - | - | - | | - |
| Income tax received/(paid) | (0.0) | 0.8 | | 0.8 | (6.6) | (0.1) | | (6.8) |
| Other collections/(payments) | - | - | | - | (4.7) | (0.2) | | (4.9) |
| **Other cash flows from operating activities** | **(5.2)** | **(7.7)** | | **(12.9)** | **(13.8)** | **(7.7)** | | **(21.5)** |
| **Net cash flow from operating activities** | **17.3** | **28.9** | | **46.2** | **89.7** | **27.8** | | **117.5** |
| Property, plant and equipment | (45.2) | (53.2) | 26.9 | (71.5) | (123.2) | (107.2) | | (230.4) |
| Intangible assets | (3.6) | (0.3) | | (3.9) | (4.4) | (14.6) | 14.4 | (4.6) |
| Other financial assets | 0.0 | 0.0 | | 0.0 | (0.2) | (0.1) | | (0.2) |
| Disposals | 0.7 | - | | 0.7 | 4.6 | 0.0 | | 4.7 |
| **Net cash flow used in investing activities** | **(48.1)** | **(53.5)** | **26.9** | **(74.7)** | **(123.1)** | **(121.9)** | **14.4** | **(230.6)** |
| **Free cash flow** | **(30.8)** | **(24.7)** | **26.9** | **(28.5)** | **(33.4)** | **(94.1)** | **14.4** | **(113.1)** |
| Buyback/(disposal) of own equity instruments | (1.7) | 26.9 | (26.9) | (1.7) | (12.6) | 14.4 | (14.4) | (12.6) |
| Proceeds from and repayments of financial liabilities | 165.2 | 0.4 | | 165.7 | 38.5 | (32.6) | | 5.8 |
| Dividends payments | - | (1.2) | | (1.2) | (24.3) | (1.5) | | (25.8) |
| **Net cash flow from/ (used in) financing activities** | **163.5** | **26.2** | **(26.9)** | **162.8** | **1.6** | **(19.7)** | **(14.4)** | **(32.5)** |
| **Net increase/(decrease) in cash and cash equivalents** | **132.8** | **1.5** | | **134.3** | **(31.8)** | **(113.8)** | | **(145.6)** |

## 5. KEY DEVELOPMENTS

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

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

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

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

### 'Essential' activity status

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

### Minimisation of on-site work throughout the health crisis

During the initial stages of the pandemic, the measures rolled out included having as many people as possible work from home, including all professionals declared to be particularly at risk. On-site staff levels were reduced to the bare minimum. Ence also devised shifts and designed non-intersecting isolated teams; meanwhile, back-up teams are kept in preventive isolation at home.

### Maintenance shutdowns

Both of the biomills' annual maintenance shutdowns were postponed to the third quarter due to the mobility limitations imposed during the health crisis and in order to give the Company time to minimise the associated risks for our professionals. Specific protocols were designed for the maintenance work, including the organisation of teams into multiple independent bubbles to minimise the risk of contagion.

### COVID-19 protocol

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

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

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

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

### COVID-19 testing drive

In April, Ence rolled out a test schedule availing of the most accurate techniques available for investigating symptomatic cases and tracing potential close contacts. That programme was subsequently broadened to take samples from all staff entering the factories with a view to detecting asymptomatic cases and preventing the potential spread of the virus. The programme began with a combined PCR and rapid antibody testing strategy. The ELISA antibody blood test was later incorporated and now the company is using the newest rapid antigen tests. The test programme is governed by a protocol which sets the testing frequencies and best sampling techniques based on key pandemic indicators such as the accumulated case incidence numbers.

### Protocol vis-a-vis outbreaks

During the gradual rollback of the lockdown measures, Ence devised its own protocol for addressing how to respond to fresh outbreaks based on the incidence and cluster figures reported regionally in Spain. That protocol set objective criteria for classifying the risk of any such outbreak and guidelines, including preventive quarantines for people living in areas affected by clusters and PCR and antibody testing for people potentially exposed to the virus. That protocol was complemented by the implementation of a team on internal track and tracers.

That protocol is currently on hold as the situation is no longer one of controlled outbreaks but rather community transmission.

### Airborne transmission: use of masks and improved ventilation

Ence has required all of its staff to wear a mask at work since April. Given the difficulty in procuring masks at that time, it commissioned external workshops to make hygienic masks in accordance with the requirements and guidelines approved by the health authorities. Masks are currently widely available in the marketplace and Ence continues to require their widespread use.

Audits are carried out at every facility daily to verify compliance with this and other safety measures. Those audits are carried out not only by safety staff but also line managers.

In April experts began to signal the aerosols exhaled by asymptomatic carriers as a potential source of infection, which prompted Ence to take steps to boost ventilation. Specifically:

- The establishment of 15-minute long ventilation intervals every two hours.
- Improvements to the HVAC systems, entailing significant investments, to comply with the recommendations issued by the European federation of HVAC associations for preventing the spread of the coronavirus in workplaces.

### COVID-19 passport

Ence has developed and implemented software to enable each user entering an Ence facility and persons working in forestry activities or the supply chain to obtain a COVID-19 passport. To obtain the passport they must have passed the required COVID tests and fill in health questionnaires periodically. The application helps the Company's medical service with its effort to detect asymptomatic cases and trace contacts.

The passport is connected up to the access control system so that anyone who does not meet all of the required safety conditions is not allowed in.

### Sensitivity analysis vis-a-vis adverse scenarios

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

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

### Measures taken to boost liquidity

In light of the uncertainty sparked by the global spread of COVID-19 and with the aim of maximising its liquidity vis-a-vis a range of potential adverse and/or prolonged scenarios, in 1Q20 the Company drew down a €70 million revolving credit facility due May 2023 (undrawn at year-end 2019) and in the second and third quarters it expanded its financing lines, the last of which matures in 2025, by €102m.

In tandem, it reinforced its working capital management tools by making greater use of its factoring and reverse factoring lines and negotiated with certain suppliers the deferral of €51m of capital expenditure related payments to 2021.

As a result, the Group's unrestricted cash ended September at €360m, up 59% from year-end 2019.

### COVID-19 related costs

In the first nine months of 2020 the costs induced by COVID-19 amounted to €5.4m. Those costs include extra staff costs to implement the new safety and hygiene measures put in place and the provision of disinfectants, face masks, tests and equipment to facilitate working from home.

## 2020 Annual General Meeting

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

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

## Change in ratings at Moody's

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

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

# APPENDIX 1: MASTER SUSTAINABILITY PLAN

Sustainability is intrinsic to Ence's business activities as a leading player in the sustainable use of natural resources for the production of differentiated pulp and renewable energy. Sustainability is fully integrated into Ence's vision and mission and is one of its strategic priorities.

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Strategic Plan. It constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. During the third quarter of 2020, the Company revised the Plan approved in 2018 to include a specific line of initiative related with climate action, so that it is now articulated around seven priority lines of action:

## 1. People and values

Ence's commitment to its people has guided its response to the COVID-19 crisis. As early as February it approved and implemented a specific, Group-wide protocol in response COVID-19, which establishes the measures and conduct to be observed to prevent transmission. Those measures included protocols designed to facilitate working from home. At the end of June the process of phasing those measures out began, while leaving certain work-life balance and working time measures in place. During the third quarter, the Company continued to revise and fine-tune its protocols for lifting the restrictions to pave the way for a safe return to work, provided the accumulated incidence in the regions where Ence has business operations so advises.

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

In terms of the generation of quality work, note that as of September 2020, 84% of Ence employees were on indefinite employment contracts.

The Workplace Climate Improvement Plan is a top priority, not only for the human resources team but for all of the professionals who work at Ence. The initiatives undertaken during the first nine months of 2020 notably include the holding of more than 11,130 one-on-one meetings, the organisation of over 1,000 career development interviews and the merit distinction of over 200 Ence professionals.

On the talent development front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the Company boasts the human capital required to successfully execute its 2019-2023 Strategic Plan. In 2020 it is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies and promotions. In the first nine months of the year, it managed 14 promotions, half of whom involving women.

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

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

Occupational Health and Safety Policy

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

In the first nine months of 2020, the Company imparted 13,392 hours of training in the above seven areas, adapting the formats for the remote working arrangements and other safety protocols deriving from the health crisis.

Ence's commitment to equality has materialised in a 13.2% year-on-year increase in female employees in the first nine months to account for 23.35% of the total. Moreover, 55% of graduate hires under the age of 30 and 62% of the executive and individual contract hires were female.

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

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

In line with those commitments, the Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria. As a result, the gender pay gap at Ence was 0% in 2019.

Elsewhere, as part of the effort to create sustainability awareness, Ence has launched equality and sustainability related training programmes addressed at the entire organisation. During the first nine months of 2020, over 2,500 professionals received online training on equality, sustainability, data protection, the guarantee of digital rights and cybersecurity.

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

In the first nine months of 2020, Ence regularly updated its safety protocol, met weekly to monitor COVID-19 developments, negotiated the De-escalation Protocol and signed a new collective bargaining agreement at Norfor.

It is worth highlighting the strike called at the Navia biomill from 3 to 9 August which materialised in two days of effective strike action, on 7 and 8 August.

### 2. Climate action

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

In the mitigation area, it is worth highlighting the fact that Ence's Board of Directors has approved specific GHG reduction targets, which call for the reduction of scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills.

In the adaptation area, Ence is following the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD) around the governance and management of climate-related risks and opportunities. During the first nine months of the year, Ence focused its efforts on the development of *ad-hoc* climate models which provide a tool for analysing the potential impacts of climate change on the Company's facilities and timber and biomass supply areas. To develop those models, Ence is using two IPCC climate scenarios: a more pessimistic scenario (RCP 8.5) and a scenario more closely aligned with current emissions (RCP 4.5). It is analysing the changes in the climate over three time horizons: the near future (until 2040), medium term (until 2070) and a more distant future (2100).

## 3. Safe and eco-friendly operations

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

During the first nine months of 2020, Ence's health and safety effort was dictated by the health crisis triggered by COVID-19.

Ence's pioneering response in its sector and in the Spanish manufacturing industry more generally set a precedent by anticipating the magnitude of the crisis, analysing all the deriving risks and implementing safety measures very early on, all of which prioritising the protection of all its professionals (Ence's and contractors' employees) and their families over and above everything else. Many sectors and companies have since taken their lead from Ence in setting their COVID-19 strategies.

As a result, several weeks before COVID-19 took a firm hold in Spain, the Ence Group already had a robust action plan for the prevention of transmission which encompassed preventative measures along several fronts: the organisation of work; workplace health and safety; training, information and communication; the provision of health resources and crisis management plans.

Some of the most noteworthy measures: the implementation of social distancing, hygiene and regular disinfection rules; the alignment of the organisation's HVAC systems with the recommendations issued by the European federation for HVAC associations for the prevention of coronavirus transmission in workplaces; the organisation of work for the various job categories; the drafting and updating of emergency protocols; access health controls; daily monitoring of COVID developments by the Management Committee; the development of robust screening and testing plans for all members of the Ence Family availing of all the latest methodologies (antibody, antigen, PCR and ELISA testing methods); and the audit of hotels for business travel and of food distribution firms for our workplaces.

To complement the general protection protocol, the Company has drafted a number of other specific protocols to address important aspects of managing the pandemic effectively, such as the protocol for the management of COVID-19 in the context of programmed maintenance shutdowns; a protocol for the phasing-out of certain restrictions; a protocol for the management of new outbreaks; and a COVID-19 testing protocol.

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

On the safety front, the main accident performance indicators deteriorated during the first nine months of the year by comparison with 9M19. Specifically, the injury frequency ratio increased to 7.8 from 3.9, shaped significantly by the trend in the supply chain area whose frequency ratio deteriorated sharply from 5.9 to 16.9. However, the readings in the Renewable Energy (from 4.2 to 4.9) and Pulp areas (steady at 2.7) were flat year-on-year, and remained significantly better than in benchmark industrial sectors (Spanish manufacturing industry; the pulp and paper sector; and the Spanish chemical products industry).

Among the environmental milestones achieved in the first nine months of 2020, it is worth highlighting the reduction in water consumption per tonne of pulp produced at both biomills: a reduction of 4% in Pontevedra (where consumption is down by over 20% on aggregate over the last four years) and of 8% in Navia.

As for odour emissions, Navia's monthly emissions, measured in minutes, improved by 42% (from 57 to 33 minutes/month). Pontevedra's emissions, meanwhile, improved by 41% (from 81 to 48 minutes/month).

On the circular economy front, note that both biomills and all of the biomass power generation plants are recycling and recovering waste at levels of over 95%. The Navia biomill joined the Pontevedra complex in obtaining AENOR's Zero Waste company certificate, making both biomills front-runners in their sector. Note, lastly, that during the third quarter Ence began to sell the ash produced in the furnaces in the Huelva 46-MW and Huelva 50-MW plants as a by-product for the manufacture of fertilisers.

## 4. Rural and forest development

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

Indeed, Ence has cemented itself as a benchmark in sustainable forest management in Spain, applying internationally-recognised standards of excellence, such as the FSC® (FSC-C099970) (Forest Stewardship Council®) and PEFC (Program for the Endorsement of Forest Certification) schemes to the forest assets it manages and encouraging their adoption by its supply chain. As of the September close, 87% of its forest assets were certified under one or other of those standards and 79% of the timber that entered its biomills during the reporting period came with one or both certifications.

As for its effort to create value for its suppliers, the Company lends particular support to small firms, which represent 96.5% of Ence's timber suppliers and 85% of its biomass suppliers.

In the first nine months of 2020, the volume of standing timber purchased from over 1,100 forest holders, most of whom small-scale holders, amounted to nearly 637,271 cubic metres. In total, the volume of incoming timber amounted to 2.34 million cubic metres, purchased for almost €157m. Ence moved more than 1,130,000 tonnes of biomass, worth over €50.7m, through its plants in 9M20.

Ence also strives to contribute to development in the areas in which it operates. To that end it encourages the purchase of local timber; year-to-date, all of the timber bought came from Galicia, Asturias, Cantabria and the Basque region. Local timber purchasing not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering our carbon footprint. All of the biomass sourced by the Company is similarly sourced nearby (including from Portugal in the case of the plants in Huelva and Merida).

Ence's renewable energy activities make it an important player in the mobilisation of agricultural and forestry biomass in Spain. As a result, Ence not only contributes to minimising the environmental impacts of inappropriate management of agricultural and forestry waste, it actually creates value for the suppliers of these materials, while helping to invigorate the economy in the supply areas and stem the tide of rural depopulation.

As well as generating value for its biomass suppliers, Ence contributes to fostering more sustainable agricultural management. Against that backdrop, during the first nine months of the year Ence continued to make progress on the application of its 10-Point Declaration on the Sustainability of Biomass: the level of delivery stood at 62.9% by the September close (the target for 2020: 65%). Application of this plan is translating into gradual growth in the percentage of agricultural biomass consumed: from 21% in 2016 to 57% in 9M20.

## 5. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019. That development is the result of years of R&D and industrial and product development work. Under the umbrella of that platform, Ence is working to develop products with a lower carbon footprint as alternatives to hardwood pulp (which has a larger timber consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging suitable for substituting materials such as plastic. One of Ence's sustainability targets for 2020 is to increase sales of its products with special sustainability attributes. In the first nine months of the year, sales of sustainable products such as Naturcell and Powercell accounted for 10% of overall pulp sales.

## 6. Community commitment

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

Ence has had to adapt the timeline for the execution of the Pontevedra Community Plan in response to the ongoing health crisis. The Company has sought fit to grant the beneficiaries an extra three months (until 1 March 2021), the duration of the state of emergency in Spain, to present their project credentials. It has also been flexible about changes in the use of proceeds so long as so doing did not modify the ultimate purpose. In this manner it has sought to demonstrate, once again, its support for society and its empathy with the beneficiaries affected by the health crisis.

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

Framed by its firm commitment to giving back to society, Ence is looking for ways to support its communities in the face of the difficulties caused by the pandemic. With that aim in mind, the Company has launched an initiative dubbed "ENCEmploys" for the hire of 16 young vocational training graduates, who will join the team at the Pontevedra biomill for one year. In parallel, Ence has rolled out other initiatives designed to help its community constituents during the health crisis. For example, the Company donated a 2,000-metre roll for the production of certified non-woven fabric to a group of women from Pontevedra for the production of face masks and 24 tonnes of sanitary products (toilet rolls and hand towels) to various hospitals. It also implemented corporate volunteering programmes for the acquisition of basic necessities by employees in all its workplaces for subsequent donation to the food banks. Ence is also working to help ensure the survival of small enterprises that have been affected by the crisis by acquiring over 30,000 face masks from Albino González, a small business in Pontevedra which has reinvented itself to survive the pandemic.

In the vicinity of its biomill in Navia, in line with the Company's community commitment in all its business markets, Ence, together with LC Paper, donated two truckloads of paper for sanitary and hygienic use produced by latter using pulp made at Ence's biomills. The paper was donated by the two companies to the public health service in Asturias in support of its effort to combat COVID-19.

In addition, in San Juan del Puerto, the closest town to Ence's energy complex in Huelva, the Company provided the town council with an upfront payment of €50,000 against the annual contributions made to the council by Ence in order to help with its COVID-19 efforts. As a result, some of the economic aid contemplated under the agreement with that authority was used to purchase protective equipment and other materials needed to safeguard the health of the town's residents, and hygienic equipment, machinery and products for boosting municipal disinfection and street cleaning resources.

Again in collaboration with LC Paper, Ence provided the town council of Puertollano with a truckload of health materials for distribution to a range of municipal entities. The companies' idea was to make a donation to the town council in order to supply necessary hygiene materials to municipal buildings used for sports, administrative and social purposes during the gradual reopening, so contributing to the town's recovery from the health crisis.

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

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

## 7. Corporate governance

On the corporate governance front, Ence boasts a comprehensive and effective system which incorporates prevailing regulatory requirements and recommendations with respect to best practices in the field. Ence continuously assesses its stakeholders' legitimate expectations, engaging openly with shareholders, investors and proxy advisors and responding transparently to requests for information from research analysts, rating agencies and ESG consultants.

Ence has been working hard on its board's gender diversity: female representation in its boardroom has increased from 7% in 2017 to 29% in 2020. It has also rolled out a training programme for directors designed to update their knowledge of matters of strategic importance to Ence.

In parallel, the Company has been focusing on gradually updating its corporate policies and reinforcing its transparency, expanding the information published about its governing bodies. During the third quarter, it approved the updated version of its Code of Conduct and Whistle-Blowing Channel Procedure and also approved the Anti-Corruption and Fraud Policy. The appointment of a lead independent director has reinforced debate in the boardroom and helped channel proposals from the non-executive members of the board.

In sum, the objectives being pursued on the corporate governance front are aimed at upholding the interests of its shareholders and other stakeholders in the long term.

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

| Facility | Type of facility | MW | Annual Remuneration for investment (Ri; €/MW) * | Type of fuel | Remuneration for operation 2020 (Ro; €/MWh) | Cap on sale hours under tariff per MW | Regulatory life (year of maturity) |
|---|---|---|---|---|---|---|---|
| Pontevedra | Biomass co-generation | 34.6 | -<br>55,317 | Lignin<br>Agroforestry biomass | 25.7<br>52.0 | -<br>7,500 | 2032 |
| Navia | Biomass co-generation<br>Biomass generation | 40.3<br>36.2 | -<br>230,366 | Lignin<br>Agroforestry biomass | 24.8<br>50.2 | -<br>7,500 | 2034 |
| Huelva 41MW | Biomass generation | 41.0 | 246,305 | Agroforestry biomass | 56.8 | 7,500 | 2025 |
| Jaen 16MW | Biomass generation | 16.0 | 261,046 | Olive Pulp | 35.2 | 7,500 | 2027 |
| Ciudad Real 16MW | Biomass generation | 16.0 | 261,046 | Olive Pulp | 36.2 | 7,500 | 2027 |
| Cordoba 27MW | Biomass generation<br>Gas co-generation | 14.3<br>12.8 | 229,611<br>- | Olive Pulp<br>Natural Gas | 38.0<br>40.5 | 7,500<br>- | 2031<br>2030 |
| Ciudad Real 50MW | Solar thermal plant | 50.0 | 451,205 | - | 32.5 | 2,016 | 2034 |
| Huelva 50MW | Biomass generation | 50.0 | 266,475 | Agroforestry biomass | 48.6 | 7,500 | 2037 |
| Mérida 20MW | Biomass generation | 20.0 | 293,601 | Agroforestry biomass | 47.7 | 7,500 | 2039 |
| Huelva 46 MW | Biomass generation | 46.0 | - | Agroforestry biomass | 44.4 | 7,500 | 2044 |
| Ciudad Real 50 MW | Biomass generation | 50.0 | - | Agroforestry biomass | 44.5 | 7,500 | 2044 |

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

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

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

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

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

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

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

| Eur / MWh | 2020 | 2021 | 2022 |
|---|---|---|---|
| LS2 | 63.1 | 60.5 | 56.6 |
| LS1 | 58.8 | 56.3 | 52.7 |
| Estimated pool price | 54.4 | 52.1 | 48.8 |
| LI1 | 50.1 | 48.0 | 44.9 |
| LI2 | 45.7 | 43.8 | 41.0 |

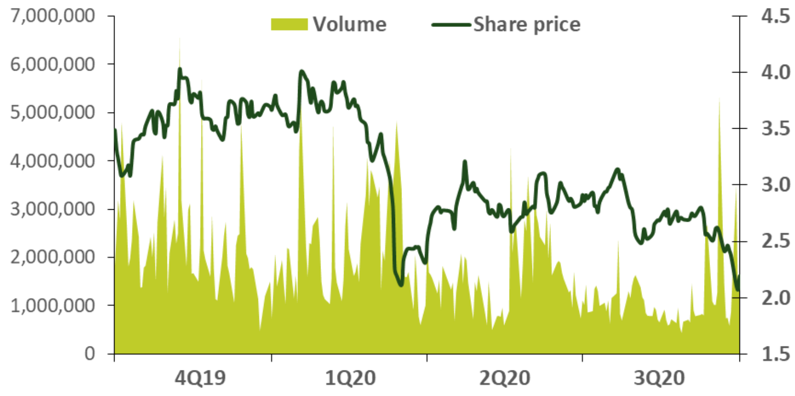
   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 2,016 hours for solar thermal electric power (there is no cap in the case of CHP). Output above this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

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

## APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence's share price ended September at €2.19/share, down 40.3% from the year-end close price. That performance compared with a sector correction of 31.7%. The sector players' share prices have been affected by low prevailing pulp prices and the impact of the global spread of COVID-19 and the restrictions taken by the various countries in response.




Source: Bloomberg

| SHARES | 4Q19 | 1Q20 | 2Q20 | 3Q20 |
|---|---|---|---|---|
| **Share price at the end of the period** | 3.67 | 2.50 | 2.91 | 2.19 |
| **Market capitalization at the end of the period** | 903.8 | 615.7 | 717.6 | 539.8 |
| **Ence quarterly evolution** | 5.2% | (31.9%) | 16.6% | (24.8%) |
| **Daily average volume (shares)** | 2,309,519 | 2,288,921 | 1,677,385 | 1,149,625 |
| **Peers quarterly evolution *** | 5.0% | (25.3%) | 3.3% | 0.6% |

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

On 5 March 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €7.5517 per share (adjusted on 1 July 2020). The convertible bonds are traded on the Frankfurt stock exchange. Their price performance echoes the Company's share price performance and any changes in the value of the conversion option.

| CONVERTIBLE BOND | 4Q19 | 1Q20 | 2Q20 | 3Q20 |
|---|---|---|---|---|
| **Bond price at the end of the period** | 94.26 | 80.50 | 88.76 | 86.83 |
| **Yield to worst at the end of the period*** | 3.168% | 8.979% | 5.848% | 7.270% |

*Yield to maturity

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

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

# APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

**CASH COST**

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

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

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

**EBITDA**

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

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

**CASH FLOW ANALYSIS**

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

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

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

**NORMALISED FREE CASH FLOW**

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

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

**MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX**

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

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

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

**FREE CASH FLOW**

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

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

**NET DEBT**

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

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

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

## DISCLAIMER

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

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Earnings Report
3Q20

Overall ESG score: 82