Report on Limited Review of Ence Energía y Celulosa, S.A. and Subsidiaries

(Together with the condensed consolidated interim financial statements and the consolidated interim directors' report of Ence Energía y Celulosa, S.A. and subsidiaries for the six-month period ended 30 June 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Report on Limited Review of Condensed Consolidated Interim Financial Statements

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Ence Energía y Celulosa, S.A., commissioned by the Directors of the Company.

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (hereinafter the "interim financial statements") of Ence Energía y Celulosa, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the statement of financial position at 30 June 2021, statement of profit and loss , statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

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N.I.F. B-78510153

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2021 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

Emphasis of Matter

We draw your attention to note 1 to the accompanying interim financial information, which states that such interim financial information does not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2020.This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2021 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2021. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Ence Energía y Celulosa, S.A. and subsidiaries.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Other Matter

This report has been prepared at the request of the Directors of Ence Energía y Celulosa, S.A. in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Eduardo González Fernández

28 September 2021

Ence Energía y Celulosa, S.A. and subsidiaries

Condensed consolidated interim financial statements for the first half of 2021 prepared under the International Financial Reporting Standards adopted by the European Union and the corresponding Interim Group Management Report

Condensed consolidated interim financial statements for the first half of 2021

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2021

€ 000	Note	30 June 2021 (*)	31 Dec. 2020 (**)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	13	1,617	1,742
Other intangible assets	13	36,762	40,161
Property, plant and equipment	14	903,972	1,092,876
Biological assets	16	62,623	71,270
Non-current financial assets			
Investments accounted for using the equity method	20	22	31
Other financial assets	20 & 23.2	23,559	24,196
Deferred tax assets	27	64,415	71,952
		1,092,970	**1,302,228**
CURRENT ASSETS:			
Inventories	18	47,138	51,831
Trade and other receivables	20 & 21	58,861	57,895
Tax receivables	27	12,999	310
Income tax receivable	27	115	962
Current financial assets			
Loans to group companies and related parties	20 & 29	36	36
Hedging derivatives	20 & 25	-	6,764
Other financial assets	20 & 23.2	18,027	18,215
Cash and cash equivalents	20 & 23.1	372,420	532,620
Other current assets		6,299	1,332
		515,895	**669,965**
TOTAL ASSETS		**1,608,865**	**1,972,193**
EQUITY:			
Issued capital	19.1	221,645	221,645
Share premium		170,776	170,776
Parent company reserves	19.2	206,997	169,416
Parent company retained earnings (prior-period losses)	19.2	-	(5,573)
Reserves in fully-consolidated companies	19.2	74,585	144,329
Reserves in equity-accounted investees	19.2	(79)	(8)
Translation differences		15	18
Own shares - parent company shares	19.3	(13,810)	(11,856)
Valuation adjustments	19.4	(6,673)	39,421
Other equity instruments	19.5	11,601	11,687
Profit/(loss) for the period attributable to owners of the parent		(194,597)	(26,432)
Equity attributable to owners of the parent		**470,460**	**713,423**
Non-controlling interests	19.7	**136,230**	**136,706**
TOTAL EQUITY		**606,690**	**850,129**
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	20 & 24	236,159	238,869
Bank borrowings	20 & 24	198,175	291,103
Other financial liabilities	20 & 24	70,906	103,983
Derivative financial instruments	20 & 25	3,869	5,602
Grants		3,899	5,558
Deferred tax liabilities	27	19,838	21,661
Non-current provisions	26	50,566	2,832
Non-current accruals and deferred income		2,271	1,764
Other non-current liabilities	20	4,739	5,955
Non-current borrowings from group companies and related parties	20 & 29	36,835	36,835
		627,257	**714,162**
CURRENT LIABILITIES:			
Borrowings			
Bank borrowings	20 & 24	41,804	79,062
Other financial liabilities	20 & 24	10,305	6,407
Derivative financial instruments	20 & 25	50,355	8,097
Current borrowings from group companies and related parties	20 & 29	608	-
Trade and other payables	20 & 22	235,385	258,951
Income tax payable	27	7,272	5,635
Taxes payable	27	14,713	20,396
Current provisions	26	14,476	29,354
		374,918	**407,902**
TOTAL EQUITY AND LIABILITIES		**1,608,865**	**1,972,193**

The accompanying notes 1 to 31 and Annex are an integral part of the condensed consolidated interim statement of financial position at 30 June 2021.

(*) Unaudited figures.

(**) The condensed consolidated statement of financial position at 31 December 2020 is presented exclusively for comparative purposes.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2021

€ 000	Note	1H21 (*)	1H20 (**)
Continuing operations:			
Revenue	7	372,426	361,963
Gains/(losses) on hedging transactions	25	(10,967)	(9,518)
Changes in inventories of finished goods and work in progress	18	(1,572)	(1,954)
Own work capitalised	14 & 16	1,490	404
Other operating income		6,475	2,150
Grants taken to income		3,351	2,030
Operating income		371,203	355,075
Cost of goods sold	8	(168,253)	(172,630)
Employee benefits expense	9	(40,579)	(45,475)
Depreciation and amortisation charges	13 & 14	(44,270)	(47,595)
Depletion of forest reserve	16	(6,542)	(6,879)
Impairment of and gains/(losses) on disposal of fixed assets	17	(189,685)	426
Impairment of financial assets	21	4	(751)
Other operating expenses	10	(98,390)	(102,988)
Operating expenses		(547,715)	(375,892)
OPERATING PROFIT/(LOSS)		**(176,512)**	**(20,817)**
Finance income		3,291	22
Finance costs	11	(13,763)	(13,049)
Change in fair value of financial instruments	25	231	-
Net exchange gains/(losses)		1,449	337
Impairment of and gains/(losses) on disposal of financial assets		-	161
NET FINANCE COST		**(8,792)**	**(12,529)**
Share of profit/(loss) of entities accounted for using the equity method		(11)	2
LOSS BEFORE TAX		**(185,315)**	**(33,344)**
Income tax	27	(9,564)	8,716
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**(194,879)**	**(24,628)**
Profit/(loss) for the year from continuing operations attributable to non-controlling int	19.7	(282)	742
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (**)		**(194,597)**	**(25,370)**
Earnings/(loss) per share attributable to owners of the parent		**€/share**	
Basic	12	**(0.80)**	**(0.10)**
Diluted	12	**(0.80)**	**(0.10)**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of profit or loss for the six months ended 30 June 2021.

(*) Unaudited figures.

(**) Unaudited figures. The condensed consolidated statement of profit or loss for the six months ended 30 June 2020 is presented exclusively for comparison purposes.

(***) 100% from continuing operations.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

€ 000	Note	1H21 (*)	1H20 (**)
GROUP PROFIT/(LOSS) FOR THE PERIOD (****)		**(194,879)**	**(24,628)**
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (***)		(60,026)	(14,279)
- Translation differences (***)		(3)	1
- Tax effect		4,688	3,570
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	**19**	**(55,341)**	**(10,708)**
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (***)		12,251	11,566
- Tax effect		(3,063)	(2,892)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	**19**	**9,188**	**8,674**
TOTAL COMPREHENSIVE INCOME		**(241,032)**	**(26,662)**
Attributable to:			
Parent		**(240,750)**	**(27,404)**
Non-controlling interests		**(282)**	**742**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021.

(*) Unaudited figures.

(**) Unaudited figures. The condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 is presented exclusively for comparison purposes.

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

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2021

€ 000	Issued capital	Own shares	Share premium	Reserves	Interim dividend	Consolidated profit/(loss) for the period	Translation differences	Valuation adjustments	Other equity instruments	**Total equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at 31 December 2019	221,645	(11,783)	170,776	235,689	(12,493)	9,209	10	31,969	11,661	**656,683**	18,250	**674,933**
Total recognised income/(expense)	-	-	-	-	-	(25,370)	1	(2,035)	-	**(27,404)**	742	**(26,662)**
Appropriation of prior-year profit/(loss)	-	-	-	(3,284)	12,493	(9,209)	-	-	-	**-**	-	**-**
Dividends distributed	-	-	-	-	-	-	-	-	-	**-**	(1,178)	**(1,178)**
Trading in own shares	-	(67)	-	(443)	-	-	-	-	-	**(510)**	-	**(510)**
Other movements	-	-	-	-	-	-	-	-	325	**325**	-	**325**
Balance at 30 June 2020 (**)	**221,645**	**(11,850)**	**170,776**	**231,962**	**-**	**(25,370)**	**11**	**29,934**	**11,986**	**629,094**	**17,814**	**646,908**
Balance at 31 December 2020	221,645	(11,856)	170,776	308,164	-	(26,432)	18	39,421	11,687	**713,423**	136,706	**850,129**
Total recognised income/(expense)	-	-	-	-	-	(194,597)	(3)	(46,150)	-	**(240,750)**	(282)	**(241,032)**
Appropriation of prior-year profit/(loss)	-	-	-	(26,432)	-	26,432	-	-	-	**-**	-	**-**
Dividends distributed	-	-	-	-	-	-	-	-	-	**-**	(625)	**(625)**
Trading in own shares	-	(1,954)	-	201	-	-	-	-	-	**(1,753)**	-	**(1,753)**
Non-controlling interests and other movements	-	-	-	(430)	-	-	-	56	(86)	**(460)**	431	**(29)**
Balance at 30 June 2021 (*)	**221,645**	**(13,810)**	**170,776**	**281,503**	**-**	**(194,597)**	**15**	**(6,673)**	**11,601**	**470,460**	**136,230**	**606,690**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2021.

(*) Unaudited figures.

(**) Unaudited figures. The condensed consolidated statement of changes in equity for the six months ended 30 June 2020 is presented exclusively for comparison purposes.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2021

€ 000	Note	1H21 (*)	1H20 (**)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		(185,315)	(33,344)
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	13 & 14	44,270	47,595
Depletion of forest reserve	16	6,542	6,879
Changes in provisions and other deferred expense (net)		(3,973)	5,380
Impairment of and gains/(losses) on disposals of intangibles, PP&E and financial assets	17	189,685	(587)
Adjustments for tariff shortfall/surplus and sector regulations	7	1,160	(22,062)
Finance income and costs (net)		8,862	12,874
Accrual of fixed costs		(496)	11,122
Grants taken to profit and loss		(616)	(640)
		245,434	**60,561**
Change in working capital			
Inventories	18	(108)	(9,363)
Trade and other receivables	21	(25,529)	(16,192)
Financial and other current assets	23	149	(1,695)
Trade payables, other payables and other liabilities	22	1,659	38,103
		(23,829)	**10,853**
Other cash flows from operating activities			
Interest paid, net (including right-of-use assets)		(10,199)	(9,739)
Income tax received/(paid)	27	251	1,011
		(9,948)	**(8,728)**
Net cash from operating activities		**26,342**	**29,342**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	14 & 16	(46,615)	(48,129)
Intangible assets	13	(913)	(2,478)
Financial assets	23	(129)	50
		(47,657)	**(50,557)**
Proceeds from disposals:			
Property, plant and equipment	14	409	122
Financial assets		-	290
		409	**412**
Net cash used in investing activities		**(47,248)**	**(50,145)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests		490	-
Buyback of own equity instruments	19.3	(35,285)	(21,289)
Disposal of own equity instruments	19.3	33,532	20,779
		(1,263)	**(510)**
Proceeds from/(repayments of) financial liabilities:			
Bonds (net of arrangement fees)	24	(4,682)	3
Increase/(decrease) in bank borrowings, net of issuance costs	24	(130,697)	138,194
Increase/(decrease) in other borrowings	24	(63)	(298)
Payments for right-of-use assets	15	(2,589)	(2,842)
Grants received, net		-	168
		(138,031)	**135,225**
Net cash (used in)/from financing activities		**(139,294)**	**134,715**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(160,200)**	**113,912**
Cash and cash equivalents - opening balance	23.1	532,620	222,214
Cash and cash equivalents - closing balance	23.1	372,420	336,126

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of cash flows for the six months ended 30 June 2021.

(*) Unaudited figures.

(**) Unaudited figures. The condensed consolidated statement of cash flows for the six months ended 30 June 2020 is presented exclusively for comparison purposes.

Notes to the condensed consolidated interim financial statements for the first half of 2021

Contents

Ence Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the condensed consolidated interim financial statements for the first half of 2021

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

1.1. Business activity

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

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

a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;

b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law;

c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their by-products. Forestry studies and projects.

d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

Ence Energía y Celulosa, S.A. and its group of companies (hereinafter, the "Group", "ENCE" or the "ENCE Group") has articulated its activities around two businesses:

The Pulp business:

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

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

Both mills use the kraft process to produce pulp. That productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin or biomass. The

Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra biomills) is 112 megawatts (MW).

The Group also manages 62,467 hectares of forest in Spain, 43,265 hectares of which it owns.

The Renewable Energy business:

ENCE has developed and acquired several power generation facilities that are fuelled by biomass obtained from agricultural and forestry sub-products; these plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 266 MW, broken down as follows:

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

In addition, the Group is in the process of applying for permits for a number of other renewable energy developments. ENCE currently has a pipeline of 513 MW of developments, for which grid access and locations are assured, of which 140 MW corresponds to three biomass plants and 373 MW to five photovoltaic power plants. ENCE expects to complete the permitting process for the three biomass plants and 240 MW of photovoltaic solar capacity during the first half of 2022 and for the remaining photovoltaic developments during the first half of 2023.

Other:

In December 2020, ENCE closed the sale of a minority interest, of 49%, in Ence Energía, S.L., its Renewable Energy business holding company, to Ancala Partners.

ENCE's bylaws and other public information are available on its corporate website, at www.ence.es.

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

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

The accompanying condensed consolidated interim financial statements were prepared from the accounting records of the Group companies and are presented under the International Financial Reporting Standards adopted by the European Union as of 30 June 2021 and, specifically, in accordance with IAS 34 - Interim

Financial Information, the standard which establishes the accounting principles applicable to condensed financial statements, as provided for in article 12 of Royal Decree 1362/2007, and factoring in the disclosures required under CNMV Circular 3/2018 (of 28 June 2018), issued by Spain's securities market regulator.

In keeping with IAS 34, the interim financial information has been prepared solely for the purpose of providing an update with respect to the last complete set of annual consolidated financial statements authorised for issue and accordingly focuses on new activities, events and circumstances arising in the six-month period and does not include all of the information and disclosures required in consolidated annual financial statements under IFRS. Accordingly, for adequate reader comprehension, the information included in these condensed consolidated interim financial statements should be read in conjunction with the Group's 2020 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 26 March 2021, which are available for consultation at www.ence.es.

The accompanying condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 28 September 2021.

1.3. Accounting policies applied and basis of consolidation

In drawing up the accompanying condensed consolidated interim financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2020 consolidated financial statements, as detailed in notes 2 and 3 thereof, except as outlined in sections 2 and 3 below.

1.4. Comparative information

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2020 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2021 (for consolidated statement of financial position purposes, the comparative information corresponds to 31 December 2020).

In analysing the main headings of the Group's statement of profit or loss, statement of comprehensive income and statement of cash flows, the reader should note that during the second half of 2020, Ence Energía y Celulosa, S.A. sold a 49% interest in Ence Energía, S.L., the holding company for its Renewable Energy business, retaining control over that investee; it also sold its shareholding in a 50-MW solar thermal power plant located in Puertollano. Lastly, any year-on-year analysis should also consider that indicated in note 3.

1.5. Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Note, however, that the production of pulp and the generation of energy require annual stoppages of between 10 and 15 days for maintenance purposes. The biomills in Pontevedra and Asturias carried out their annual maintenance stoppages during the first half of 2021 (in 2020, those stoppages took place during the second half of the year), as did most of the independent biomass power plants.

1.6. Materiality

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

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

There were no changes in Ence Energía y Celulosa, S.A.'s consolidation scope during the first half of 2021.

2. Accounting policies and measurement criteria

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

The accounting policies used to prepare these condensed consolidated interim financial statements are the same as those used to prepare the consolidated financial statements for the year ended 31 December 2020, except for the entry into effect, from 1 January 2021, of the following standard amendments and/or interpretations:

Standard	Contents	Applicable in annual periods beginning on or after
Standard amendments:		
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform (Phase 2)	Specific guidance as to how entities should recognise financial assets and liabilities for which the basis for determining their contractual cash flows changes as a result of this reform.	1 January 2021
Amendments to IFRS 4 - Deferral of the effective date of IFRS 9	Extension of the temporary exemption from applying IFRS 9 until 2023.	1 January 2021

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

2.2. Standards and interpretations issued but not yet effective

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

Standard	Contents	Applicable in annual periods beginning on or after
New standards:		
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2023
Standard amendments:		
Amendments to IFRS 3 - Reference to the Conceptual Framework	IFRS 3 is being updated to align the definitions of 'asset' and 'liability' in IFRS 3 - Business combinations with those contained in the Conceptual Framework and to introduce certain clarifications with respect to the recognition of contingent liabilities and assets.	1 January 2022
Amendment to IAS 16 - Proceeds before intended use	This amendment prohibits entities from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use.	1 January 2022
Amendment to IAS 37 Onerous contracts – Cost of fulfilling a contract	The amendment outlines which costs comprise the direct costs of fulfilling a contract.	1 January 2022
Annual Improvements to IFRSs, 2018-2020 Cycle	Narrow-scope amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022
Amendment to IAS 1 - Classification of liabilities as current or non-current	Clarifications with respect to the presentation of liabilities as current or non-current	1 January 2023
Amendments to IAS 8 - Definition of an accounting estimate	Modification and clarifications as to what constitutes a change in accounting estimate.	1 January 2023
Amendments to IAS 12 - Deferred taxes related to assets and liabilities arising from a single transaction.	Clarification as to when to recognise the deferred tax arising from certain transactions such as leases and dismantling obligations.	1 January 2023

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

3. Key accounting estimates and judgements

The preparation of these condensed consolidated interim financial statements for the first half of 2021 in accordance with generally accepted accounting principles requires the use of assumptions and estimates that affect the measurement of recognised assets and liabilities, the presentation of contingent assets and liabilities at the reporting date and the amounts of income and expense recognised during the reporting period. Actual results may differ significantly from these estimates.

The criteria used to calculate the estimates for these financial statements are the same as those used to prepare the ENCE Group's consolidated annual financial statements for 2020. The most significant changes in estimates resulting from application of the above criteria were:

- Useful lives of assets: the estimated useful lives of the assets used to produce pulp have been re-estimated, due to the investments made and the capacity added, by qualified ENCE staff with the assistance of an independent expert. That reassessment indicated that the useful lives of some of the assets recognised under "Plant" and "Equipment" have longer technical useful lives than initially allocated. Those assets' useful lives have been updated accordingly. Following the change, the estimated useful life of the assets recognised under "Plant - Other facilities" ranges between 12 and 20 years and that of those recognised under "Machinery" ranges between 8 and 20 years. The impact of this change in accounting estimate, with effect from 1 April 2021, was to reduce depreciation and amortisation charges by €2,482 thousand in the first half of 2021. The estimated impacts in the second half of 2021 and the following years, having factored in the asset depreciation charges recognised at the biomill in Pontevedra (refer to note 4), amount to approximately €2.2 million and €4 million, respectively.

As stipulated in IAS 34 - Interim financial reporting, the calculation of the amount included under "Income tax" in the statement of profit or loss for the six-month periods ended 30 June 2021 and 2020 was based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year.

Other significant sources of estimation uncertainty are disclosed in notes 4, 7 and 27.

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

4. Public-domain concession - The ENCE biomill in Pontevedra

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

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

Of the agreed-upon 60-year extension, 10 years are conditional upon ENCE investing an estimated €61 million at the biomill related with increasing its capacity and energy efficiency, reducing its water consumption, improving its environmental performance and blending the facility into its surroundings. That investment undertaking had been honoured in full by 2020, within the stipulated timeframe.

Appeals against the resolution, annulling the extension of the concession

As noted earlier, the Ministry of Agriculture, Food and the Environment, specifically its Directorate General of Coastal and Marine Sustainability, issued a resolution on 20 January 2016, granting an extension of the public-domain concession over the land on which ENCE's biomill in Pontevedra is located for a total of 60 years. That resolution was challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two associations: Greenpeace Spain and *Asociación Pola Defensa da Ría de Pontevedra* or the APDR.

Those challenges gave rise to four consecutive court proceedings before the National Appellate Court (Chamber for Contentious Administrative Proceedings), two of which were later rolled into one, leaving three. ENCE has appeared in court in all the cases in its capacity as co-defendant, arguing the legality of the actions of the Directorate General of Coastal and Marine Sustainability in extending the concession.

In all three lawsuits, the Directorate General of Coastal and Marine Sustainability later acquiesced to the claimants' claims by means of written deeds submitted during the pertinent proceedings on 6 March 2019, despite having maintained strenuously and unanimously throughout the proceedings that the ministerial resolution of 20 January 2016 was entirely lawful. ENCE has contested the acquiescence vehemently. At the time of acquiescence by the Directorate General of Coastal and Marine Sustainability , the cases brought by the APDR and Greenpeace Spain had been declared ready for sentencing (on 3 September 2019 and 26 April 2019, respectively)

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

More recently, the National Appellate Court's Chamber for Contentious Administrative Proceedings issued two rulings, one on 15 July 2021 and the other the following day, upholding the appeals lodged by Greenpeace Spain and the town council of Pontevedra and annulling the ministerial resolution of 16 January 2016 extending the concession, based on the Court's understanding that the resolution had failed to substantiate the fact that ENCE's biomill in Pontevedra necessarily has to be located on the public-domain coastal land or to provide reasons of public interest in defence of the biomill's current location.

The ruling on the APDR appeal is pending release but is expected to be aligned with those issued on 15 July.

ENCE lodged appeals against the rulings before the Supreme Court on 28 September 2021. ENCE has legitimate grounds for appealing the rulings as it was a defendant in the proceedings heard before the National Appellate Court and because it has an obvious legitimate interest in the outcome.

If the Supreme Court does not agree to allow the appeal preparation to go ahead or dismisses the appeals, the Appellate Court rulings would become final (notwithstanding the scope for lodging a complaint), triggering the start of the deliberations about when to execute the ruling. ENCE estimates that, in that event, execution of the sentences would imply the start of dismantling work at the biomill in 2023 or 2024.

Although ENCE believes there are legal grounds in defence of the lawfulness of the concession extension, which is why it has decided to appeal the Appellate Court sentences, because of the restrictive nature of the appeal proceedings and the specific circumstances surrounding the matter in dispute, in keeping with applicable accounting rules, the Group has recognised a range of impacts in these consolidated financial statements, as detailed further on in this note.

If, having exhausted all appeal options, the courts of justice uphold the annulment of the resolution of 20 January 2016, ENCE will seek damages from the state in respect of all the losses caused by the annulment, based on the grounds that it has no legal obligation to bear them.

On the one hand, in the wake of the concession extension resolution, ENCE, in its capacity as concessionaire, has executed all of the investment requirements upon which the extension of the concession for an additional 10 years was made conditional, along with other investments needed to keep the facility working properly and in a state of good repair throughout the anticipated term of the extension.

On the other hand, ENCE will additionally seek from the state, if the recent rulings are not overturned, all additional damages caused to it as a result of the early termination of the concession agreement.

Impact on ENCE's financial statements

In light of the National Appellate Court rulings, the specific circumstances surrounding this matter and the restrictive nature of the appeals process, ENCE has recognised the following impacts in its condensed consolidated interim financial statements for the six months ended 30 June 2021:

€ 000		**Statement of financial position**		**Charge / (Income) Statement of**
	Note	**Assets**	**Liabilities**	**profit or loss**
Provision for dismantling	14 & 27	42,267	(42,267)	-
Impairment of other intangible assets	13 & 17	(2,198)		2,198
Impairment of property, plant and equipment	14 & 17	(142,735)	-	142,735
Impairment of property, plant and equipment - Provision for dismantling	14 & 17	(42,267)	-	42,267
Impairment of biological assets	16 & 17	(2,479)	-	2,479
Impairment of inventories	17 & 18	(2,929)	-	2,929
Derecognition of deferred tax assets	27	(13,426)	-	13,426
Derecognition of right-of-use assets	15, 17 & 24.2	(27,701)	28,835	(1,134)
Provision for contractual obligations	26	-	(6,025)	6,025
Reversal of Environmental Pact provisions	26	(2,304)	16,750	(14,446)
		(193,772)	**(2,706)**	**196,478**

Moreover, if the Supreme Court does not agree to hear the appeal or upholds the National Appellate Court rulings, the Company would lose the concession and could therefore no longer continue to operate at the biomill, forcing it to close the facility. If that happens, the Company would be obliged to initiate a redundancy programme for the employees no longer needed, a measure that would affect most of the biomill's employees and some of the corporate services staff located in Pontevedra and certain other ENCE workplaces. That obligation has not been provided for in these condensed consolidated interim financial statements because the related recognition requirements, specifically including that of raising a valid expectation in those affected by the restructuring, have not been met.

Provision for decommissioning costs

ENCE, with the assistance of a renowned independent expert, has re-estimated the present value of the obligations assumed in connection with the dismantling of the pulp manufacturing plant located in Pontevedra and the remediation of the land on which it is located, assuming that that work would begin, in the event its appeals are declared inadmissible or are dismissed by the Supreme Court, in 2023 or 2024.

As a result, the Group has recognised an increase in assets under “Property, plant and equipment” and a provision for dismantling in the amount of €42,267 thousand (based on an estimated cost of €43 million and discount rates in the range of 1%-2%). Subsequently, the entirety of that balance was written down for impairment (refer to the next section).

Impairment of “Property, plant and equipment” and “Other intangible assets”

As a result of the above-mentioned rulings and the assessment of their potential consequences, ENCE has re-evaluated the recoverable amount of the Pontevedra biomill, which constitutes a standalone cash-generating unit (CGU).

The recoverable amount was calculated assuming the cessation of activity at the facility and was determined using the present value of the cash inflows and outflows estimated during the operation and dismantling periods, underpinned by the following assumptions: 1) sales prices in line with consensus sector forecasts and an exchange rate of around US$/€1.20; 2) pulp production and energy generation volumes in line with the facility’s installed capacity, adjusted for potential instability in the run-up to execution of the sentence; 3) cash costs in line with those observed in recent years; 4) a growth rate of 8.5%-10%; and 4) a pre-tax discount rate of 8.5%-10%; and 5) extraordinary cash outflows associated with the cession of activity at the facility.

The recoverable amount so calculated yields a negative value, prompting the Group to write down the facility's intangible assets in full, in the amount of €2,198 thousand, and the productive assets associated with the Pontevedra biomill, including the estimated dismantling and land restoration costs, in the amounts of €142,735 thousand and €42,267 thousand, respectively, all with a charge against “Impairment of and gains/(losses) on disposal of fixed assets” in the consolidated statement of profit or loss for the six months ended 30 June 2021.

The allocation of the Pontevedra biomill CGU impairment charges by asset class is as follows:

	€ 000
Software	1,219
Other intangible assets	979
Right-of-use assets - Land	3,790
Buildings	12,781
Plant and machinery	112,560
Plant - Provision for dismantling	42,267
Work in progress	4,072
Other PP&E	9,532
	187,200

The Group has conducted independent sensitivity analysis with respect to the key inputs. An increase in production or sales prices of 5% or a reduction in the cash cost of 5%, or indeed any other similar changes to key inputs, would not have any impact whatsoever on the impairment losses recognised.

Impairment losses on other assets

The potential discontinuation of business in Pontevedra would imply earmarking 100% of the biological assets available in northern Spain to the Navia biomill, an option that would entail higher transport costs in respect of certain tracts of forest.

The Group has tested those assets for impairment using the methodology and assumptions outlined in notes 3.4 and 3.5 of the Group's consolidated financial statements for the year ended 31 December 2020. It estimated those assets' realisable value to be below their carrying amount by €2,479 thousand and accordingly recognised an impairment loss in that amount under "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss for the six months ended 30 June 2021.

The Group has also recognised an impairment loss of €2,929 thousand to cover the potential reduction in the value of biomill spare parts that cannot be used in other facilities under "Other operating costs - Change in trade and other provisions" in the consolidated statement of profit or loss for the six months ended 30 June 2021.

Deferred tax assets

ENCE has also re-assessed its recognised deferred tax assets, mainly unused tax losses and unused tax credits, to verify its ability to utilise them within the allowed timeframes.

The taxable income projections for the tax consolidation group made up of all the pulp business assets, modelled assuming the possible discontinuation of pulp production in Pontevedra within the timeframe already indicated, and, for the rest of the business's CGUs using the assumptions outlined in note 19 of the Group's consolidated financial statements for the year ended 31 December 2020, are not sufficient to permit the utilisation in full of the Group's recognised deferred tax assets within a period of 10 years. As a result, the Group has derecognised previously recognised deferred tax assets in the amount of €13,426 thousand with a charge against "Income tax expense" in the consolidated statement of profit or loss for the six months ended 30 June 2021. Moreover, the Group has not recognised any deferred tax assets in connection with the impairment losses and provisions recognised as a result of the rulings annulling the extension of the Pontevedra biomill public-domain concession in the amount of €196.5 million.

Right-of-use assets

The term of the concession, a right-of-use asset allocated to this same CGU, has been re-estimated to reflect the length of time for which the biomill is expected to continue to operate. As a result, the Group has derecognised the asset and the associated lease liability in the amounts of €27,701 thousand and €28,835 thousand, respectively. The remaining right-of-use asset, in the amount of €3,790 thousand, was also fully written down for impairment, with a charge against "Impairment of and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss for the six months ended 30 June 2021.

Provision for contractual obligations

The Group has recognised provisions totalling €6,025 thousand with a charge against "Other operating expenses" in the consolidated statement of profit or loss for the six months ended 30 June 2021 to cover costs deriving under surviving contractual obligations and onerous contracts derived from the potential discontinuation of business at the Pontevedra biomill.

Provision for environmental and community work agreements

As indicated in note 35 of the Group's consolidated financial statements for the year ended 31 December 2020, in 2016, the Group entered into an Environmental Pact and Collaboration Agreement with the Environmental Department of the regional government of Galicia, under which it committed, among other things, to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability, specifically assuming commitments that implied investments and contributions of up to €176 million (environmental upgrade and job creation investment projects at the Pontevedra biomill in the amount of €61 million; the creation of three new bioenergy centres and the construction of a power generation plant fuelled by biomass in Galicia with estimated investments of €20 million and €74 million, respectively; and contributions designed to improve the quality of living of the residents of Galicia totalling €21 million) and the rollout of a framework agreement for engaging the population in the vicinity of the Bay area in the benefits of ENCE's corporate social responsibility policy with an annual stipend of up to €3 million during the 60-year life of the concession (Community Plan).

Effectiveness of those commitments was contingent upon the effectiveness, subsistence and non-contentious enjoyment of ENCE's concession in Pontevedra, so that the sentences issued by the National Appellate Court void the commitments contemplated in the Environmental Pact and the Community Plan.

The Group has accordingly re-estimated its obligations under the Environmental Pact and Community Plan and reversed the provisions recognised as of 30 June 2021 to cover those commitments in the amounts of €15,250 thousand and €1,500 thousand, respectively (before the related tax effect of €2,304 thousand), as those obligations have been suspending by virtue of the National Appellate Court rulings. The reversals have been recognised in the consolidated statement of profit or loss for the six months ended 30 June 2021 under "Other operating expenses".

5. Impact of Covid-19

Personal health and safety against the backdrop of the pandemic has been and remains the number-one priority guiding ENCE's management team in managing the Group's operations.

The initiatives implemented have proven effective, preventing the spread of the virus in our workplaces and enabling business continuity throughout the health crisis. Those initiatives have notably included the performance of frequent tests to detect the presence of the virus, a specific COVID Protocol which is applicable across all of ENCE's workplaces and activities and is binding upon everyone who forms part of the "ENCE family" and the creation and implementation of a COVID Passport app to ensure safe and automated access to our places of work. The Group has also prioritised cybersecurity in the wake of the increase in remote working, paving the way for safe and incident-free operations.

ENCE has been able to maintain all its jobs throughout the pandemic and has not had to avail of the various furlough schemes at any time. Nor have there been any changes in ENCE's long-term remuneration plans or its defined contribution pension commitments.

The pulp market has been fully operational throughout the COVID-19 pandemic, registering growth in demand and very significant increases in benchmark BHKP prices in Europe, which have risen from approximately USD680/tonne (a 10-year low) during the first nine months of 2020 to USD1,140/tonne as of the June 2021 close. Covid-19 has not had a significant impact on the USD/EUR exchange rate.

Throughout the health emergency, ENCE has continued to apply its credit assessment, counterparty-specific risk limit determination and collection management policies and procedures, thanks to which it has not sustained any significant increase in non-performance or major delays in collections.

Nor has the pandemic affected ENCE's Renewable Energy business. Sales prices, however, particularly during the early stages of the pandemic when demand contracted sharply, were lower than initially expected, although that situation has reverted already in 2021.

Therefore, there are no significant sources of uncertainty derived from COVID-19 with respect to either the Pulp or the Renewable Energy businesses that could call the going-concern approach into question. Nor has the pandemic given rise to indications that the pandemic may have affected or may affect significantly the long-term outlook for either business or, by extension, the measurement or classification of ENCE's non-financial assets, expected credit losses, or the recoverability of its tax assets.

As for the Group's financial situation, in the Pulp business ENCE took specific measures to hone its liquidity position to put the business in a position of greater strength in the event that the effects of the pandemic worsened or lasted for longer than expected. Those measures received a major boost from the sales transactions closed at the end of 2020, specifically the sale of a minority interest in Ence Energía, S.L. (Renewable Energy business holdco) and the sale of Ence Energía Solar, S.L. U. (solar thermal power plant in Puertollano), leaving the Group in a very strong financial situation as of 30 June 2021 (notes 23 and 24). Elsewhere, the financing arranged by the Renewable Energy business entails compliance with certain covenants related with the Group's borrowing levels, ability to generate cash and equity position; a minimum cash sweep is also required. The Group has met all those covenants to date.

ENCE incurred extraordinary operating costs and capital expenditure in relation to the pandemic during the first half of 2021 in the amounts of €974 thousand and €113 thousand, respectively.

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

The main form of support received from the Spanish government consisted of state-guaranteed financing extended by the ICO, Spain's official credit institute, which was arranged at market rates of interest. The ICO borrowings were repaid in full during the first half of 2021 (note 24).

Lastly, COVID-19 has not caused and is not currently expected to cause ENCE to breach any contractual obligations with either its customers or its suppliers. Nor has it resulted in any hedge inefficiency.

6. Operating segments

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

Pulp business:

This business line encompasses the following reportable segments:

- Pulp. This segment includes the pulp production and sale activities carried out at the biomills located in Pontevedra (Galicia) and Navia (Asturias) and the power co-generation and generation activities related to the production of pulp and integrated therein using the parts of timber that cannot be transformed in pulp, essentially lignin and biomass, as inputs.

- Forest Assets & Other. This operating segment essentially includes the forest cover that supplies raw materials that are used in the pulp production process (forest assets located in northern Spain) or sold to third parties (forest assets located in southern Spain), as well as residual forest activities.

  Until 31 December 2020, the Group reported "Forest Assets" and "Forest Services & Other" separately. Given the scant materiality for the latter segment, the two have been rolled into one segment called "Forest Assets & Other" from 1 January 2021.

The Renewable Energy business:

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

In order to expand the disclosures provided in this note, the appendices attached to these condensed consolidated interim financial statements include the condensed consolidated statement of financial position at 30 June 2021 and 31 December 2020 and the condensed consolidated statement of profit or loss and the condensed consolidated statement of cash flows for the six-month periods then ended broken down between the Pulp and Renewable Energy businesses.

6.1. Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2021 and 2020, based on the management information reviewed regularly by senior management:

1H21	€ 000						
	PULP business						
Statement of profit or loss	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:							
Third parties	284,433	1,979	-	286,412	86,014	-	372,426
Inter-segment revenue	1,852	7,810	(8,151)	1,511	1	(1,512)	-
Total revenue	**286,285**	**9,789**	**(8,151)**	**287,923**	**86,015**	**(1,512)**	**372,426**
Earnings:							
EBITDA (*)	**24,588**	**7,431**	**-**	**32,019**	**17,965**	**-**	**49,984**
Operating profit/(loss)	**(174,216)**	**(2,678)**	**-**	**(176,894)**	**(1,172)**	**1,554**	**(176,512)**
Finance income	3,379	-	(634)	2,745	1,134	(588)	3,291
Finance costs	(7,414)	(638)	634	(7,418)	(6,933)	588	(13,763)
Hedging derivatives	-	-	-	-	231	-	231
Net exchange gains/(losses)	1,455	-	-	1,455	(6)	-	1,449
Impairment of financial instruments	-	-	-	-	-	-	-
Share of profit/(loss) of investees accounting for using equity method	-	(11)	-	(11)	-	-	(11)
Income tax	(13,715)	148	-	(13,567)	596	3,407	(9,564)
Profit/(loss) for the period	**(190,511)**	**(3,179)**	**-**	**(193,690)**	**(6,150)**	**4,961**	**(194,879)**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	601	(883)	(282)
Profit/(loss) attributable to owners of the parent	**(190,511)**	**(3,179)**	**-**	**(193,690)**	**(6,751)**	**5,844**	**(194,597)**

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the "Second-quarter 2021 earnings report" appended to the Interim Group Management Report.

The table below details the earnings performance by operating segment in the first six months of 2021 and 2020, adapted to integrate "Forest Assets" and "Forestry Services & Other" into a single segment called "Forest Assets & Other":

1H20	€ 000						
	PULP business						
Statement of profit or loss	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:							
Third parties	264,345	1,722	-	266,067	95,896	-	361,963
Inter-segment revenue	1,763	6,654	(6,613)	1,804	60	(1,864)	-
Total revenue	**266,108**	**8,376**	**(6,613)**	**267,871**	**95,956**	**(1,864)**	**361,963**
Earnings:							
EBITDA (*)	**2,914**	**5,960**	**-**	**8,874**	**26,857**	**-**	**35,731**
Operating profit/(loss)	**(26,257)**	**(1,208)**	**-**	**(27,465)**	**4,708**	**1,940**	**(20,817)**
Finance income	2,032	-	(694)	1,338	3	(1,319)	22
Finance costs	(6,711)	(696)	694	(6,713)	(7,655)	1,319	(13,049)
Hedging derivatives	-	-	-	-	-	-	-
Net exchange gains/(losses)	360	-	-	360	(23)	-	337
Impairment of financial instruments	-	161	-	161	-	-	161
Share of profit/(loss) of investees accounted for using the equity method	-	2	-	2	-	-	2
Income tax	8,248	(237)	-	8,011	765	(60)	8,716
Profit/(loss) for the period	**(22,328)**	**(1,978)**	**-**	**(24,306)**	**(2,202)**	**1,880**	**(24,628)**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	742	-	742
Profit/(loss) attributable to owners of the parent	**(22,328)**	**(1,978)**	**-**	**(24,306)**	**(2,944)**	**1,880**	**(25,370)**

(*) This measure is not disclosed in the consolidated statement of profit or loss and is not defined in IFRS. For its definition and a reconciliation with the amounts reported in the consolidated statement of profit or loss, refer to the "Second-quarter 2021 earnings report" appended to the Interim Group Management Report.

7. Revenue

Revenue corresponds to revenue from contracts with customers. The breakdown of Group revenue by segment in the first six months of 2021 and 2020 is as follows:

	1H21			1H20		
€ 000	Pulp	Renewable Energy	Consol. Group	Pulp	Renewable Energy	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	497,767	-	497,767	519,820	-	519,820
Energy sales volume (MWh) (**)	398,337	657,455	1,055,792	412,169	612,945	1,025,114
Revenue						
Pulp	231,599	-	231,599	217,042	-	217,042
Electric energy	43,222	85,644	128,866	37,433	95,432	132,865
Timber and forestry services	11,591	370	11,961	11,592	464	12,056
Inter-segment sales	1,511	1	-	1,804	60	-
	287,923	**86,015**	**372,426**	**267,871**	**95,956**	**361,963**

(*) The difference between the figures presented under "Consolidated Group" for 1H21 and 1H20 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2021 and 2020 in the amounts of €1,512 thousand and €1,864 thousand euros, respectively.

The revenue associated with the generation of electricity includes recognition of the "Adjustment for tariff shortfall/surplus" (the "Tariff Adjustment") concept contemplated in electricity sector regulations in order to correct for the impact of deviations between the estimates made by the regulator, essentially with respect to pool prices, for the purpose of calculating remuneration for operations (Ro), and the pool price that ultimately materialises. That correction is made by the regulator at the end of each 3-year regulatory stub period and is settled, whether payable or receivable, through the remuneration for investment (Ri) concept, generally, during the remaining regulatory useful life of each facility. Spain's securities market regulator, the CNMV, is currently reviewing the accounting criteria for the recognition, measurement and presentation of the Tariff Adjustment as applicable to the renewable energy sector. Changes in the accounting criteria applied as a result of that review could affect these condensed consolidated interim financial statements and the comparable disclosures.

At 30 June 2021, ENCE had contracted the sale of 147,969 MWh of electricity under a physical bilateral contract for delivery in 2021. The price negotiated ranges between €45.22 and €49.25/MWh.

During the first six months of 2021, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €92 million (1H20: €95.8 million).

7.1. Geographic revenue split

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

Percentage of pulp sales	1H21	1H20
Germany	24.0	22.0
Spain	14.4	19.1
Poland	13.3	12.6
Italy	9.3	11.8
France	7.6	7.0
UK	6.4	6.1
Turkey	5.2	4.0
Sweden	3.3	1.1
Romania	2.7	1.8
Other	13.8	14.5
	100.0	**100.0**

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

In the first half of 2021, one customer accounted for 10% of revenue from pulp sales.

7.2. Energy sector regulatory framework

Several pieces of legislation with an impact on ENCE's energy business were enacted in Spain during the first half of 2021, notably including Royal Decree-Law 12/2021 (24 June 2021), adopting urgent measures in the area of energy taxation and power generation and addressing management of the regulation fee and water usage levy; the Climate Change and Energy Transition Act (Law 7/2021, of 20 May 2021); and an energy sector watchdog resolution enacting new operating rules governing the intraday and day-ahead electricity markets for the purpose of alignment with the European bidding and matching limits (CNMC Resolution dated 6 May 2021).

8. Cost of sales

Cost of sales in the first six months of 2021 and 2020 breaks down as follows:

€ 000	1H21 Pulp	1H21 Renewable Energy	1H21 Consolidated Group	1H20 Pulp	1H20 Renewable Energy	1H20 Consolidated Group
Purchases	116,208	28,713	144,574	133,114	25,741	157,971
Change in raw materials and other inventories	4,895	(6,840)	(1,945)	(6,800)	(5,150)	(11,950)
Other external expenses	16,083	10,706	25,624	18,265	9,324	26,609
	137,186	**32,579**	**168,253**	**144,579**	**29,915**	**172,630**

(*) The difference between the figures presented under "Consolidated Group" for 1H21 and 1H21 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2021 and 2020 in the amounts of €1,512 thousand and €1,864 thousand euros, respectively.

This heading mainly includes the purchase of timber, timber logging and transport services provided by third parties, chemical products, fuel and other variable costs.

9. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in the first six months of 2021 and 2020 is provided below:

€ 000	1H21 Pulp	1H21 Renewable Energy	1H21 Consolidated Group	1H20 Pulp	1H20 Renewable Energy	1H20 Consolidated Group
Wages and salaries	24,924	4,623	29,547	29,458	4,865	34,323
Social Security	7,080	1,498	8,578	7,153	1,372	8,525
Contributions to pension plans	1,008	121	1,129	1,104	109	1,213
Other benefit expense	502	87	589	537	73	610
	33,514	6,329	39,843	38,252	6,419	44,671
Long-term remuneration plans	387	(126)	261	613	5	618
Termination benefits	273	202	475	163	23	186
	34,174	**6,405**	**40,579**	**39,028**	**6,447**	**45,475**

9.1. Headcount figures

The average Group headcount during the first halves of 2021 and 2020:

	Average headcount during the period					
	1H21			1H20		
Job category	Men	Female	Total	Men	Female	Total
Officers	48	12	60	54	14	68
Managers	61	18	79	64	18	82
Team leaders	69	4	73	72	4	76
Skilled professionals	195	125	320	210	119	329
Clerical staff	13	43	56	13	43	56
Operators	309	25	334	295	13	308
Support and upgrade staff	50	49	99	49	47	96
Maintenance	131	1	132	131	1	132
	876	**277**	**1,153**	**888**	**259**	**1,147**

At 30 June 2021, the Board of Directors was made up of 13 members, eight men and five women.

9.2. Long-term remuneration plans

2019-2023 long-term bonus plan

The maximum payout under this plan, considering the current beneficiaries, 96 professionals who work in the Pulp business, and assuming 100% target delivery, amounts to €17,463 thousand. Of that total, 48.89% corresponds to key management personnel (note 28).

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

The charge accrued in this respect during the first half of 2021 amounted to €243 thousand and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€170 thousand before the related tax effect; note 19.5); and ii) "Non-current provisions" in the consolidated statement of financial position (note 26) in respect of the portion to be settled in cash (€73 thousand).

The Company's Board of Directors agreed in December 2020 to early-settle the plan with respect to the 27 Renewable Energy business beneficiaries as of 31 December 2020. The corresponding settlements were made on 15 July 2021 and entailed the outlay of €41 thousand of cash and €53 thousand-worth of shares.

2021-2025 long-term bonus plan

At a meeting held on 17 March 2021, the Board of Directors of Ence Energía, S.L., the holding company for the universe of companies devoted to the generation of electricity at standalone power plants (the "Renewable Energy" business) approved a multi-year Bonus Plan for 2021 to 2025, with the aim of providing the management team with a performance incentive, foster Group sustainability, reinforce management orientation towards delivery of the objectives set down in the 2019-2023 business plan and help retain talent.

For the bonuses to accrue, it is vital that the minimum level of target delivery be met (minimum thresholds), measured using the criteria associated with the various targets, and for the beneficiaries to still be providing their services to the Renewable Energy business (duly registered with the Social Security) on the vesting date, subject to the exceptions customary in incentive schemes such as these.

In order to determine the final amount of the bonus payments, the criteria associated with the various targets and their respective weightings are the following:

i. 50% of the bonus pool is tied to the level of delivery of the synthetic accumulated EBITDA targets for the Renewable Energy business between 2021 and 2025.

ii. 25% of the bonus pool is tied to the development of the new power generation plants contemplated in the unit's business plan, specifically based on an assessment of their commissioning dates and the amount of capex incurred.

iii. 15% of the bonus pool is tied to delivery of EBITDA not contemplated in the current scope of the Renewable Energy business or the new plants contemplated in the business plan.

iv. 10% is tied to the level of delivery of 10 targets related with the Renewable Energy business's sustainability effort and performance.

The plan covers a total of 33 professionals from the Renewable Energy business and the maximum cost, assuming a delivery rate of 100%, is €3,525 thousand.

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

The Group accrued €18 thousand of expense in respect of this plan in the first half of 2021; that expense has been recognised under "Non-current provisions" in the accompanying consolidated statement of financial position (note 26).

10. Other operating expenses

The breakdown of this heading of the condensed consolidated statement of profit or loss for the six months ended 30 June 2021 and 2020 by ENCE's business lines:

€ 000	1H20			1H20		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	68,990	26,757	94,826	64,063	25,502	88,461
Use of emission allowances (note 26)	2,148	1,395	3,543	1,435	855	2,290
Taxes other than income tax	1,489	929	2,418	1,123	926	2,049
Electricity generation levy	3,056	6,203	9,259	2,634	6,690	9,324
Change in trade and other provisions	2,292	52	2,344	(1,694)	58	(1,636)
Other non-recurring operating expenses (notes 4 & 26)	(14,000)	-	(14,000)	2,500	-	2,500
	63,975	**35,336**	**98,390**	**70,061**	**34,031**	**102,988**

(*) The difference between the figures presented under "Consolidated Group" for 1H21 and 1H20 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2021 and 2020 in the amounts of €921 thousand and €1,104 thousand euros, respectively.

10.1. External services

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

€ 000	1H21 Pulp	1H21 Renewable Energy	1H21 Consolidated Group	1H20 Pulp	1H20 Renewable Energy	1H20 Consolidated Group
Transport, freight and business expenses	22,313	548	22,861	22,314	411	22,725
Utilities	18,933	1,337	20,234	15,536	1,109	16,644
Repairs and upkeep	8,464	10,846	19,310	4,803	9,127	13,930
Independent professional services	3,251	233	3,484	188	183	371
Insurance premiums	1,846	1,111	2,957	1,963	986	2,949
Banking and similar services	726	311	1,037	2,663	(154)	2,509
Rent and fees	175	152	327	913	279	1,191
Advertising, publicity and public relations	228	13	241	1,710	7	1,718
Research and development costs	29	-	29	102	-	102
Other services	13,025	12,206	24,346	13,871	13,554	26,322
	68,990	**26,757**	**94,826**	**64,063**	**25,502**	**88,461**

(*) The difference between the figures presented under "Consolidated Group" for 1H21 and 1H20 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2021 and 2020 in the amounts of €921 thousand and €1,104 thousand euros, respectively.

ENCE has arranged director and officer liability insurance which covers all its directors and executives against damages caused by acts or omissions in the course of discharging their duties. In 1H21, this policy cost the Group €80 thousand euros.

11. Finance costs

The breakdown of this heading of the consolidated statement of profit or loss in the first six months of 2021 and 2020 was as follows:

€ 000	1H21 Pulp	1H21 Renewable Energy	1H21 Total	1H20 Pulp	1H20 Renewable Energy	1H20 Total
Convertible bonds	2,468	-	2,468	2,422	-	2,422
Notes	-	1,613	1,613	-	1,622	1,622
Loans, credit facilities & other	2,636	1,637	4,273	2,928	2,231	5,159
Fees and other charges	1,394	1,444	2,838	599	1,803	2,402
Capitalised borrowing costs (note 16)	(115)	(6)	(121)	(104)	(506)	(610)
Inter-business finance costs	-	1,196	608	-	1,319	-
Right-of-use assets (note 15)	782	18	800	781	155	936
	7,165	5,902	12,479	6,626	6,624	11,931
Hedging derivatives:						
Settlement of IR swap (note 25)	253	1,031	1,284	87	1,031	1,118
	253	1,031	1,284	87	1,031	1,118
	7,418	**6,933**	**13,763**	**6,713**	**7,655**	**13,049**

(*) The difference between the figures presented under "Consolidated Group" for 1H21 and 1H20 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2021 and 2020 in the amounts of €588 thousand and €1,319 thousand euros, respectively.

12. Earnings per share

The basic and diluted earnings per share calculations for the six months ended 30 June 2021 and 30 June 2020 are shown below:

Earnings per share	Unit	1H21	1H20
Consolidated profit/(loss) for the period attributable to owners of the parent	€ 000	(194,597)	(25,370)
Weighted average ordinary shares outstanding (*)	Millions of shares	242.4	242.9
Weighted average diluted shares	Millions of shares	263.8	264.1
Basic earnings per share	**€**	**(0.80)**	**(0.10)**
Diluted earnings per share	**€**	**(0.80)**	**(0.10)**

(*) Number of shares outstanding less those held as treasury stock

The diluted earnings per share figures do not include the potential ordinary shares originating from the Group's convertible securities - 21.2 million shares - as their inclusion has an anti-dilutive effect.

The potential shares related with delivery of the 2019-2023 long-term bonus plan targets (note 9), estimated at 0.9 million at 30 June 2021, similarly have anti-dilutive effects and have therefore been omitted for diluted EPS calculation purposes.

13. Goodwill and other intangible assets

The reconciliation of the carrying amounts of goodwill and the various components of intangible assets and amortisation and impairment in the first half of 2021 and 2020 is as follows:

1H21	€ 000 Balance at 01/01/2021	Additions/ (charges)	Transfers	Balance at 30/06/2021
Goodwill	2,737	-	-	2,737
Software	30,669	308	52	31,029
Development costs	18,452	-	-	18,452
Prepayments	4,771	606	(90)	5,287
Electric power generation rights	21,045	-	-	21,045
Other intangible assets	6,117	-	-	6,117
Total cost	**83,791**	**914**	**(38)**	**84,667**
Software	(22,337)	(1,341)	38	(23,640)
Development costs	(12,900)	(242)	-	(13,142)
Electric power generation rights	(643)	(463)	-	(1,106)
Other intangible assets	(1,413)	(69)	-	(1,482)
Total amortisation	**(37,293)**	**(2,115)**	**38**	**(39,370)**
Impairment (note 17)	**(4,595)**	**(2,323)**	**-**	**(6,918)**
Total	**41,903**			**38,379**

Goodwill at 30 June 2021, in the amount of €1,617 thousand (net of impairment losses of €1,120 thousand) originated from the acquisition of ENCE's shareholdings in Loma, S.A. and Energías de la Mancha ENEMAN, S.A., the companies that own 16-MW biomass-powered energy plants in Jaén and Ciudad Real, respectively; the two facilities constitute the cash generating unit to which that goodwill has been allocated.

14. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 1H21 and 1H20 is as follows:

1H21	€ 000 Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 30/06/2021
Forest land	83,794	-	-	-	-	83,794
Other land	17,837	-	-	(3,521)	4	14,320
Buildings	157,150	364	-	4,348	-	161,862
Plant and machinery (*)	1,838,120	45,198	-	12,900	2	1,896,220
Other PP&E	61,911	42	-	1,321	-	63,274
Prepayments and PP&E in progress	23,320	19,251	(17)	(15,048)	-	27,506
Right-of-use - Land (note 15)	42,305	843	(29,854)	-	-	13,294
Right-of-use assets - Other assets (note 15)	9,887	969	(1,643)	-	-	9,213
Total cost	**2,234,324**	**66,667**	**(31,514)**	**-**	**6**	**2,269,483**
Buildings	(67,972)	(2,079)	-	-	-	(70,051)
Plant and machinery	(1,009,990)	(37,372)	-	-	(2)	(1,047,364)
Other PP&E	(37,067)	(1,212)	-	-	-	(38,279)
Right-of-use - Land (note 15)	(3,246)	(766)	2,065	-	-	(1,947)
Right-of-use assets - Other assets (note 15)	(3,527)	(1,120)	1,321	-	-	(3,326)
Total depreciation	**(1,121,802)**	**(42,549)**	**3,386**	**-**	**(2)**	**(1,160,967)**
Impairment (notes 4 & 17)	**(19,646)**	**(185,001)**	**103**	**-**	**-**	**(204,544)**
Carrying amount	**1,092,876**					**903,972**

(*) Includes the asset recognised as a result of the re-estimation of the Pontevedra dismantling provision (notes 4 and 26).

14.1. Additions

The Group invested in its productive facilities in both the Pulp and Renewable Energy businesses with a view to making its production processes more efficient, boosting power generation and making them more environmentally friendly. In addition, the Group has re-estimated the amount of the Pontevedra biomill dismantling provision (note 4). It breaks down as follows: That capital expenditure breaks down as follows:

	€ 000 30/06/2021	31/12/2020
Pulp business:		
Pontevedra (*)	50,290	14,454
Navia	6,702	29,355
Other	-	340
Renewable Energy business:		
46-MW Huelva	1,479	10,718
41-MW Huelva	559	1,773
50-MW Puertollano	1,236	10,940
Other	4,589	12,491
Subtotal	**64,855**	**80,071**
Right-of-use assets (note 15)	1,812	5,330
	66,667	**85,401**

(*) Includes the asset recognised as a result of the re-estimation of the Pontevedra dismantling provision (notes 4 and 26).

Capital commitments

At 30 June 2021, the Group was contractually committed to €14.9 million of capital expenditure in its Pulp business and €6.8 million in its Renewable Energy business, amounts to be incurred in 2021 and 2022.

14.2. Insurance cover

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

15. Right-of-use assets

15.1. Right-of-use assets

The reconciliation of the carrying amounts of the various components of "Right-of-use assets" and the corresponding accumulated depreciation charges at the beginning and end of the first half of 2021:

		€ 000			
1H21	Note	Balance at 01/01/2021	Additions/(charges)	Derecognitions	Balance at 30/06/2021
Cost:					
Pontevedra biomill land	4 & 14	33,351	-	(29,561)	3,790
Forest leases	14	8,954	843	(293)	9,504
Other (*)	14	9,887	969	(1,643)	9,213
Cost		**52,192**	**1,812**	**(31,497)**	**22,507**
Depreciation:					
Pontevedra biomill land	4 & 14	1,488	372	(1,860)	-
Forest leases	14	1,758	394	(205)	1,947
Other (*)	14	3,527	1,120	(1,321)	3,326
Depreciation		**6,773**	**1,886**	**(3,386)**	**5,273**
Impairment	4 & 17	-	**3,790**	-	**3,790**
Carrying amount		**45,419**			**13,444**

(*) Mainly includes offices and vehicles.

15.2. Lease liabilities

The reconciliation of the opening and closing balances of the various items reflecting the Group's obligations under the lease agreements recognised under IFRS 16 at the beginning and end of the first half of 2021:

		€ 000					
1H21	Note	Balance at 01/01/2021	Additions	Installments paid	Transfers	Interest	Balance at 30/06/2021
Current debt		2,477	-	(2,599)	3,209	800	3,754
Non-current debt		43,489	1,820	10	(3,209)	-	13,079
	24.2	**45,966**	**1,820**	**(2,589)**	**-**	**800**	**16,833**

ENCE believes it is not potentially exposed to significant future cash outflows that are not reflected in the measurement of its lease liabilities.

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

The table below depicts the impact of the Group's leases on "Depreciation and amortisation" and "Finance costs" in the consolidated statement of profit or loss for the first half of 2021:

		€ 000		
1H21	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	11 & 14	372	634	785
Other land	11 & 14	394	121	521
Other assets	11 & 14	1,120	45	1,283
		1,886	**800**	**2,589**

(*) In the first half of 2021, the Group capitalised €121 thousand of borrowing costs within the carrying amount of its forest cover.

The expenses recognised in connection with short-term leases and variable lease payments not included in the measurement of the lease liability (note 10.1) amounted to €327 thousand.

16. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". The movement in this heading during the first half of 2021:

1H21	€ 000 Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Balance at 30/06/2021
Pulp business:				
Forest cover	120,516	1,601	(4,401)	117,716
Depletion of forest reserve	(46,831)	(6,421)	2,399	(50,853)
Impairment (notes 4 & 17)	(2,651)	(3,381)	1,665	(4,367)
	71,034	**(8,201)**	**(337)**	**62,496**
Renewable Energy business:				
Forest cover	2,619	12	(20)	2,611
Depletion of forest reserve	(2,254)	(121)	-	(2,375)
Impairment (note 17)	(129)	-	20	(109)
	236	**(109)**	**-**	**127**
	71,270			**62,623**

In the first half of 2021, the Group planted 90 hectares of land and carried out forest preservation and protection work on 44,378 hectares, work which entailed investments totalling €1,613 thousand.

In the first half of 2021, the Group capitalised €515 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs.

17. Impairment of non-financial assets

The impairment losses recognised by the Group against non-financial assets at 30 June 2021 are shown in the table below:

	Note	€ 000 01/01/2021	Additions/ (charges)	Amounts used	Amounts reversed	30/06/2021
Goodwill	13	995	125	-	-	1,120
Other intangible assets	4 & 13	3,600	2,198	-	-	5,798
Property, plant and equipment	4 & 14	19,646	185,001	-	(103)	204,544
Biological assets	4 & 16	2,780	3,381	(1,685)	-	4,476
Inventories						
Spare parts	4 & 18	15,269	3,288	-	(9)	18,548
Net realisable amount & other	18	977	288	-	(1,223)	42
		43,267	**194,281**	**(1,685)**	**(1,335)**	**234,528**

ENCE ceased producing pulp at the Huelva industrial complex in 2014, which has meant that some of its industrial assets are no longer used for business purposes. The assets being dismantled as a result have been measured at their recoverable amount on the basis of an appraisal conducted by an independent expert in 2019; that amount is residual. As a result of that appraisal, those assets had been written down for impairment by €13.8 million at 30 June 2021.

The breakdown of "Impairment of and gains/(losses) on disposal of fixed assets" in the 1H21 and 1H20 consolidated statements of profit or loss is shown below:

€ 000	Note	1H21 Impairment losses (*)	1H21 Gains/(losses) on derecognition/ sale	1H21 Total
Goodwill	13	125	-	125
Other intangible assets	13	2,198	-	2,198
Property, plant and equipment	4 & 14	184,898	(1,036)	183,862
Biological assets	4 & 16	3,381	119	3,500
		190,602	**(917)**	**189,685**

(*) Additions to impairment net of reversals. Charge / (Income)

18. Inventories

The breakdown of the Group's inventories at 30 June 2021 and 31 December 2020 is as follows:

€ 000	30/06/2021	31/12/2020
Timber and biomass	17,434	15,281
Other raw materials	2,981	3,389
Spare parts (*)	7,657	10,736
Emission allowances	3,555	6,015
Finished goods and work in progress	15,442	17,014
Prepayments to suppliers	111	373
Impairment (note 17)	(42)	(977)
	47,138	**51,831**

(*) Presented net of impairment allowances of €18,548 thousand and €15,269 thousand at 30 June 2021 and 31 December 2020, respectively (note 4).

There are no restrictions on title to inventories.

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

18.1. Emission allowances

The reconciliation of the opening and closing Group-owned emission carbon allowance balances for the six months ended 30 June 2021 is provided in the next table:

	1H21	
	Number of allowances	€ 000
Opening balance	345,225	6,015
Allocations	36,132	1,693
Delivered (*)	(216,463)	(4,153)
Saldo final	**164,894**	**3,555**

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

During the first half of 2021, the Group received emission allowances free of charge corresponding to 36,132 tonnes of carbon dioxide valued at €1,693 thousand arising from prior-year reallocations.

The new national allocation plan for 2021-2025 was published in the first half of 2021. Under that plan, the Group expects to receive allowances equivalent to 112,568 tonnes of carbon emissions during second half of 2021.

"Current provisions" on the liability side of the consolidated statement of financial position includes €3,543 thousand in this respect at 30 June 2021, corresponding to the liability derived from the consumption of 107,712 tonnes of carbon in the first half of 2021 (note 26).

19. Equity

19.1. Issued capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2021 was represented by 246,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

Since ENCE's shares are represented by the book entry method, it is not possible to ascertain its precise shareholder structure. The table below presents significant direct and indirect holdings in the share capital and financial instruments issued by ENCE at 30 June 2021 and year-end 2020 as reported by the holders of those securities to the official registers of Spain's securities market regulator, the CNMV for its acronym in Spanish, or to the Company itself, in keeping with Spanish Royal Decree 1362/2007:

	%	
Shareholder	30/6/2021	31/12/2020
Juan Luis Arregui / Retos Operativos XXI, S.L.	29.44	29.44
Víctor Urrutia / Asúa Inversiones, S.L.	7.29	7.29
Jose Ignacio Comenge / La Fuente Salada S.L.	6.38	6.38
Bestinver Gestión S.G.I.I.C. S.A.	-	3.12
Own shares	1.59	1.38
Directors with ownership interest of < 3%	0.52	0.55
Free float	54.78	51.84
Total	**100.00**	**100.00**

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

19.2. Reserves

Below is the reconciliation of the opening and closing reserve balances for the first six months of 2021 and 2020:

	Parent company reserves							
€ 000	Legal reserve	Cancelled capital reserve	Capitalisation reserve	Voluntary reserves	Retained earnings (prior-year losses)	Reserves in fully-consolidated investees	Reserves in equity-accounted investees	**Total reserves**
Balance at 31 December 2019	45,049	10,566	9,234	98,838	(43,668)	115,670	-	235,689
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	5,426	-	38,095	(46,797)	(8)	(3,284)
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	(443)	-	-	-	(443)
Other movements	-	-	-	-	-	-	-	-
Balance at 30 June 2020	**45,049**	**10,566**	**14,660**	**98,395**	**(5,573)**	**68,873**	**(8)**	**231,962**
Balance at 31 December 2020	45,049	10,566	14,660	99,141	(5,573)	144,329	(8)	308,164
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	5,041	33,220	5,573	(70,195)	(71)	(26,432)
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	201	-	-	-	201
Non-controlling interests and other movements	-	-	-	(881)	-	451	-	(430)
Balance at 30 June 2021	**45,049**	**10,566**	**19,701**	**131,681**	**-**	**74,585**	**(79)**	**281,503**

19.3. Own shares

The reconciliation of "Own shares" at the beginning and end of the six-month period ended 30 June 2021 is as follows:

	1H21	
	No. of shares	€ 000
Opening balance	3,393,738	11,856
Purchases	9,472,812	35,285
Sales	(8,962,689)	(33,331)
Closing balance	**3,903,861**	**13,810**

The own shares held by the Company at 30 June 2021 represent 1.59% of its share capital (1.38% at 31 December 2020) and were carried at €3,513 thousand (€3,054 thousand at 31 December 2020). Those shares were acquired at an average price of €3.54 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2019-2023 bonus plan" (note 9.2).

ENCE has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which ENCE's shares are traded, within the limits established at the Annual General Meeting and prevailing legislation, specifically, CNMV Circular 2/2019 on liquidity agreements.

19.4. Valuation adjustments

The breakdown of "Valuation adjustments" at 30 June 2021 is provided below:

€ 000	30/06/2021			31/12/2020		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve	54,102	13,509	40,593	54,102	13,509	40,593
Hedging transactions (note 25)						
IR swap	(1,849)	(462)	(1,387)	(3,584)	(896)	(2,688)
Energy sales hedges	(13,542)	(995)	(12,547)	(3,984)	(996)	(2,988)
Pulp prices	(32,475)	(190)	(32,285)	(760)	(190)	(570)
Foreign exchange	(1,397)	(350)	(1,047)	6,764	1,690	5,074
	4,839	**11,512**	**(6,673)**	**52,538**	**13,117**	**39,421**

19.5. Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" at the beginning and end of the first half of 2021 is as follows:

€ 000	Balance at 01/01/2021	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 30/06/2021
Convertible bonds (note 24)	10,431	(446)	-	233	10,218
Long-term incentive plan (note 9.2)	1,256	-	170	(43)	1,383
	11,687	**(446)**	**170**	**190**	**11,601**

19.6. Corporate credit ratings

On 6 April 2021, Moody's affirmed Ence's Ba3 rating with a stable outlook. Moody’s expects that the improvement in pulp prices in 2021, coupled with deleveraging, will allow ENCE to reduce its credit ratios to levels that are compatible with its current credit rating. The credit rating agency also highlighted the Company’s strong liquidity position following the disposals closed in the Renewable Energy business towards the end of 2020. The ruling on the Pontevedra concession (note 4) could give rise to a ratings downgrade.

19.7. Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the first half of 2021 is as follows:

30 June 2021 Company	€ 000 Balance at 01/01/2021	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 30/06/2021
Energía de la Loma, S.A.	4,706	417	(147)	-	4,976
Energías de la Mancha Eneman, S.A.	5,312	808	(455)	-	5,665
Bioenergía Santamaría, S.A.	66	(28)	(23)	-	15
Ence Energía, S.L.U. and subsidiaries	126,622	(1,479)	-	431	125,574
Total	**136,706**	**(282)**	**(625)**	**431**	**136,230**

20. Financial instruments by category

The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings at 30 June 2021:

€ 000	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 30/06/2021
Investments accounted for using the equity method		-	-	22	22
Derivative financial instruments	25	-	-	-	-
Trade and other receivables	21	58,861	-	-	58,861
Other financial assets	23.2	17,674	-	23,948	41,622
Cash and cash equivalents	23.1	372,420	-	-	372,420
Total financial assets		**448,955**	**-**	**23,970**	**472,925**
Derivative financial instruments	25	-	54,224	-	54,224
Trade payables	22	235,385	-	-	235,385
Other accounts payable	29	42,182	-	-	42,182
Notes and other marketable securities	24.1	236,159	-	-	236,159
Bank borrowings	24.1	239,979	-	-	239,979
Other financial liabilities	24.2	81,211	-	-	81,211
Total financial liabilities		**834,916**	**54,224**	**-**	**889,140**

The derivative financial instruments are valued using level 2 inputs, i.e., different quoted price variables that are observable either directly or indirectly using valuation techniques. The fair value of the contingent consideration (note 23) is measured using level 3 inputs based on the terms of the sale agreement and the Group's knowledge of the business and its exposure to the current economic climate.

The convertible bonds issued by ENCE were trading at 98.65% of par at 30 June 2021. The fair value of the rest of the Group's financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts.

21. Trade and other receivables

The breakdown at 30 June 2021 and 31 December 2020 of "Trade and other receivables" in the condensed consolidated statement of financial position is as follows:

€ 000	30/06/2021	31/12/2020
Trade receivables:		
Pulp	31,670	19,204
Renewable Energy	22,454	34,117
Other items	2,258	4,382
Trade receivables, group companies and related parties (note 29)	369	138
Sundry receivables	6,267	4,214
Impairment	(4,157)	(4,160)
	58,861	**57,895**

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €22,081 thousand at 30 June 2021. A portion of that balance - €15,415 thousand - has been monetised by means of non-recourse factoring facilities.

21.1. Factoring facilities

The Group had drawn down €69,667 thousand under non-recourse factoring agreements with an aggregate limit of €135,000 thousand at 30 June 2021 (€88,352 thousand drawn against €135,000 thousand, respectively, at 31 December 2020). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.10% and 1.80% on the receivables discounted under those agreements.

The trade receivables not discounted under those facilities at year-end 2020 are expected to be collected from the corresponding debtors, rather than via sale.

22. Trade and other payables

The breakdown at 30 June 2021 and 31 December 2020 of “Trade and other payables” in the consolidated statement of financial position is as follows:

€ 000	30/06/2021	31/12/2020
Trade and other payables	201,923	193,402
Trade payables, group companies and related parties	1,755	632
Payable to fixed-asset suppliers	27,441	53,697
Employee benefits payable	3,555	10,005
Adjustments for tariff shortfall/surplus	711	1,215
	235,385	**258,951**

The Group had drawn down €116,874 thousand under non-recourse reverse factoring agreements with an aggregate limit of €169,600 thousand at 30 June 2021 (€132,111 thousand and €165,111 thousand, respectively, at 31 December 2020). The balances arising from the use of reverse factoring facilities are classified as trade accounts payable. The reverse factoring facilities arranged by ENCE do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not earn interest for the banks that extend the facilities.

23. Financial assets

23.1. Cash and cash equivalents

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

The Group had €372,420 thousand of cash and cash equivalents at 30 June 2021 (€298,193 thousand of which corresponding to the Pulp business and €74,227 thousand to the Renewable Energy business).

In assessing the availability of the Group's cash, readers should note that the financing taken on by the Renewable Energy business requires it to maintain a minimum cash balance of €10 million, a sum that could rise to €30 million depending on the extent to which it uses the credit facility contemplated in tranche 4 of its financing (note 24), which was fully undrawn at both 30 June 2021 and 31 December 2020.

23.2. Other financial assets

This heading of the consolidated statement of financial position at 30 June 2021 includes the liquidity agreement designed to support trading in ENCE's shares (note 19.3), the contingent consideration derived from the sale of a minority shareholding in Ence Energía, S.L. and of the investment in Ence Energía Solar, S.L., both in 2020, the balance pertaining to the "Adjustment for tariff shortfall/surplus" (note 7), deposits, security deposits and other short- and long-term assets.

24. Borrowings

24.1. Bank borrowings and capital markets issues

The breakdown of bank borrowings at 30 June 2021 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

30 June 2021 - € 000	Limit	Drawn down	Maturity 2021	2022	2023	2024	2025
Borrowings - Pulp business							
Notes issued	145,123	145,123	-	-	145,123	-	-
Revolving credit facility	70,000	-	-	-	-	-	-
Bank loans	125,000	125,000	1,961	36,213	61,559	25,267	-
Arrangement fees	-	(874)	(285)	(492)	(97)	-	-
Notes issued	-	(874)	(285)	(492)	(97)	-	-
Bank loans	-	-	-	-	-	-	-
Interest and coupons payable and other	-	1,128	1,128	-	-	-	
	340,123	**270,377**	**2,804**	**35,721**	**206,585**	**25,267**	**-**
Borrowings - Renewable Energy business							
Notes issued	93,000	93,000	-	-	-	-	93,000
Revolving credit facility	20,000	-	-	-	-	-	-
Bank loans	115,150	115,150	14,700	29,400	27,067	33,733	10,250
Tranche A	48,000	48,000	7,000	14,000	11,667	9,333	6,000
Tranche B	51,000	51,000	6,000	12,000	12,000	21,000	-
Tranche E	16,150	16,150	1,700	3,400	3,400	3,400	4,250
Arrangement fees	-	(2,389)	(491)	(804)	(579)	(370)	(145)
Notes issued	-	(1,090)	(196)	(330)	(261)	(190)	(113)
Bank loans	-	(1,299)	(295)	(474)	(318)	(180)	(32)
Interest and coupons payable and other	-	-	-	-	-	-	
	228,150	**205,761**	**14,209**	**28,596**	**26,488**	**33,363**	**103,105**
	568,273	**476,138**	**17,013**	**64,317**	**233,073**	**58,630**	**103,105**

Each of ENCE's two core businesses finances itself independently of the other. There are no significant cross-guarantees or other recourse mechanisms.

At 30 June 2021, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

Borrowings - Pulp business

Convertible bond issue and revolving credit facility

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

The main terms and conditions of the issue:

Issue size:	€160,000,000
Face value:	€100,000
Ranking:	Senior unsecured
Issue date	05/03/2018
Maturity:	05/03/2023
Coupon:	1.25%
Effective interest rate:	1.58%
Conversion price (*):	7.5517
Conversion premium:	40%
Conversion ratio (shares / bond):	13,242
Maximum no. of shares to be issued:	21,187,282
Potential dilution (% increase in share cap	8.60%
Traded on:	Frankfurt stock exchange
ISIN:	XS1783932863
Issuance costs:	€2,075,000

(*) The conversion price changed to 8.0901 on 1 July 2021

During the first half of 2021, ENCE bought back bonds with a par value of €4,900 thousand for €4,706 thousand. The purchase price was equivalent to 95.58% of par.

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

Loans

As of 30 June 2021, ENCE had arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan in a combined amount of €125 million; those loans fall due in 2023 and 2024. A portion of those loans, with a face value of €90 million, accrues interest at fixed rates ranging between 1.75% and 1.80%. The remainder mainly accrue interest at EURIBOR plus a spread of between 1.43% and 1.90%. Those loans are guaranteed by several Group companies belonging to the Pulp business (none of the Renewable Energy companies are guarantors).

During the first half of 2021, ENCE repaid €102 million of loans; most were prepayments designed to boost Group liquidity in the wake of heightened uncertainty in the wake of COVID-19.

Other financing

During the first half of 2021, the Group cancelled €15,958 thousand of reverse factoring facilities which on account of their characteristics were classified within borrowings.

Borrowings - Renewable Energy business

Recourse borrowings

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

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

The key terms of those loans are as follows:

	€ 000			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	50,000	50,000	Dec. 2025 (ii)	3.45%
Tranche 1	42,000	42,000	Dec 2024	1.75% - 3.25%
Tranche 2	6,000	6,000	Dec. 2025 (ii)	3.45%
Tranche 3 (iii)	51,000	51,000	Dec 2024	1.75% - 3.25%
Tranche 4	20,000	-	Dec 2024	1.25% - 2.75%
Senior notes (iv) and (v)	43,000	43,000	Dec. 2025 (ii)	3.45%
Tranche 5 (v)	16,150	16,150	Dec 2025	1.75% - 3.25%
	228,150	**208,150**		

(i) 6-month EURIBOR plus a spread. For the bank loan tranches, the spread varies depending on the leverage ratio (net debt / EBITDA) in the Renewable Energy business (as defined in the financing agreement).

(ii) Due in a single bullet payment on the date indicated.

(iii) Financed the construction of the 46-MW Huelva plant.

(iv) The notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).

(v) Financed the construction of the 50-MW Puertollano plant.

24.2. Other financial liabilities

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

		Maturity						
30 June 2021 - € 000	Drawn down	2021	2022	2023	2024	2025	Beyond	Total
Other financial liabilities - Pulp business								
Financing granted by public organisms	64,378	3,843	5,848	8,070	9,089	8,935	28,593	60,535
Liabilities for right-of-use assets (note 15)	15,460	1,746	3,160	2,947	988	1,403	5,216	13,714
	79,838	**5,589**	**9,008**	**11,017**	**10,077**	**10,338**	**33,809**	**74,249**
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 15)	1,373	418	293	216	158	79	209	955
	1,373	**418**	**293**	**216**	**158**	**79**	**209**	**955**
	81,211	**6,007**	**9,301**	**11,233**	**10,235**	**10,417**	**34,018**	**75,204**

25. Derivative financial instruments

The breakdown of this consolidated statement of financial position heading at 30 June 2021 and 31 December 2020, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
€ 000	30/06/2021	31/12/2020	30/06/2021	31/12/2020	30/06/2021	31/12/2020
Cash flow hedges:						
IR swap	-	-	4,285	6,187	2,941	3,353
IR swap arrangement fee	-	-	(416)	(585)	-	-
Currency hedges	-	6,764	-	-	1,397	-
Energy sales price hedges	-	-	-	-	13,542	3,984
Pulp price hedges	-	-	-	-	32,475	760
Total	**-**	**6,764**	**3,869**	**5,602**	**50,355**	**8,097**

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in 1H21 and 1H20 are shown below:

Thousands of euros - gain/(loss)	1H21	1H20
Impact on operating profit:		
Currency hedges	3,076	(9,518)
Pulp price hedges	(10,161)	-
Energy sales price hedges	(3,882)	-
Energy purchase price hedges	-	(930)
Subtotal	(10,967)	(10,448)
Impact on net finance costs:		
IR swap (note 11)	(1,284)	(1,118)
Total	**(12,251)**	**(11,566)**

During the first half of 2021, the Group settled hedges arranged over the sales prices for 256,237 MWh of electricity and 111,000 tonnes of pulp, incurring outlays of €3,882 thousand and €10,161 thousand, respectively.

All of the derivatives arranged by ENCE qualify for hedge accounting.

25.1. Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 30 June 2021:

Underlying	Maturity	Strike price Call	Strike price Put	Notional amount (USD m)
EUR/USD	3Q21	1.165	1.222	75.0
EUR/USD	4Q21	1.191	1.246	75.0
				150.0
EUR/USD	1Q22	1.181	1.232	85.5
EUR/USD	2Q22	1.179	1.220	80.0
				165.5

The contracts outstanding at 30 June 2021 cover approximately 41% and 46% of forecast pulp sales in the second half of 2021 and the first half of 2022, respectively.

Those instruments presented a negative market value of €1,397 thousand at 30 June 2021 (a positive market value of €6,764 thousand at year-end 2020).

The sensitivity of operating profit and equity to dollar appreciation or depreciation against the euro as a result of the impact on the derivative financial instruments arranged by ENCE at 30 June 2021 is shown below:

€ 000	**Change in USD/EUR exchange rate**	**Operating profit (-)/+**	**Impact on equity (-)/+**
	5% depreciation	6,555	4,916
	5% appreciation	(8,330)	(6,247)

25.2. Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at 30 June 2021 are shown below:

€ 000	Fair value (*)	Notional amounts at reporting date: 2021	2022	2023	2024
Renewable Energy business	7,226	158,688	134,038	111,371	3,188

(*) Balance payable.

There were inefficiencies in the interest rate derivatives in the first half of 2021, prompting the Group to recognise a gain of €231 thousand under “Change in fair value of financial instruments” in the consolidated statement of profit or loss for the six months ended 30 June 2021.

The sensitivity of equity to interest rate movements as a result of the impact on the derivative financial instruments arranged by the Group at 30 June 2021 is shown below:

€ 000	Change in interest rates	Impact on equity (-)/+
	50bp increase	(1,979)
	50bp decrease	2,012

25.3. Pulp price hedges

In 2020, ENCE arranged swaps to hedge the sales price of a volume of hardwood pulp equivalent to approximately 20% of forecast 2021 sales. It has hedged second-half 2021 sales of 136,200 tonnes at a price ranging from Us$770-795/tonne.

Those instruments presented a negative fair value of €32,475 thousand at 30 June 2021 (a negative fair value of €760 thousand at year-end 2020).

The sensitivity of earnings to pulp price changes as a result of the impact on the derivative financial instruments arranged by ENCE at 30 June 2021 is shown below:

€ 000	Change in pulp prices	Impact on income (-)/+	Impact on net profit (-)/+
	5% price increase	(6,384)	(4,788)
	5% price decrease	6,384	4,788

25.4. Energy sales price hedges

In 2020, the Group wrote commodity swaps covering the price at which it sells the power it generates to the national electricity system (OMEL), due settlement in 2021. The breakdown of the hedges outstanding at 30 June 2021:

Maturity	Amount (MWh)	Price locked in euros
3Q21	130,272	43.44
4Q21	130,331	43.44
	260,603	

Those instruments presented a negative fair value of €13,542 thousand at 30 June 2021 (a negative fair value of €3,984 thousand at year-end 2020).

The sensitivity of earnings to energy price changes as a result of the impact on the derivative financial instruments arranged by ENCE at 30 June 2021 is shown below:

€ 000	Change in energy prices	Impact on income (-)/+	Impact on net profit (-)/+
2020	5% price increase	(1,243)	(932)
	5% price decrease	1,243	932

26. Provisions, impairment charges, guarantees and contingent liabilities

26.1. Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions for the six months ended 30 June 2021 is as follows:

	€ 000			
First-half 2021	Balance at 01/01/2021	Additions/ (charges)	Derecognitions or decreases	Balance at 30/06/2021
Non-current:				
Employee commitments (note 9.2)	715	91	-	806
Provision for dismantling (note 4)	-	42,267	-	42,267
Provision for contractual obligations (note 4)	-	6,025	-	6,025
Other	2,117	-	(649)	1,468
	2,832	**48,383**	**(649)**	**50,566**
Current				
Emission allowances (notes 10 & 18.1)	4,152	3,543	(4,152)	3,543
Pontevedra Environmental Pact (note 4)	14,000	1,250	(15,250)	-
Other provisions	11,202	-	(269)	10,933
	29,354	**4,793**	**(19,671)**	**14,476**

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

26.2. Guarantees extended to third parties

At 30 June 2021, several financial institutions had extended the various Group companies the following guarantees:

	€ 000
Government permitting of renewable energy power generation plants	59,046
Subsidised loans (note 24.2)	12,556
Receivable discounting lines	7,500
Tax claims	4,748
Execution of forest projects	4,744
Pontevedra concession	3,050
Electricity market	4,301
Environment related	1,604
Payments to suppliers	6,529
Other	2,087
	106,165

The directors do not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group other than those recognised in these interim condensed consolidated financial statements.

26.3. Contingent assets and liabilities

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

Energy sector regulations in Spain – Energy crops

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. Those new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to embark on the process of abandoning the management of its energy crop plantations in an orderly fashion, including the termination of leases, with the attendant impairment of the investments it had made, requiring the recognition of the corresponding provisions.

As a result, on 14 July 2014, ENCE and certain Group companies (hereinafter, the “ENCE Group companies”), presented a claim for damages from the Spanish state before the then Ministry of Industry, Energy and Tourism. The award sought was ultimately quantified at €63,300 thousand on the basis of reports compiled by an independent expert.

On 17 February 2021, the ENCE Group companies presented a new written deed before the now Ministry of Ecological Transition and Demographic Challenges, currently tasked with energy matters, urging the state to issue an express ruling on the claim filed, with a view to evaluating next steps. It has yet to receive a response.

Any decision by the Ence Group companies to initiate legal proceeding in connection with this matter would imply, as stipulated in Royal Decree-Law 17/2019, adopting urgent measures for the necessary adaptation of the remuneration parameters affecting the electricity system: (i) forgoing the possibility of applying an exceptional remuneration regime from 1 January 2020 (return of 7.398% vs. 7.09%) for the facilities entitled to the supplementary remuneration regime in place prior to 13 July 2013 during the regulatory period that began on 1 January 2020; and (ii) the obligation to repay the difference, already received, between the two above-mentioned returns.

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

Several ENCE Group companies have paid and subsequently claimed (firstly before the tax authorities and subsequently before the National Economic-Administrative Court) the reimbursement of sums unduly paid in the returns corresponding to the generation levy in 2013-2017, based on the grounds that the tax in question is not environmental in purpose and the fact that the regulations governing the tax go against European Community law. On 3 March 2021, the European Union Court of Justice ruled that the regulation governing this tax is compatible with EU law, prompting the withdrawal of the ongoing lawsuits.

27. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2021 and 31 December 2020 are shown below:

	30/06/2021		31/12/2020	
€ 000	Taxes receivable	Taxes payable	Taxes receivable	Taxes Payable
Non-current:				
Deferred tax assets	64,415	-	71,952	-
Deferred tax liabilities	-	19,838	-	21,661
Total	**64,415**	**19,838**	**71,952**	**21,661**
Current:				
VAT	12,113	5,202	-	2,195
Current tax on profits for the year	115	7,272	962	5,635
Electricity generation levy	-	5,927	101	10,174
Sundry other taxes	886	3,584	209	8,027
Total	**13,114**	**21,985**	**1,272**	**26,031**

The statutory income tax rate in Spain is 25%.

27.1. Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position heading at the beginning and end of the first half of 2021 is as follows:

€ 000	Deferred tax assets: Unused tax losses and tax credits (*)	Deferred tax assets: Hedging instruments	Deferred tax assets: Other deferred tax assets	Deferred tax assets: Total	Deferred tax liabilities
Opening balance	50,968	2,691	18,293	71,952	21,661
2020-2021 corporate income tax	907	-	1,894	2,801	-
Change in fair value of hedging instruments	-	551	-	551	(1,133)
Unused tax credits	4,842	-	-	4,842	-
Pontevedra biomill concession (note 4)	(13,426)	-	(2,305)	(15,731)	-
Other	-	-	-	-	(690)
	43,291	**3,242**	**17,882**	**64,415**	**19,838**

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

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

The deferred tax assets recognised correspond mainly to asset impairment charges, provisions, interest expense that will be deductible in future years, unused tax credits and tax losses and differences between depreciation charges for accounting and tax purposes due mainly to the temporary limit on the deductibility of depreciation charges introduced in 2013 and 2014.

The deferred tax assets have been recognised in the condensed consolidated statement of financial position because the future taxable income projections, based on the analyst community's consensus forecasts for pulp prices, current cost levels and capacity and the prevailing regulatory framework, make it reasonably probable that the Group will be able to utilise the deferred tax assets recognised by it at 30 June 2021 within a timeframe of approximately 10 years. In making that recoverability assessment, management factored in the outlook for the Group's earnings and the deadline and other legal limits with respect to their utilisation. At 30 June 2021, the Group had unused tax losses of €56.5 million in Spain and €0.7 million in Portugal for which it had not recognised deferred tax assets. Moreover, the Group has not recognised any deferred tax assets in connection with the impairment losses and provisions recognised as a result of the rulings annulling the extension of the Pontevedra biomill public-domain concession (note 4).

27.2. Years open to inspection and tax inspections

All of the Group's relevant decisions have been analysed internally and also by external advisors, in 2021 and in prior years, and the conclusion reached is that those decisions are lawful and based on reasonable interpretations of tax regulations. The existence of uncertainties in income taxes is also assessed; the general criterion used by the Group is to account for such uncertainties when determining its taxes if it is not probable that the tax authority will accept an uncertain tax treatment. ENCE has not identified any uncertain tax positions requiring assessment.

28. Director and key management personnel pay and other benefits

Note 33 of the Group's 2020 consolidated annual financial statements details the agreements in force regarding the remuneration and other benefits provided to the members of the Company's Board of Directors and its senior management team.

At the Annual General Meeting on 31 March 2020, ENCE's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2020-2022 (retrievable from www.ence.es). The cap on annual remuneration payable to the directors as a whole in their capacity as such, as set down in that policy, is €1.9 million.

The table below summarises the most significant items of remuneration and benefits accrued in the first six months of 2021 and 2020:

	€ 000	
	1H21	1H20
Board of Directors:		
Remuneration for Board membership:		
Fixed remuneration	353	357
Per diems & other	414	437
	767	**794**
Remuneration for performance of executive duties	**336**	**636**
Key management personnel:		
Total remuneration	**1,090**	**2,171**

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

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

The members of the Parent's Board of Directors did not receive any remuneration whatsoever for sitting on the boards of other Group subsidiaries or associates during the first half of 2021.

The Group companies have not extended ENCE's directors any advances or loans. The directors did not conclude any transactions with ENCE or any of its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis in the first half of 2021.

ENCE has not assumed any pension or alternative insurance related obligations vis-a-vis its directors in their capacity as such, except for its Chairman & CEO, the latter in connection with the performance of his executive duties.

The changes in the composition of the Board of Directors in the first half of 2021 are outlined below: (i) Javier Arregui Abendivar, Oscar Arregui Abendivar and Gorka Arregui Abendivar joined the Board of Directors as proprietary directors and María de la Paz Robina Rosat joined as independent director; and (ii) Retos Operativos XXI, S.L., Turina 2000, S.L., Carlos del Álamo Jiménez, Javier Echenique Landiribar and Juan Luis Arregui Ciarsolo stepped down from the Board of Directors.

The members of the Board of Directors did not receive any termination benefits in the first half of 2021.

Key management personnel comprise, exclusively, the officers who report directly to the Board of Directors or the Chairman & CEO, along with any other executive the Board of Directors decides to designate as such, together with the head of the Internal Audit area. There were no changes in the key management personnel team in the first half of 2021.

29. Transactions with Group companies and related parties

29.1. Transactions with investees accounted for using the equity method

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

€ 000	30/06/2021 Créditos a Corto Plazo	Current receivables (note 21)	Current payables (note 22)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	296	722
	36	**296**	**722**

The transactions completed with investees accounted for using the equity method during the first half of 2021:

€ 000	1H21 Rendering of services	Operating expenses
Capacitación de Servicios Forestales, S.L.	341	837
	341	**837**

29.2. Transactions with non-controlling interests

The balances outstanding with non-controlling interests at 30 June 2021 are as follows:

€ 000	30/06/2021 Non-current financial assets (note 23)	Current financial assets (note 23)	Current receivables (note 21)	Non-current receivables	Current borrowings	Current payables (note 22)
Ancala Partners LLP	13,172	9,194	-	36,835	608	-
San Miguel Arcángel, S.A.	-	-	-	-	-	717
Aceites y Energía Santamaría, S.A.	-	-	73	-	-	316
	13,172	**9,194**	**73**	**36,835**	**608**	**1,033**

The transactions completed with non-controlling interests during the first half of 2021:

	1H21			
	Sales	Purchases	Operating expenses	Finance costs (note 11)
Ancala Partners LLP	-	-	-	608
San Miguel Arcángel, S.A.	-	2,620	-	-
Aceites y Energía Santamaría, S.A.	334	1,295	156	-
	334	**3,915**	**156**	**608**

29.3. Transactions with directors

ENCE has no balances outstanding with its directors at 30 June 2021. Nor did it conduct any transactions with them during the first half of the year, except as indicated in note 28 in relation to remuneration and other director benefits.

30. Environmental management

Environmental commitment and management principles

Respect for the environment is intrinsic to ENCE's purpose and is embedded in the commitments and rules of engagement set down in its Code of Conduct and Sustainability Policy. ENCE's environmental commitment is borne out in its business activities, which consist of making sustainable use of natural resources to produce special pulp and renewable energy.

In addition to helping protect the environment through its business activities, ENCE is committed to embedding environmental considerations into its manufacturing processes, going beyond strict compliance with the legal thresholds stipulated in its facilities' environmental permits and using best available techniques and continuous improvement methodology to reduce the environmental impact of its activities.

That commitment translates into significant environmental investments, notable among which those made in emissions treatment systems in order to continue to reduce the environmental footprint of its business activities and enhance its relationship with its surroundings, so earning a social licence to operate.

The amount of capital expenditure incurred in each line of business during the first half of 2021 is shown below:

	€ 000
Pulp business	1,013
Renewable Energy business	1,879
	5,784

In short, ENCE strives to continually improve its environmental performance, an effort that is spearheaded by its senior management and shared by the entire organisation. However, ENCE is aware that its environmental footprint transcends its direct operations, which is why it extends its environmental commitment to every link in its value chain: from its forestry activities to its pulp production and energy generation activities, emphasising the potential environmental impacts of its supply chain and urging its suppliers to similarly meet the highest standards of environmental excellence.

Compliance and best available techniques

Although ENCE is committed to outperforming its legal requirements, its environmental commitment is underpinned, first and foremost, by rigorous and exhaustive compliance with prevailing legislation, which establishes the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources, coupled with adaptation for the best available techniques (BAT) defined in the pulp and paper sector BREF (Best Available Techniques Reference Document) and the BAT for large combustion plants.

The integrated environmental or sector permits held by each of the biomills and energy plants establish the facility operating requirements from an environmental standpoint. They are designed to prevent, or at least minimise, and control air, water and soil emissions. They set emission limits for each facility based on their respective best available techniques, as well as surveillance plans in respect of all relevant environmental parameters. ENCE avails of all measures within its reach to meet or even surpass the limits set in the permits and reports to the corresponding authorities on its performance in this respect on a timely basis. ENCE's integrated permits are on public record in the corresponding regional government registers.

Environmental management systems and toolkit

The key lines of initiative in environmental protection and care set down in ENCE's Code of Conduct and Sustainability Policy are crystallised in the Company's environmental management policy. ENCE's environmental management efforts go beyond compliance with prevailing legislation.

ENCE implemented its total quality management (TQM) programme as a model for cultural and management practice transformation, which addresses matters related to quality, health and safety, environmental protection and pollution prevention as one, a decade ago. Under the scope of that model it has defined its environmental policy, which sets the Group's general objectives in this arena and a series of key improvement targets that are designed to reduce the various plants' main environmental impacts. Those targets are reviewed annually, framed by the continuous improvement philosophy, with a view to making progress on each facility's most significant environmental aspects.

In addition, ENCE has developed an integrated management system with the overriding goal of ensuring that all of its activities are carried out under the scope of the management policy established by senior management and the defined targets are met. The management system, which is certified by an accredited organism which audits it annually, is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement. The management system has been implemented in accordance with ISO 9001 (quality management), ISO 14001 (environmental management), ISO 45001 (occupational health and safety management) and ISO 50001 (energy management), among other standards. The system currently encompasses the Pontevedra and Navia biomills and the energy operations centres in Huelva and Puertollano.

In addition, the two biomills and the Huelva operations centre were pioneers in their respective regions in obtaining certification under the Community eco-management and audit scheme (EMAS), a voluntary commitment assumed by very few companies. To qualify and remain in that register, the centres have to have their environmental statements audited by a certified independent verifier every year; those statements provide an account of the facilities' key performance indicators, annual targets and delivery thereof. ENCE's environmental permits can be downloaded from its website.

During the first half of 2021, the Group continued to consolidate implementation of its Workplace Safety Observations and Works of Particular Environmental Risk tools. The former is designed to detect initiatives and conditions that may have adverse environmental consequences and facilitate their constructive remediation. It also helps identify and acknowledge best practices, while cementing a culture of environmental commitment across the entire organisation. The second tool reinforces the execution of certain tasks to ensure they are performed to the most stringent environmental protection standards.

Advancing towards a circular economy

ENCE is contributing to the transition to a circular economy by selling products made using renewable sources of energy, such as pulp, that ENCE's customers then use to make end products that are recyclable and biodegradable. As for its energy business, ENCE provides a solution for managing agricultural and forestry waste by reusing biomass to generate energy and closing the loop in sectors of tantamount importance to the rural economy.

In addition, ENCE applies circular economy principles in its own productive processes, searching for new ways to reduce its unit consumption of materials and reuse as much waste as possible. That pledge translates into high waste recovery rates, thanks to which the two biomills and the Enemansa and La Loma biomass plants have obtained 'Zero Waste' certification from AENOR, a seal that singles out the most efficient facilities from the waste management and recovery perspective.

Pulp business

The production of pulp from timber sourced locally from forests managed sustainably has positive impacts on the environment by bringing to market products that are natural, renewable, recyclable and good substitutes for fossil-fuel-based products such as plastics. Moreover, ENCE's forestry activity not only helps capture carbon from the atmosphere, it also protects biodiversity and other forestry ecosystem services.

In designing new products, ENCE strives to reduce their environmental footprint and help reduce the footprint associated with its customers' manufacturing process. A good example of that approach is the development of unbleached pulp, Naturcell, at the Pontevedra biomill, a product which doesn't require bleaching, thanks to which it consumes smaller amounts of materials, water and energy per unit of output than standard pulp.

Certified environmental excellence

The excellent environmental records of ENCE's biomills means that the pulp produced in Pontevedra and Navia has carried the Nordic Swan seal (the official Scandinavian ecolabel, created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway) certifying compliance with the most stringent environmental standards since 2014. Obtained following a rigorous assessment of the environmental impact of ENCE's products throughout their entire life cycle, this ecolabel promises compliance with the seal's stringent requirements in the areas of climate change mitigation, energy efficiency and resource consumption (water, chemical products and raw materials).

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

Lastly, in 2015 the Pontevedra biomill was distinguished with the European Commission's Gold Recognition for 15 years of EMAS certification.

Navia biomill

In 2019, the Navia biomill initiated a project designed to upgrade and optimise the facility's technology which included the implementation of best available practices in a significant number of productive processes and an 80,000 ADt increase in capacity. That project is also focused on enhancing the facilities' environmental performance, underpinned by direct technological intervention at equipment and systems all along the process. The results of that environmental upgrade effort were cemented further over the course of the first half of 2021 and were tangible in the form of higher-quality discharges and lower emissions. The main environmental improvements introduced:

- Optimisation of the facility's recovery boiler which has increased the production of steam and the existing electrostatic precipitators' ability to eliminate particles, adding a new field. Particles emitted have fallen by an estimated 70% (in terms of annual tonnes generated) to stand at pollution concentration levels of under 6mg/Nm^3 in normal operating conditions.

- Improvements at the wastewater treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, while also improving aeration and refrigeration systems at the biological treatment facility. 2020 was also the year of stabilisation in the new primary effluent treatment system comprising a new dissolved air flotation (DAF) unit, which has driven a significant year-on-year reduction in the ratio of total suspended matter in the biomill's wastewater per tonne of pulp produced. ENCE continued to fine-tune the floating unit throughout the first half of 2021, eking out an additional improvement of 14% with respect to 2020.

In June 2021, the Navia biomill certified its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, thanks to the plant's excellent waste recovery ratios, which top 96%. That certification has joined the others already constituting the externally audited integrated management system. Indeed, in May 2021, the biomill passed its audit for the renewal of its environmental management system certificate under ISO 14001/2015; it was also successfully verified for compliance with its requirements under EMAS III and its 2020 environmental declaration. The audit conclusions underlined the organisation's clear commitment to continuous improvement, its determination in complying with and adapting for best available practices (BREF) and the active participation of the entire organisation in the environmental improvement effort, a factor which has paid off in terms of results.

Another of the biomill's priorities is to minimise the environmental impacts that could upset or disturb the nearby communities, such as its odour impact. To that end, ENCE is committed to improving its processes, facilities and operations so as to prevent and at least manage its odorous gases, working towards a 'zero odour' target. That effort is articulated around a Zero Odour Plan which began in 2010, since when emissions from point sources have been slashed by 99%. Despite those advances, reduction of the biomill's odour impact remains a core sustainability target for ENCE and new reduction targets are set annually.

Energy efficiency is another top priority at the Navia biomill. The biomill plans to certify its energy management system under the ISO 50001 standard during the second half of 2021. That certification endorses ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, translating into real and quantifiable savings in energy costs.

Pontevedra biomill

Responsible management of water resources at the Pontevedra biomill is a cornerstone of the sustainability strategy, to which end ENCE has been working for years to rationalise consumption and improve the quality of its wastewater. ENCE therefore continues to implement continuous improvement measures and fine-tune its processes, so boosting efficiency and maximising the reuse of water. Indeed, water consumption per tonne of pulp produced has been cut by 25% over the last five years.

In terms of its wastewater, the Pontevedra biomill continues to consolidate the results attained in prior years. All of the biomill's wastewater readings are well below the limits set in the permit, notable among which its chemical oxygen demand (COD) - the key measure of wastewater quality - which outperformed the limit set in the corresponding permit by 57%, coming in at 3.01 kg/ADt, compared to the stipulated cap of 7 kg/ADt.

ENCE also applies circular economy principles in its productive processes, prioritising the prevention, minimisation and recovery of waste via strict operational control over its processes. Indeed, the Pontevedra biomill was the first ENCE facility to earn AENOR's Zero Waste certificate in 2019, which it continues to renew year after year.

The biomill's other key environmental management priority is energy efficiency, to which end it designs measures articulated around reducing the consumption of fuels and enhancing the self-generation of electricity. As part of those measures, in 2020, the Pontevedra biomill was the first ENCE facility to certify its energy management system under the ISO 50001 standard. That certification endorses ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, which translates into real and quantifiable savings in energy costs.

In relation to its odour impacts, as is the case in Navia, the Pontevedra biomill is working on process management and facility upgrades so as to advance towards its zero odour target. Specifically, it continues to execute the initiatives contemplated in Zero Odour Plan, thanks to which emissions from channelled sources have declined by over 99% since the project got underway in 2010.

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

Sustainable forest management

ENCE remains the leading private forest manager and a key player in the timber-based product market in Spain.

ENCE manages the forest value chain end-to-end (from plantation to harvesting); those assets include forest land it owns and acreage operated under consortia and leased from third parties through its forest management companies, Silvasur and Norte Forestal. ENCE invested €1.6 million in the forests it manages in the first half of the year; those investments encompass forestry care, reforestation, infrastructure upgrade and fire protection work, as well as income payments. That production and investment effort, framed by environmental and social sustainability criteria, constitutes an important direct contribution by the Company to the rural economy.

In addition, during the first half, ENCE approved an important extraordinary 5-year plan, structured into two phases (3 + 2 years), which will increase productivity and reduce timber production costs significantly, while upholding the most stringent sustainable management standards.

Complementing the management of its own forest land, ENCE continues to reinforce its timber procurement policy under which it purchases standing timber (where ENCE is responsible for purchase from the owner, administrative and regulatory certification, harvesting and transport of the timber) as well as timber straight from suppliers (where ENCE purchases directly from timber traders).

In both cases - forest management and purchases from third parties - the management and sustainability requirements are identical and are framed by an integrated forest management system, which is in turn articulated around applicable regulatory requirements and the benchmark sustainable forestry management and chain of custody standards: FSC® (Forest Stewardship Council®) (with license numbers FSC®-C099970 and FSC®-C081854) and PEFC (Programme for the Endorsement of Forest Certification Schemes) (with license numbers PEFC/14-22-00010 and PEFC/14-33-00001).

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

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

The fruits of that policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to the current overall level of 74.1%, 69.8% of which boasts dual certification (PEFC and FSC®), boosted by ENCE's engagement with the broader forestry community. As for the forests under its management, 92.4% of the timber produced is certified under one or other scheme.

ENCE's end-to-end forestry activities were audited during the first half of the year by the benchmark PEFC and FSC® chain of custody certification and forest management experts:

- FSC® Chain of Custody Audit. In March, the FSC® chain of custody certificate covering the Pontevedra biomill, the Sales Department, the third-party sales operations in Huelva and management of an intermediate asset was audited for renewal for another five years. The audit went well, without incident, endorsing the timber traceability system (purchase and sale of timber), the transfer of credits and the subsequent sale of pulp to customers.

- FSC® Sustainable Forest Management Audit. The audit to renew FSC® Forestry Management certification for the tracts owned by ENCE took place in April. During the audit, the inspectors visited a number of forests in Asturias, Cantabria and Huelva, as well as the nursery in Huelva.

- PEFC Chain of Custody Audit. The third follow-up audit of the PEFC chain of custody certificate covering the Navia and Pontevedra facilities and the Sales Department took place in June. The audit confirmed ENCE's ability to ensure compliance with its voluntary commitments (PEFC CoC), its binding requirements and the effectiveness of the management system.

- Elsewhere, ENCE continued its research collaboration with FSC®'s certifier, Assurance Services International (ASI), as part of FSC®'s transaction verification policy, to which end an extraordinary audit took place in January with the purpose of assessing the certification body's performance in the course of its audit effort through a direct audit of ENCE, in keeping with the latter's chain of customer certification requirements. ASI focused its audit on the assessment of the Company's inputs and outputs system (the credit transfer system and the transfer of credits to the credit account), paying particular attention to the supply chain. As a result of that verification audit, ASI endorsed, without incident, the work done by the audit firm (SCS Global Services) in assessing ENCE. Moreover, the auditor indicated that its conclusions following the audit were very positive and that it had nothing to add to that indicated by SCS Global Services in its audit reports. That endorsement further validates ENCE's chain of custody effort.

On the technical management front, the most noteworthy projects worked on in 2020 are summarised below:

- In the first half of 2021, under the scope of the plan to fight the *Gonipterus*, a total of 1,938 hectares of plantations received biological treatment. Of the total, 1,872 hectares corresponded to owned forests, 18 hectares to forest associations and 48 hectares to forests owned by individuals. Since the Group embarked on this pest control strategy in 2016, some 162,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner. Beetle damage in the treated area evaluated is estimated at between 14% and 30%.

- Work was done to synthesise *Gonipterus platensis* aggregation pheromones as the first step in the application of the results of the research conducted in collaboration with the CEQA (Agricultural Chemical Ecology Group) from Valencia's Polytechnic University. The plan is to test the effectiveness of the products obtained in the field this year.

- As part of the programme for the selection of trees that are more resistant to the disease caused by the *Teratosphaeria nubilosa* fungus, ENCE mobilised, *in-vivo*, five trees of a progeny selected specifically for its resilience. Also, it successfully mobilised, *in-vitro*, a tree that is a candidate for qualification as resilient and ENCE is studying the resilience of a progeny obtained from a controlled crossing.

- A project got underway with Viçosa University (MG, Brazil) for the early analysis of resistance to the disease caused by the *Teratosphaeria nubilosa* fungus by means of lab inoculation. The project has received significant input from the University of Tasmania (Australia) and the firms, SeedEnergy Ltd. and Forico Ltd.

- In the first half of 2021, ENCE installed 11 new test sites within its owned forests. Thirteen trials were also evaluated and analysed and the partial results were communicated. The findings obtained from monitoring and analysing the network paved the way for the advances:

    - Improvement in propagation procedures for the F1-Colunga clone.

    - Improvement in operational procedures for the application of planting fertilisation.

    - Assessment of the results of the re-fertilisation tests three and 12 months after planting.

    - Initial assessment of the enhanced genetic material from the *Eucalyptus nitens* species sold at the Company's nurseries.

- End-to-end performance assessment for pulp production purposes of the collection of genetic material from the *Eucalyptus globulus, Eucalyptus nitens* y *Eucalyptus regnans* selected for the age-species study last year.

- Successful assessment of the NIR spectroscopy technology used to estimate basic density using mobile devices and direct daily readings. A pilot test was conducted in collaboration with the firm, Madera Plus.

- A new innovation area devoted to forestry operations development and continuous improvement was set up. That unit will develop new forestry care, planting, soil preparation and weed-killing techniques and work on any other aspects of forestry operations susceptible to improvement. It will also handle the development and continuous improvement of harvesting and logistics operations in the Company's forest assets in southern Spain.

- In the effort to improve site preparation work, ENCE designed, made and tested two subsoiler machines, one in the northern region and the other for the south. The area is currently meeting regularly with a number of enterprises, from Spain and overseas, to search for other solutions, one of which might yield a site preparation implement as early as this year (currently under negotiation).

- As for planting techniques, two semi-mechanical machines have been developed for planting in both subsoiled and terraced sites. The new machines make it possible to accurately and simultaneously carry out land preparation, planting and deep fertilisation using GPS digitalisation. Those machines were designed for use in the Company's forest assets in southern Spain. In the north, it is negotiating the possibility of leasing a planting machine from a Finnish company with a view to eking out productivity and quality gains by mechanising soil preparation, planting and fertilisation operations, all of which georeferenced via GPS.

- For plantation maintenance purposes, ENCE has been evaluating a number of unmanned ground vehicles (UGVs) with the goal of rendering key maintenance tasks more efficient. One clear objective of this line of initiative is to reduce manual clearing work to reduce costs, improve work quality and ensure worker safety.

- A detailed study was performed to analyse weed treatments in the planting area, specifically looking at different herbicides, at all times ensuring their safety for forest use and compliance with FSC requirements, identifying a specific product for use in weed control. Looking forward, a number of tests are planned for 2021 using mechanical pruning machines and the Company is also looking at ways to eliminate the use of chemicals in its forests.

- On the harvesting front, ENCE studied a small-scale Feller Buncher for use in scorched or nutrient-deficient land; the results were very positive and conclusive in terms of the scope for reducing the cost of this type of clearing work. Elsewhere, the department's management team is setting up a number tests with value-adding forestry firms for October; specifically, it is arranging meetings with those firms every fortnight with a view to speeding up and scheduling new initiatives.

- In logistics, initial contact has been made with a dynamic weighing equipment producer, opening up the possibility of a visit to inspect the equipment; the head of the southern forest assets has been advised of the advantages implied and he is putting the word out with his contractors.

- Reinforcement of the supply of enhanced *Eucalyptus globulus* and *Eucalyptus nitens* plants to the sector. This falls under the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best materials for planting and recommendations regarding the best forestry care solutions for each situation.

- During the first half of 2021, we continued our drive to monetise oversized trees; the purchase of timber from plots with oversized trees (10% of their plantations) and, outside of those sites, of trunks and logs with a diameter of 60cm or more. The idea underpinning that campaign is to bring mature trees that are no longer growing on the market; in the first half of 2021, ENCE purchases of such timber were 14% higher than on average in 2020.

- Improving the genetic traits of the plants grown at and/or sold by the nurseries belonging to Norte Forestal, S.A.

    - Reduction in the production of *E. globulus* plants grown from seed and increase in the sale of cloned plants.

    - Sale of a clone, called F1-Colunga, tolerant of the *Teratosphaeria nubilosa* fungus and increase in its production.

    - Improving the genetic quality of the seeds used to grow the *E. nitens*.

- A new project was launched to control, via GPS technology, manual planting work (plant locations and work times). That project is at an early stage.

- Consolidation of the use of technology-enabled mobility. XOne - Project Tierra: Covering the planning, monitoring and control of forestry care work, inspection lists and the collection of field data, XOne is also being consolidated in the new asset area (oversight of dealings with forest owners with a view to bringing in new land). Additional modifications are being made to fine-tune how it works.

- After the inventorying tests completed in 2020, an area managed by ENCE in Asturias and Galicia stretching 6,552 hectares is being catalogued using LiDAR technology in 2021.

- An app is being developed to control manual operations.

- During the first half of 2021, ENCE imparted three forest machinery usage and skills courses, training 45 students. Sector professionalisation, job creation and environmental awareness remain the cornerstones of the training and awareness initiatives in which we actively participate.

- Creation of a taskforce to boost the productivity of the *Eucalyptus globulus* in Asturias by developing and disseminating smallholding joint management models, improving fertility and developing a website for the provision of practical tips for sustainable eucalyptus management (www.cultivaeucaliptosostenible.com), including a tool for predicting the species' productivity in each location. That project is fully financed by European funds and is being carried out in conjunction with other key firms, research centres and institutions with a vested interest in the forestry sector in Asturias.

- The logistics management digitalisation projects have been fully implemented thanks to which the load assignation process for 100% of our biomills' incoming timber deliveries has been digitalised. Furthering this line of initiative, work is underway to digitalise the entire logistics process implied by the receipt of timber so that we can eliminate paper from our logistics flows.

- ENCE has rolled out a plan for the restoration of the tracts of proprietary forest affected by the Almonaster fire last summer. The emergency work required to prevent soil erosion and desertification has been done, those being the most critical tasks after a fire, along with other measures needed to ensure environmental safety and conservation in the area. In the areas identified as being at high risk of erosion, over 300 dry walls have been built. The walls are plant structures made using wood whose main purpose is to retain the soil, curb the loss of sediment and diminish the force of run-offs. In addition, those measures prevent the clogging of the riverbeds and dams downstream of the River Odiel. Work is also underway to cut down the damaged eucalyptus trees to prepare the land for reforestation.

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

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

ENCE seeks to contribute to development in the communities in which it operates, fostering the purchase of local timber in the vicinity of Galicia, Asturias, Cantabria and the Basque region. Local wood purchases not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint. During the first half of 2021, ENCE purchased 475,264 tonnes of timber from a total of 786 forest owners. In addition, it arranged the purchase of a further 6,820 tonnes through five forest associations. As for timber supplies, ENCE took receipt of a total of 1,296,979 tonnes of eucalyptus wood from 292 forestry suppliers, almost 94% of which are small-sized suppliers, evidencing ENCE’s commitment to giving work to smaller players.

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

Renewable Energy business

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

As for the key milestones in the effort to improve the energy plants’ environmental performance, it is worth noting that in 2020, ENCE consolidated the implementation of the projects executed in 2019 aimed at adapting the energy operations centres for implementation of best available techniques ahead of effectiveness this year of the BREF for Large Combustion Plants. That work has focused on complying with the new emissions limit values, completing the implementation of different kinds of emissions scrubbing systems depending on each facility's needs and introducing cutting-edge technology, operating and management improvements. In the first half of 2021, ENCE made progress on the last adaptation milestone by filing applications to have its integrated environmental permits revised for BAT adaptation purposes.

It also continued to work on the implementation of management systems at the Merida, La Loma and Enemansa plants; the Merida plant is expected to obtain certification in July.

Work likewise continues on the execution of the so-called Reliability of Environmental Indicator Measurements, having completed the related upgrades at the Lucena plant.

The circular economy in action: certification of ash as a sub-product

One of the chief sources of waste at ENCE's energy plants is the ash generated in the biomass combustion process. That ash is high in water-soluble potassium, which makes it a compelling substitute for commercial potassium. ENCE, aware of that ash's value, has pioneered the effort to have it reused and monetised in the market.

In light of the requirements for having the ash classified as a sub-product, as laid out in the EU's Waste Framework Directive (as transposed into Spanish law), ENCE submitted the required paperwork to the Ministry of Ecological Transition in Spain for applying to have the ash categorised as a sub-product. It has so far obtained authorisation for the ash produced at the La Loma and Lucena plants and, most recently, the 46-MW Huelva plant. Thanks to that effort, that ash is now being incorporated into fertiliser manufacturing processes. ENCE has since applied for similar authorisations for the ash generated at the rest of its energy plants and is awaiting the corresponding ministerial rulings.

Huelva operations centre

The Huelva operations centre is a prime example of the production of power from biomass as it is home to two of the most important plants (HU41 and HU50), along with the new build (HU46).

On the environmental front, all of this facility's wastewater readings, both the volume discharged and the main indicators tracking the quality of the effluents discharged, remained below the thresholds stipulated in the environmental permit.

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

Lastly, in terms of the dismantling of the pulp-making facilities, in the first half of 2021, the work continued as scheduled, complying notably with the stipulated workplace safety and environmental standards, particularly those related with diffuse emissions, noise and waste management. The dismantling project will be finished by the end of 2021.

Merida operations centre

In the first half of 2021 Merida continued to comply with its wastewater and emissions requirements.

It completed plans for a new photovoltaic plant adjacent to the biomass plant which will reduce the facility's Scope 2 emissions.

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

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

It is also worth highlighting the financial effort being made to reduce the plant's noise impact in the surrounding areas: the final phase, involving a number of interventions at the furnace area, is close to completion.

Ciudad Real operations centre (Enemansa)

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

This year is being marked by consolidation of the plant’s routine discharge to the municipal treatment facility; all parameters are being met.

In terms of noise emissions, phase two of the action plan for reducing the plant’s noise impact is complete. Work has begun on the last project planned, specifically the switch from the ash transport system to pneumatic conveyance, which is due completion in July of this year.

In addition, the report itemising the revisions for the purpose of adaptation for the BATs has been presented, barring the final net electric efficiency figures, which are subject to further testing.

La Loma operations centre

In 2021, ENCE has been fine-tuning the forced evaporation system for the plant's discharges and continues to diversify the evaporation systems, modifying the discharge point and separating the discharges.

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

Lucena operations centre

2020 marked completion of the installation of the continuous emissions measurement equipment at the biomass. Although not a legal requirement, ENCE is committed to tightening oversight and control of the plant’s emissions. All the atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

Progress was made during the first half on the plans for changing the location of the discharge point requested by the authorities.

Biollano operations centre (Puertollano)

This plant was commissioned in June 2020. During the first half of 2021, the improvements made at the plant on the emissions front, following the initial adjustments, gained traction. The environmental surveillance plan is being monitored continuously, using redundant continuous emissions measurement equipment onsite. Certification of this plant's environmental management system under the UNE-14001 standard was renewed in the first half of 2021.

Sustainable management of biomass procurement

In 2021, ENCE reinforced its position as a benchmark buyer of agricultural and forestry biomass for power generation purposes, supplying both its standalone energy plants and the generation facilities integrated into its biomills. ENCE ensures that the biomass it supplies to its facilities meet the required sustainability standards, to which end it is working to uphold specific voluntary commitments.

In relation to primary agricultural biomass, in the first half of 2021, ENCE continued to work on the framework for implementing the 10-Point Declaration on the Sustainability of Biomass presented by ENCE in 2017; it is already systematically monitoring and assessing the key indicators for which there is a staggered implementation schedule, framed by the Company's Master Sustainability Plan.

In addition to an outreach effort with benchmark NGOs and the compliance effort (which is far more intense for forest-derived biomass), another source of guidance is the sustainability thrust defined in the new European Renewable Energy Directive (RED II). ENCE has been working to update the 10-Point Declaration to layer in the RED II requirements, which are implemented under the scope of the integrated forest management system. The updated version of the 10-Point Declaration, which also incorporates requirements for industrial biomass (agricultural and forestry biomass that has been transformed), took effect at ENCE on 1 January 2021.

As with the Group's timber operations, the Agri-Forestry Sustainability Department is tasked with ensuring that all the raw materials sourced for the production of energy, whether produced on owned forests or purchased from third parties (standing timber and directly from traders), comply with prevailing legal and regulatory requirements.

The initiatives pursued during the first half of 2021 to bring about the sustainable use of biomass notably included the following:

- Agricultural biomass supply project at the energy plants in southern Spain supported by remote detection technology for early alert purposes and promoting the recovery of agricultural by-products, thereby preventing them from being burned and unlocking value.

- Sustainable biomass management communication plan. A key priority within ENCE's strategy for encouraging the use of biomass as a source of energy is to communicate its standards along the supply chain. To that end it launched a plan to publicise its 10-Point Declaration and RED II with the aim of educating, raising awareness and training sectors involved in ENCE's nationwide effort ahead of transposition of the European Directive into Spanish law. That communication plan was deemed 82% complete by the June 2021 close. The key stakeholder sectors are:

    - Outside groups that carry out educational and advisory work in the biomass-generating agricultural, forestry and industrial sectors. We have contacted a total of 11 such groups from the agricultural sector (farmer associations, cooperatives and farming unions), nine from the forestry sector (regional forestry associations) and, within the industrial sector, the pomace oil producer association (ANEO), the largest producer of industrial biomass.

    - Direct suppliers from the agricultural (farm-holding owners and agricultural service firms), forestry (forest estate owners and harvesting firms) and industrial sectors (industrial biomass producers).

- ENCE used different channels to carry out that outreach effort, including 18 video-conference talks, 281 briefing emails and videos about the 10-Point Declaration and the RED II Directive that were sent to 350 and 320 contacts, respectively.

Lastly, as already noted, ENCE strives to give back to society by means of its raw material sourcing policies (including the sourcing of biomass) by generating income and jobs in the rural economy. During the first half of 2021, the biomass procurement effort involved a total of 206 suppliers and 1,047,384 tonnes of biomass, 38% of which came from crops, 45% from forest waste and the remaining 17%, from industrial sources.

31. Events after the reporting date

On 26 July 2021, ENCE amended the Pulp business's revolving credit facility, increasing the limit to €130 million and extending the maturity date to 26 July 2026. The interest rate continues to vary as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which assesses that debt as "green" financing. At the reporting date, the RCF was fully undrawn.

In addition, subsequent to the reporting date, the National Appellate Court's Chamber for Contentious Administrative Proceedings issued two rulings annulling the ministerial resolution of 20 January 2016 extending the Pontevedra biomill concession (note 4).

Elsewhere, Royal Decree-Law 17/2021 was published on 14 September 2021 to address urgent measures to mitigate the impact of the rise in natural gas prices on the retail gas and electricity markets, enacting, among other measures, the extension of the temporary suspension of the levy generated on electricity generation and reducing, on an extraordinary and temporary basis, the duty levied on electricity.

No other significant events have taken place since 30 June 2021, other than those already disclosed herein, that would imply modifying the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2021.

Appendix

Condensed consolidated statement of financial position at 30 June 2021 and 31 December 2020 and condensed consolidated statement of profit or loss and of cash flows for the six-month periods ended 30 June 2021 and 2020 for the PULP and RENEWABLE ENERGY businesses.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2021 AND 31 DECEMBER 2020

€ 000	30 June 2021				31 December 2020			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	1,617	-	1,617	-	1,742	-	1,742
Other intangible assets	12,980	37,357	(13,575)	36,762	15,813	38,210	(13,862)	40,161
Property, plant and equipment	447,018	467,376	(10,422)	903,972	627,716	476,849	(11,689)	1,092,876
Biological assets	62,495	128	-	62,623	71,033	237	-	71,270
Non-current financial assets:								
Securities portfolio	125,788	-	(125,788)	-	125,788	-	(125,788)	-
Investments accounted for using the equity method	21	1	-	22	30	1	-	31
Loans to group companies and associates	38,342	-	(38,342)	-	38,342	-	(38,342)	-
Other financial assets	18,851	4,708	-	23,559	17,555	6,641	-	24,196
Deferred tax assets	43,052	17,969	3,394	64,415	56,159	15,793	-	71,952
	748,547	**529,156**	**(184,733)**	**1,092,970**	**952,436**	**539,473**	**(189,681)**	**1,302,228**
CURRENT ASSETS:								
Inventories	33,172	13,966	-	47,138	43,310	9,478	(957)	51,831
Trade and other receivables	45,126	25,111	(11,376)	58,861	61,797	22,846	(26,748)	57,895
Tax receivables	10,649	2,350	-	12,999	(78)	388	-	310
Income tax receivable	25	90	-	115	25	937	-	962
Current financial assets:								
Loans to group companies and associates	-	36	-	36	-	36	-	36
Hedging derivatives	-	-	-	-	6,764	-	-	6,764
Other financial assets	18,019	8	-	18,027	18,207	8	-	18,215
Cash and cash equivalents	298,193	74,227	-	372,420	448,089	84,531	-	532,620
Other current assets	6,071	228	-	6,299	1,265	67	-	1,332
	411,255	**116,016**	**(11,376)**	**515,895**	**579,379**	**118,291**	**(27,705)**	**669,965**
TOTAL ASSETS	**1,159,802**	**645,172**	**(196,109)**	**1,608,865**	**1,531,815**	**657,764**	**(217,386)**	**1,972,193**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2021 AND 31 DECEMBER 2020

	30 June 2021				31 December 2020			
€ 000	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Issued capital	221,645	22,604	(22,604)	221,645	221,645	22,604	(22,604)	221,645
Share premium	170,776	74,955	(74,955)	170,776	170,776	74,955	(74,955)	170,776
Parent company reserves	206,997	9,891	(9,891)	206,997	169,416	2,649	(2,649)	169,416
Parent company retained earnings (prior-year losses)	-	-	-	-	(5,573)	(30,423)	30,423	(5,573)
Reserves in fully-consolidated companies	92,445	(16,104)	(1,756)	74,585	187,393	(3,623)	(39,441)	144,329
Reserves in equity-accounted investees	(79)	-	-	(79)	(8)	-	-	(8)
Exchange differences	15	-	-	15	18	-	-	18
Own shares - parent company shares	(13,810)	-	-	(13,810)	(11,856)	-	-	(11,856)
Valuation adjustments	(5,286)	(2,719)	1,332	(6,673)	41,916	(4,892)	2,397	39,421
Other equity instruments	11,528	73	-	11,601	11,539	148	-	11,687
Other owner contributions	-	170,517	(170,517)	-	-	170,517	(170,517)	-
Consolidated profit/(loss) for the period	(193,690)	(6,751)	5,844	(194,597)	(52,298)	25,953	(87)	(26,432)
Equity attributable to owners of the parent	**490,541**	**252,466**	**(272,547)**	**470,460**	**732,968**	**257,888**	**(277,433)**	**713,423**
Non-controlling interests	**-**	**10,060**	**126,170**	**136,230**	**-**	**10,613**	**126,093**	**136,706**
TOTAL EQUITY	**490,541**	**262,526**	**(146,377)**	**606,690**	**732,968**	**268,501**	**(151,340)**	**850,129**
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	144,248	91,911	-	236,159	147,159	91,710	-	238,869
Bank borrowings	113,724	84,451	-	198,175	193,582	97,521	-	291,103
Other financial liabilities	70,106	800	-	70,906	103,250	733	-	103,983
Derivative financial instruments	-	3,869	-	3,869	93	5,509	-	5,602
Grants	3,498	401	-	3,899	4,509	1,049	-	5,558
Deferred tax liabilities	18,196	1,656	(14)	19,838	19,879	1,782	-	21,661
Non-current provisions	50,476	90	-	50,566	2,716	116	-	2,832
Non-current accruals and deferred income	4	2,267	-	2,271	3	1,761	-	1,764
Other non-current liabilities	-	4,739	-	4,739	-	5,955	-	5,955
Borrowings from group companies and associates	-	75,177	(38,342)	36,835	-	75,177	(38,342)	36,835
	400,252	**265,361**	**(38,356)**	**627,257**	**471,191**	**281,313**	**(38,342)**	**714,162**
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	12,405	29,399	-	41,804	50,463	28,599	-	79,062
Other financial liabilities	9,730	575	-	10,305	5,958	449	-	6,407
Derivative financial instruments	47,418	2,937	-	50,355	4,912	3,185	-	8,097
Current borrowings from related parties	12	596	-	608	12	-	(12)	-
Trade and other payables	177,791	68,970	(11,376)	235,385	226,296	59,390	(26,735)	258,951
Income tax payable	16	7,256	-	7,272	16	5,619	-	5,635
Taxes payable	8,555	6,158	-	14,713	11,602	8,794	-	20,396
Current provisions	13,082	1,394	-	14,476	28,397	1,914	(957)	29,354
	269,009	**117,285**	**(11,376)**	**374,918**	**327,656**	**107,950**	**(27,704)**	**407,902**
TOTAL EQUITY AND LIABILITIES	**1,159,802**	**645,172**	**(196,109)**	**1,608,865**	**1,531,815**	**657,764**	**(217,386)**	**1,972,193**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND 2020

	First-half 2021				First-half 2020			
€ 000	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	287,923	86,015	(1,512)	372,426	267,871	95,956	(1,864)	361,963
Gains/(losses) on hedging transactions	(10,967)	-	-	(10,967)	(9,518)	-	-	(9,518)
Changes in inventories of finished goods and work in progress	(1,572)	-	-	(1,572)	(1,953)	-	-	(1,953)
Own work capitalised	1,350	140	-	1,490	1,381	(977)	-	404
Other operating income	1,807	5,589	(921)	6,475	1,301	1,952	(1,104)	2,149
Grants taken to income	2,703	648	-	3,351	1,534	496	-	2,030
Operating income subtotal	281,244	92,392	(2,433)	371,203	260,616	97,427	(2,968)	355,075
Cost of goods sold	(137,186)	(32,579)	1,512	(168,253)	(144,579)	(29,915)	1,864	(172,630)
Employee benefits expense	(34,173)	(6,406)	-	(40,579)	(39,028)	(6,447)	-	(45,475)
Depreciation and amortisation charges	(27,086)	(18,738)	1,554	(44,270)	(28,008)	(20,348)	761	(47,595)
Depletion of forest reserve	(6,421)	(121)	-	(6,542)	(6,670)	(209)	-	(6,879)
Impairment of and gains/(losses) on disposal of fixed assets	(189,407)	(278)	-	(189,685)	839	(1,592)	1,179	426
Impairment of financial assets	110	(106)	-	4	(574)	(177)	-	(751)
Other operating expenses	(63,975)	(35,336)	921	(98,390)	(70,061)	(34,031)	1,104	(102,988)
Operating expenses subtotal	(458,138)	(93,564)	3,987	(547,715)	(288,081)	(92,719)	4,908	(375,892)
OPERATING PROFIT/(LOSS)	**(176,894)**	**(1,172)**	**1,554**	**(176,512)**	**(27,465)**	**4,708**	**1,940**	**(20,817)**
Finance income:								
From equity instruments:								
Third parties	40	-	-	40	-	-	-	-
From marketable securities & other financial instruments:								
Related parties	588	-	(588)	-	1,319	-	(1,319)	-
Third parties	2,117	1,134	-	3,251	19	3	-	22
Finance costs:								
Borrowings from related parties	-	(1,196)	588	(608)	-	(1,319)	1,319	-
Third-party borrowings	(7,418)	(5,737)	-	(13,155)	(6,713)	(6,336)	-	(13,049)
Change in fair value of financial instruments	-	231	-	231	-	-	-	-
Net exchange gains/(losses)	1,455	(6)	-	1,449	360	(23)	-	337
Impairment of and gains/(losses) on disposal of financial assets	-	-	-	-	161	-	-	161
NET FINANCE COST	**(3,218)**	**(5,574)**	**-**	**(8,792)**	**(4,854)**	**(7,675)**	**-**	**(12,529)**
Share of profit/(loss) of entities accounted for using the equity method	(11)	-	-	(11)	2	-	-	2
PROFIT/(LOSS) BEFORE TAX	**(180,123)**	**(6,746)**	**1,554**	**(185,315)**	**(32,317)**	**(2,967)**	**1,940**	**(33,344)**
Income tax	(13,567)	596	3,407	(9,564)	8,011	765	(60)	8,716
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	**(193,690)**	**(6,150)**	**4,961**	**(194,879)**	**(24,306)**	**(2,202)**	**1,880**	**(24,628)**
Profit/(loss) for the the period from continuing operations attributable to non-controlling interests	-	601	(883)	(282)	-	742	-	742
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	**(193,690)**	**(6,751)**	**5,844**	**(194,597)**	**(24,306)**	**(2,944)**	**1,880**	**(25,370)**

(*) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND 2020

€ 000	First-half 2021				First-half 2020			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	(180,123)	(6,746)	1,554	(185,315)	(32,317)	(2,967)	1,940	(33,344)
Adjustment for:								
Depreciation and amortisation	33,507	18,859	(1,554)	50,812	34,678	20,557	(761)	54,474
Changes in provisions and other deferred expense (net)	(7,850)	3,381	-	(4,469)	11,678	4,824	-	16,502
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	189,408	277	-	189,685	(1,000)	1,592	(1,179)	(587)
Adjustments for tariff shortfall/surplus (electricity market)	(21)	1,181	-	1,160	(7,091)	(14,971)	-	(22,062)
Finance income and costs (net)	3,293	5,569	-	8,862	5,223	7,651	-	12,874
Grants taken to profit and loss	(441)	(175)	-	(616)	(513)	(127)	-	(640)
	217,896	**29,092**	**(1,554)**	**245,434**	**42,975**	**19,526**	**(1,940)**	**60,561**
Changes in working capital:								
Inventories	6,346	(6,454)	-	(108)	(4,837)	(4,526)	-	(9,363)
Trade and other receivables	(30,772)	5,243	-	(25,529)	(8,789)	(7,403)	-	(16,192)
Financial and other current assets	149	-	-	149	(1,695)	-	-	(1,695)
Trade payables, other payables and other liabilities	1,357	302	-	1,659	28,567	9,536	-	38,103
	(22,920)	**(909)**	**-**	**(23,829)**	**13,246**	**(2,393)**	**-**	**10,853**
Other cash flows from operating activities:								
Interest paid, net (including right-of-use assets)	(3,885)	(6,314)	-	(10,199)	(2,393)	(7,346)	-	(9,739)
Income tax paid	-	251	-	251	3	1,008	-	1,011
	(3,885)	(6,063)	-	(9,948)	(2,390)	(6,338)	-	(8,728)
Net cash from operating activities	10,968	15,374	-	26,342	**21,514**	**7,828**	**-**	**29,342**
CASH FLOWS FROM INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment and biological assets	(36,525)	(10,090)	-	(46,615)	(35,332)	(39,720)	26,923	(48,129)
Intangible assets	(850)	(63)	-	(913)	(2,149)	(329)	-	(2,478)
Financial assets	(31)	(98)	-	(129)	43	7	-	50
	(37,406)	**(10,251)**	**-**	**(47,657)**	**(37,438)**	**(40,042)**	**26,923**	**(50,557)**
Proceeds from disposals:								
Property, plant and equipment	409	-	-	409	122	-	-	122
Financial assets	-	-	-	-	290	-	-	290
	409	**-**	**-**	**409**	**412**	**-**	**-**	**412**
Net cash used in investing activities	**(36,997)**	**(10,251)**	**-**	**(47,248)**	**(37,026)**	**(40,042)**	**26,923**	**(50,145)**
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Proceeds from issuance of own equity instruments	-	-	-	-	-	26,923	(26,923)	-
Transactions with non-controlling interests	490	-	-	490	-	-	-	-
Buyback of own equity instruments	(35,285)	-	-	(35,285)	(21,289)	-	-	(21,289)
Disposal of own equity instruments	33,532	-	-	33,532	20,779	-	-	20,779
	(1,263)	**-**	**-**	**(1,263)**	**(510)**	**26,923**	**(26,923)**	**(510)**
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	2,408	(2,408)	-	-	3,908	(3,908)	-	-
Proceeds from issuance of bonds, net of arrangement fees	(4,682)	-	-	(4,682)	(2)	5	-	3
Increase/(decrease) in bank borrowings, net of issuance costs	(118,147)	(12,550)	-	(130,697)	140,890	(2,696)	-	138,194
Increase/(decrease) in other borrowings	(63)	-	-	(63)	(298)	-	-	(298)
Payments for right-of-use assets	(2,120)	(469)	-	(2,589)	(2,177)	(665)	-	(2,842)
Grants received, net	-	-	-	-	168	-	-	168
	(122,604)	**(15,427)**	**-**	**(138,031)**	**142,489**	**(7,264)**	**-**	**135,225**
Net used in financing activities	**(123,867)**	**(15,427)**	**-**	**(139,294)**	**141,979**	**19,659**	**(26,923)**	**134,715**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(149,896)**	**(10,304)**	**-**	**(160,200)**	**126,467**	**(12,555)**	**-**	**113,912**
Cash and cash equivalents - opening balance	448,089	84,531	-	532,620	101,311	120,903	-	222,214
Cash and cash equivalents - closing balance	298,193	74,227	-	372,420	227,778	108,348	-	336,126

ENCE Energía y Celulosa, S.A.
and subsidiaries

Interim Group Management Report for the six months ended 30 June 2021

Contents

Ence Energía y Celulosa, S.A. and subsidiaries

Interim Group Management Report
for the six months ended 30 June 2021

1. Introduction

This interim Group Management Report has been drawn up in keeping with the recommendations included in CNMV (Spain's securities market regulator) Circular 3/2018 on interim reporting by issuers with securities admitted to trading on organised exchanges with respect to half-yearly financial statements, interim management reports and, as warranted, quarterly financial reports. It should be read in conjunction with the Group Management Report for 2020.

An integral part of this interim Group Management Report, and appended thereto, is the Group earnings report for the second quarter of 2021, which includes an analysis of ENCE's business performance during the first half of the year and provides additional details about the markets it operates in and the key trends in the main earnings, cash flow and capital structure indicators. That same report also includes information about ENCE's recent share price performance and the alternative performance measures (APMs) used, which are defined and reconciled with the amounts presented in the condensed consolidated financial statements for the six months ended 30 June 2021.

The reader should also note that the information provided in this interim Group Management Report is complemented by the detailed disclosures provided in note 5 of the accompanying condensed consolidated interim financial statements regarding the impacts of the Covid-19 pandemic on ENCE and by the environmental disclosures provided in note 30. Additionally, note 4 provides important disclosures with respect to the public-domain concession on which the Pontevedra biomill is located.

2. Organisational structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of Ence Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders, framed by observation of ENCE's sustainability principles, defence of its stakeholders' legitimate interests and surveillance of the impacts its activities have on the community and environment.

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

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

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

The Chairman and CEO is responsible for the Company's everyday management. He is supported in this work by the Management Committee, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the Financial & Corporate Development Officer, the Human Capital Officer, the Pulp Sales and Logistics Manager, the Sustainability Officer and the General Secretary. Those officers report directly to the CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

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

The Compliance Committee reports to the Audit Committee and is made up of the head of the corporate Human Capital Department, the General Secretary and the head of the Internal Audit Department, who chairs it. That committee is tasked with continuously controlling, supervising, evaluating and reviewing compliance with the standards and procedures described in ENCE's Corporate Crime Prevention Protocol. It is also in charge of drawing up plans for remedying, updating, creating or modifying the measures and controls that constitute ENCE's Corporate Crime Prevention and Detection Protocol. Its job is also to analyse and duly record the risks and controls that could affect the Company's departments.

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

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

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

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former. In this respect, the Company singly manages all of the companies within its Group, with the exception of Ence Energía S.L. (hereinafter, "Ence Energy").

On 12 November 2020, Ence Energía y Celulosa, S.A. welcomed a new shareholder at Ence Energy when it sold shares representing a 49% ownership interest in the latter to Woodpecker Acquisitions S.à.r.l., an entity controlled by Ancala Partners LLP.

The Company has retained a 51% ownership interest - and control - in Ence Energy.

Ence Energía is governed by a board of directors to which the non-controlling shareholder appoints two members. Ence Energy is in turn the sole director of its group companies, with the exception of Energía la Loma, S.A, Energías de la Mancha ENEMAN, S.A and Bioenergía Santamaría, S.A., in which it has ownership interests of 60.07%, 68.42% and 70%, respectively. Those entities are governed by boards on which their respective non-controlling shareholders are represented.

3. Key risks and sources of uncertainty

ENCE's enterprise risk management (ERM) system is a process that is embedded within the organisation and is designed to identify, assess, prioritise, address, manage and monitor situations that pose a threat to the Company's activities and objectives. That process actively involves all of the areas of the organisation with specific responsibilities for each phase thereof.

The ERM encompasses the Parent and all of its Group companies, all of its businesses - pulp, renewable energy and forest management - and the activities of its corporate departments. It is governed by the Risk Management and Control Policy and the Risk Management Procedure, approved at the Board level.

ENCE's ERM follows the guidelines provided in benchmark international risk frameworks, specifically the Internal Control Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). It is reviewed periodically in order to incorporate best practices in risk management.

ENCE's Board of Directors, with the help of the senior management team, defines the organisation's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the impact and probability of occurrence of the risk events within the risk appetite thresholds accepted and defined by ENCE.

Meanwhile, the Internal Audit Department verifies that the risk management and control principles and policies defined and approved by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

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

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

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

1. The executives and managers in charge of ENCE's various areas and departments are risk owners: their job is to continuously manage the various risks, implementing action plans and establishing controls in response to the risks identified within their areas of responsibility.
2. ENCE's Internal Audit Department is responsible for supervising everyday risk management, to which end it draws up the Group's risk management criteria and procedures and presents them to the Board of Directors through the Audit Committee periodically.
3. The Compliance Committee, which reports to the Board's Audit Committee, is responsible for defining and updating ENCE's corporate crime risk map, which identifies the organisation's activities that are susceptible to criminal conduct.
4. The Audit Committee assists the Board in supervising effectiveness of the organisation's internal controls and the internal control and risk management systems, including the internal control over financial and non-financial reporting systems and the systems controlling environmental and health and safety risks.
5. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE’s ERM system, monitoring to that end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

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

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

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

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

1. Strategic
2. Operational
3. Financial and Non-Financial Information
4. Reporting
5. Regulatory Compliance

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

1. Environmental Risks
2. Risks associated with Decision-Making Information
3. Financial Risks
4. Organisational Risks

5. Operational Risks
6. Corporate Crime Risks
7. Tax Risks
8. Climate Change Related Risks

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

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

1. ENCE takes a zero-tolerance stance towards any situation which could compromise the health or safety of its employees.
2. ENCE similarly takes a zero-tolerance stance towards any situation in which the performance of any of activity could cause damage to its surroundings, the environment, the continuity of the business or the Group's reputation vis-a-vis third parties.
3. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to the Company.
4. ENCE has a team of external advisors and expert in-house staff who lay down the guidelines for ensuring compliance with tax requirements so that it assumes no risk whatsoever in this arena.
5. ENCE's appetite for risks related to product research, development and innovation can be described as moderate, the aim being to provide solutions that fully satisfy its customers' needs so that the Company remains a benchmark in the pulp market.
6. In addition, aware of the prevailing economic complexity, ENCE is committed to the pursuit of financial discipline such that it can control the organisation's overall debt and maintain enough liquidity to ensure its ability to service its payment obligations and fund its priority investments. Against this backdrop, its risk appetite for speculative financial trades is low.
7. Nevertheless, a significant percentage of ENCE's transactions expose it to the exchange rate between the dollar ($) and the euro (€). ENCE, knowledgeable of the prevailing economic situation and trends in the rate of exchange between these two currencies, has defined a low risk appetite strategy in this arena, managing its currency exposure rigorously in keeping with the guidelines set by the Executive Committee of the Board of Directors and the Finance Department, as warranted.

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

Objective: Financial Discipline

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

a) PULP PRICE VOLATILITY

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

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

b) EXCHANGE RATE VOLATILITY

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

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

A number of forward currency contracts were arranged at prevailing prices during the first half of 2021 over approximately 41% of sales forecast for the second half of 2021 and 46% of those forecast for the first half of 2022.

c) TRADE CREDIT RISK - PULP BUSINESS

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

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

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

d) LIQUIDITY AND CAPITAL RISK

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

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets, articulated around various short-, medium- and long-term scenarios:

1. Guaranteed business continuity in any pulp price scenario.

2. Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.

3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp business is around 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4.5 times.

4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp business and using bank financing and raising money from institutional investors in the Renewable Energy business.

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

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

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

e) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

It is feasible that the state, regional and/or local tax authorities could make further changes to current tax regulations, such as changes/reforms to corporate and/personal income tax, which could directly affect ENCE and its earnings. ENCE makes sure that all of its activities and operations are carried out in compliance with prevailing applicable tax law.

To mitigate this risk, ENCE has a team of in-house specialists who work together with external tax advisors and experts and have established internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. In addition, the Audit Committee continually and meticulously monitors the Company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy. However, because this is an exogenous risk factor, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Objective: Enhancing the Company’s Productive Capacity

ENCE embeds the best available techniques (BATs) set down in the sector Best Available Techniques Reference Document (BREF) in respect of environmental performance, into all its processes, framed by its total quality management (TQM) methodology, designed to boost its competitive positioning and the quality of its products. However, the Group’s maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its productive facilities.

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

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

Objective: New Product Development

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

The strategy adopted to satisfy customers' needs is to reduce risk by enhancing productive processes and maintaining a customer complaints/claims management system. In the first half of 2021, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it shored up its salesforce quantitatively and qualitatively with a view to identifying customers' specific needs in order to factor them into the Company's product range.

Objective: Minimising the Cash Cost

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

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

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

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

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

Lastly, in order to control the risk of the development of superior technology by its competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility for the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Objective: Increasing ENCE's Market Share

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

ENCE's Marketing Plan for 2021 is designed to reinforce the presence and positioning of the Company's products in the European market and materialises in initiatives aimed at: (i) increasing the customer base in order to reduce concentration risk; (ii) differentiating ENCE's products by means of plans to enhance the properties and qualities of its pulp; and (iii) improving customer service.

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

Objective: Streamlining of Post-Production Logistics

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

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

Objective: Minimising the Impact of our Operations on the Environment

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

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

ENCE mitigates this risk by reducing the impact its operations have on the environment by means of its integrated quality, environment and safety management system which is certified under the UNE-EN-ISO 14001 environmental management standard, by providing education about how to prevent environmental risks, writing insurance policies, conducting audits and implementing inspection, oversight and control measures, framed by a preventative approach. Note that in the first half of 2021, the Group also continued to invest to make its facilities more environmentally-friendly.

Objective: Public-domain concession - The ENCE biomill in Pontevedra

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

More recently, the National Appellate Court's Chamber for Contentious Administrative Proceedings issued two rulings, one on 15 July 2021 and the other the following day, upholding the appeals lodged by Greenpeace Spain and the town council of Pontevedra and annulling the Ministerial Resolution of 16 January 2016, which extended the concession, based on the Court's understanding that the said resolution failed to substantiate the fact that ENCE's biomill in Pontevedra necessarily has to be located on the public-domain coastal land or to provide reasons of public interest in defence of the biomill's current location. The ruling on the APDR appeal is due out on 14 September 2021 and is expected to be aligned with those issued on 15 July.

ENCE is planning to lodge appeals against the various rulings before the Supreme Court. ENCE has legitimate grounds for appealing the rulings as it was a defendant in the proceedings heard before the National Appellate Court and because it has an obvious legitimate interest in the outcome.

If the Supreme Court does not agree to allow the appeal preparation to go ahead or dismisses the appeals, the Appellate Court rulings would become final (notwithstanding the scope for lodging a complaint), triggering the start of the deliberations about when to execute the ruling. ENCE estimates that, in that event, execution of the sentences would imply the start of dismantling work at the biomill in 2023 or 2024.

Although ENCE believes there are legal grounds in defence of the lawfulness of the concession extension, which is why it has decided to appeal the Appellate Court sentences, because of the restrictive nature of the appeal proceedings and the specific circumstances surrounding the matter in dispute, in keeping with applicable accounting rules, the Group has identified the need to: (i) recognise impairment losses against the biomill's productive assets, right-of-use assets and inventories and the biological assets located in northern Spain; (ii) re-estimate the provision for the plant's dismantling; and (iii) derecognise certain deferred tax assets. The Group has also reassessed the provisions derived under contractual obligations associated with the biomill. The various impacts are itemised in note 4 of the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2021.

If, having exhausted all appeal options, the courts of justice uphold the annulment of the resolution of 20 January 2016, ENCE will seek damages from the state in respect of all the losses caused by the annulment, based on the grounds that it has no legal obligation to bear them.

Objective: Business Continuity

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

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

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

Objective: Guaranteeing Worklife Quality and Workplace Health and Safety

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

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

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

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

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

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

The key risks intrinsic to social and employee matters at ENCE include: potential harm to its employees' health; workplace accidents; the organisation of strike action; employee dissatisfaction; and talent management and retention. Those risks are analysed from the perspective of their probability of occurrence in the short, medium and long term.

Objective: Regulatory and Reporting Compliance

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

The strategy employed by ENCE to tackle this risk factor is two-fold. Firstly, ENCE staff have reached out to the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account. In parallel, the most important environmental investments required at all of the Operations Centres to adapt to the new regulations were analysed and approved by ENCE's Investment Committee during the first half of 2021.

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

In the first half of 2021, ENCE formulated and implemented policies and procedures for mitigating its exposure to specific crimes, framed by its commitment to complying with the corporate crime prevention model certified by AENOR in accordance with the UNE 19601:2017 standard on criminal compliance management systems.

Objective: Tax Risk Control

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

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

4. Events after the reporting date

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

5. Corporate governance

Complete information about ENCE's corporate governance system is available on its website: www.ence.es.

6. Repurchase/(sale) of own shares

The disclosures concerning own shares and related transactions in the first half of 2021 are provided in note 19 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2021.

Appendix

Second-quarter 2021 earnings report

Second-quarter 2021 earnings report

28 September 2021

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
BHKP (USD/t) average price	998.7	680.4	*46.8%*	759.9	*31.4%*	880.2	680.2	*29.4%*
Average exchange rate (USD/€)	1.20	1.10	*9.7%*	1.21	*(0.3%)*	1.21	1.10	*9.5%*
BHKP (€/t) average price	829.0	619.7	*33.8%*	628.9	*31.8%*	729.7	617.6	*18.2%*
Average pool price (€/MWh)	76.3	23.3	*227.8%*	48.1	*58.6%*	62.2	29.0	*114.2%*
Source: Bloomberg	39.7			4.4				

Operating Metrics	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Pulp production (t)	**269,496**	**258,860**	***4.1%***	**224,411**	***20.1%***	**493,907**	**520,617**	***(5.1%)***
Pulp sales (t)	**251,610**	**246,584**	***2.0%***	**246,157**	***2.2%***	**497,767**	**519,820**	***(4.2%)***
Average sales pulp price (€/t)	525.5	416.8	*26.1%*	403.7	*30.2%*	465.3	417.5	*11.4%*
Cash cost (€/t)	367.7	375.1	*(2.0%)*	385.8	*(4.7%)*	375.9	377.6	*(0.5%)*
Renewable Energy sales volume (MWh)	**331,697**	**354,508**	***(6.4%)***	**325,795**	***1.8%***	**657,455**	**612,945**	***7.3%***
Average sales price - Pool + Ro (€/MWh)	95.6	97.6	*(2.0%)*	102.7	*(7.0%)*	99.1	97.1	*2.1%*
Remuneration for investment (€ m)	10.2	15.9	*(35.5%)*	10.2	-	20.5	31.7	*(35.5%)*

P&L € m	2Q21 pre rullings	Rullings impact	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Revenue from Pulp business	164.1	-	164.1	128.8	*27.4%*	123.8	*32.5%*	287.9	267.9	*7.5%*
Revenue from Renewable Energy business	42.2	-	42.2	50.8	*(17.0%)*	43.9	*(3.9%)*	86.0	96.0	*(10.4%)*
Consolidation adjustments	(0.9)	-	(0.9)	(1.1)		(0.6)		(1.5)	(1.9)	
Total revenue	**205.4**	**-**	**205.4**	**178.4**	*15.1%*	**167.0**	*22.9%*	**372.4**	**362.0**	*2.9%*
Pulp business EBITDA	40.6	1.5	42.1	8.4	*n.s.*	5.9	*n.s.*	48.1	18.4	*161.6%*
Margin %	*25%*	*1%*	*26%*	*7%*	*19.1 p.p.*	*5%*	*20.9 p.p.*	*17%*	*7%*	*9.8 p.p.*
Renewable Energy business EBITDA	13.8	-	13.8	15.5	*(10.9%)*	8.7	*58.9%*	22.6	26.9	*(16.0%)*
Margin %	*31%*	*2%*	*33%*	*31%*	*2.3 p.p.*	*20%*	*13.0 p.p.*	*26%*	*28%*	*(1.8) p.p.*
EBITDA before hedges	**54.5**	**1.5**	**56.0**	**24.0**	*133.6%*	**14.7**	*n.s.*	**70.6**	**45.2**	*56.2%*
Margin %	*26%*	*1%*	*27%*	*13%*	*13.8 p.p.*	*9%*	*18.5 p.p.*	*19%*	*12%*	*6.5 p.p.*
Pulp business EBITDA	31.2	1.5	32.7	3.4	*n.s.*	8.2	*n.s.*	41.0	8.9	*n.s.*
Margin %	*19%*	*1%*	*20%*	*3%*	*17.3 p.p.*	*7%*	*13.3 p.p.*	*14%*	*3%*	*10.9 p.p.*
Renewable Energy business EBITDA	9.4	-	9.4	15.5	*(39.2%)*	8.5	*10.9%*	18.0	26.9	*(33.1%)*
Margin %	*21%*	*1%*	*22%*	*31%*	*(8.2) p.p.*	*19%*	*3.0 p.p.*	*21%*	*28%*	*(7.1) p.p.*
EBITDA	**40.7**	**1.5**	**42.2**	**19.0**	*122.5%*	**16.8**	*151.7%*	**58.9**	**35.7**	*65.0%*
Margin %	*20%*	*1%*	*21%*	*11%*	*9.9 p.p.*	*10%*	*10.5 p.p.*	*16%*	*10%*	*6.0 p.p.*
Depreciation, amortisation and forestry depletion	(25.5)	-	(25.5)	(27.9)	*(8.6%)*	(25.3)	*1.0%*	(50.8)	(54.5)	*(6.7%)*
Impairment of and gains/(losses) on fixed-asset disposal	(0.6)	(188.5)	(189.2)	(0.0)	*n.s.*	(0.5)	*n.s.*	(189.7)	0.4	*n.s.*
Other non-ordinary results of operations	-	6.3	6.3	(1.3)	*n.s.*	(1.3)	*n.s.*	5.0	(2.5)	*n.s.*
EBIT	**14.5**	**(180.7)**	**(166.2)**	**(10.3)**	*n.s.*	**(10.3)**	*n.s.*	**(176.5)**	**(20.8)**	*n.s.*
Net finance cost	(4.9)	-	(4.9)	(7.2)	*(31.9%)*	(5.3)	*(6.8%)*	(10.5)	(13.0)	*(19.3%)*
Other finance income/(cost) results	(0.1)	-	(0.1)	(0.1)	*(26.8%)*	1.5	*n.s.*	1.7	0.5	*241.8%*
Profit before tax	**9.5**	**(180.7)**	**(171.3)**	**(17.6)**	*n.s.*	**(14.0)**	*n.s.*	**(185.3)**	**(33.3)**	*n.s.*
Income tax	2.8	(15.7)	(12.9)	4.6	*n.s.*	3.4	*n.s.*	(9.6)	8.7	*n.s.*
Net income	**12.3**	**(196.5)**	**(184.2)**	**(13.0)**	*n.s.*	**(10.7)**	*n.s.*	**(194.9)**	**(24.6)**	*n.s.*
Non-controlling interests	(0.8)	-	(0.8)	(0.5)	*44.9%*	1.0	*n.s.*	0.3	(0.7)	*n.s.*
Atributable Net Income	**11.5**	**(196.5)**	**(185.0)**	**(13.6)**	*n.s.*	**(9.6)**	*n.s.*	**(194.6)**	**(25.4)**	*n.s.*
Earnings per share (Basic EPS)	0.05	(0.81)	(0.76)	(0.06)	*n.s.*	(0.04)	*n.s.*	(0.80)	(0.10)	*n.s.*

Cash flow € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**42.2**	**19.0**	*122.5%*	**16.8**	*151.7%*	**58.9**	**35.7**	*65.0%*
Change in working capital	7.3	5.5	*31.5%*	(31.1)	*n.s.*	(23.8)	10.9	*n.s.*
Maintenance capex	(3.8)	(3.9)	*(3.1%)*	(3.8)	*0.1%*	(7.5)	(9.1)	*(16.9%)*
Net interest Payment	(7.2)	(7.3)	*(0.7%)*	(3.0)	*144.0%*	(10.2)	(9.7)	*4.7%*
Income tax received/(paid)	(0.1)	(0.2)	*(49.0%)*	0.3	*n.s.*	0.3	1.0	*(75.2%)*
Normalised free cash flow	**38.3**	**13.1**	*192.3%*	**(20.7)**	*n.s.*	**17.6**	**28.8**	*(38.9%)*
Other collection (payments) and non cash expenses (revenues)	2.0	(8.9)	*n.s.*	(1.0)	*n.s.*	1.1	(8.5)	*n.s.*
Pending payments for expansion capex	(8.1)	(7.5)	*8.4%*	(20.9)	*(61.1%)*	(29.0)	(29.8)	*(2.5%)*
Sustainability capex and other	(4.3)	(2.4)	*76.2%*	(6.7)	*(36.2%)*	(11.0)	(11.8)	*(6.9%)*
Disposals	0.2	-	*n.s.*	0.2	*47.9%*	0.4	0.4	*(0.7%)*
Free cash flow	**28.2**	**(5.7)**	*n.s.*	**(49.1)**	*n.s.*	**(20.9)**	**(20.8)**	*0.5%*

Net debt € m	Jun 21 pre rullings	Rullings impact	Jun-21	Dec-20	Δ%
Net financial debt Pulp business	72.0	(28.8)	43.2	43.4	*(0.4%)*
Net financial debt Renewable Energy business	132.9		132.9	134.5	*(1.2%)*
Net financial debt	**204.9**	**(28.8)**	**176.1**	**177.8**	*(1.0%)*

- ✓ **On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession, granted in 2016, over the public-domain land on which Ence's biomill in Pontevedra is located. The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.**
- ✓ **As a result of those sentences, in keeping with applicable accounting rules, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148m, together with a provision of €42m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts. The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.**
- ✓ **Excluding the accounting impact of the sentences, the Group would have reported a net profit of €12m in 2Q21 and of €2m in 1H21.**
- ✓ **Pulp prices have been staging a rapid recovery in 2021, having hovered at record lows for all of 2020. In Europe, hardwood pulp prices have recovered to $1,140 per tonne (gross) in the third quarter, marking a rebound of 68% from price lows.**
- ✓ **Pulp production increased by 4% year-on-year in 2Q21 and by 20% compared to 1Q21, when both biomills were idled for maintenance work. 2Q21 output marked a new quarterly record of 269,500 tonnes, thanks to the capacity added at the end of 2019.**
- ✓ **The reduction in conversion costs derived from the growth in output, coupled with savings eked out in overhead, offset the impact of raw material inflation. As a result, the Company's cash cost declined by 2% year-on-year in 2Q21 to €368 per tonne.**
- ✓ **Group EBITDA, before the impact of hedges, amounted to €56m in 2Q21 and €71m in 1H21, which is more than double the EBITDA obtained in 2Q20 and year-on-year growth of 56% in the first half.**
- ✓ **EBITDA in the Pulp business, before hedges, amounted to €42m in 2Q21 and €48m in 1H21, which is 5 times and more than 2.6 times the EBITDA obtained in 2Q20 and 1H20, respectively. The pulp price hedges arranged exceptionally in 2020 implied an outflow of cash of €10m in 2Q21, whereas the Group's exchange rate hedges gave rise to a cash inflow of €1m in 2Q21 and of 3m in 1H21.**
- ✓ **Elsewhere, EBITDA before the impact of hedges in the Renewable Energy business amounted to €14m in 2Q21 and €23m in 2H21, growth - on a like-for-like basis (excluding the sale of the solar thermal power plant in December) - of 31% compared to 2Q20 and of 24% compared to 2H20, driven by higher electricity prices. The fixed-price contracts arranged in 2020 implied an outflow of cash of €4m in 2Q21 and of €5m in 1H21.**
- ✓ **The Group's net debt ended June at €176m, €43m in the Pulp business and €133m in the Renewable Energy business, including €17m of lease liabilities under IFRS 16. That financial position is largely unchanged from year-end 2020 and includes more than €380m of cash.**
- ✓ **In light of reduced uncertainty regarding the direction of COVID-19 and following the sale of a 49% equity interest in Ence Energía in December 2020, the Company prepaid €95m of bilateral loans held by the Pulp business in the first half in order to reduce the associated financial costs. After the close, in July, it also refinanced the Pulp business's revolving credit facility, increasing its limit to €130m and extending its maturity to 2026.**
- ✓ **Ence is the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, after Ence lifted its overall ESG performance score to 91/100 in 2Q21.**
- ✓ **So as to continue to grow in renewables, Ence has a pipeline of 513 MW of developments, for which grid access and locations are assured, of which 140 MW corresponds to three biomass plants and 373 MW relates to five photovoltaic power plants. Their permitting is underway and the expectation is that they will be ready for construction on a staggered basis from 2022, depending on the outcome of the upcoming capacity auctions and potential PPA agreements.**

2. PULP BUSINESS

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

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

2.1. National Appellate Court Sentences affecting the concession in Pontevedra

On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession over the public-domain land on which Ence's biomill in Pontevedra is located.

The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.

If the Supreme Court does not agree to hear, or dismisses, the appeal, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (in a decision endorsed by the National Court) the deadline for potentially discontinuing activities at the biomill.

2.2. Pulp market trends

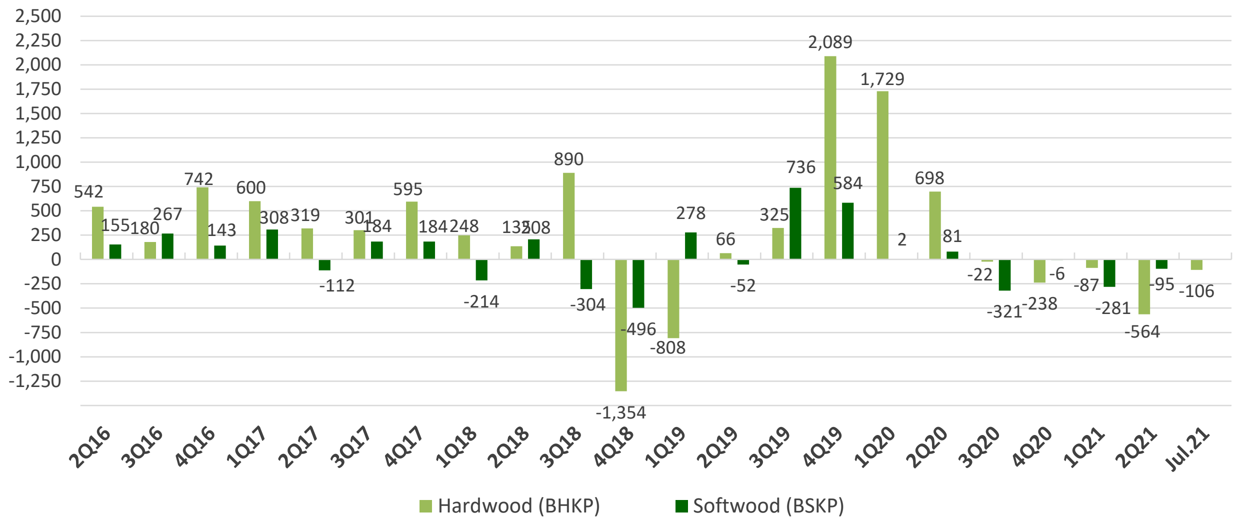
Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material that is a good substitute for less environmentally-friendly materials such as plastics and synthetic fibres.

These demand dynamics are very consistent over time and contrast with the abrupt destocking observed in the paper industry at the end of 2018 (although inventories went on to recover at the end of 2019). That destocking by the paper industry put pressure on pulp prices which hit a 10-year low at the end of 2019, a trough in which they stayed for a year. Prices began to recover towards the end of 2020.

In 2020, demand for pulp increased by 3% (equivalent to 1.9m tonnes, compared to average annual growth of 1.6m tonnes during the last decade), driven by strong demand for tissue paper and restocking by the paper industry, which offset the decline in demand for printing and writing papers as a result of the pandemic.

Demand for pulp eased by 2.1% year-on-year in the first seven months of 2021 (equivalent to 0.8m tonnes), shaped largely by paper industry destocking and a tough comparison, as the same period of 2020 was marked by sharp growth in demand for tissue paper.

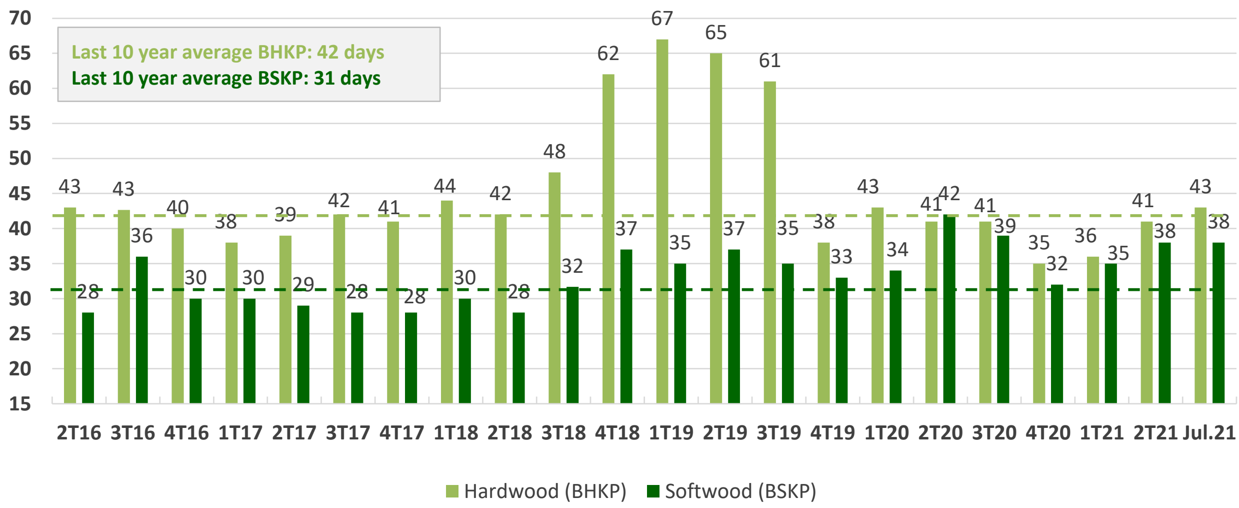
Year-on-year change in global demand for pulp, last five years (tonnes, 000)



Source: Ence, PPPC–G100

Pulp producer inventories were higher in July than in December 2020 due mainly to pulp destocking in the paper industry. Hardwood pulp inventories increased by eight days, to 43, compared to an average of 42 days in the last 10 years, while softwood pulp inventories increased by six days, to 38, which is higher than the 10-year average of 31 days.

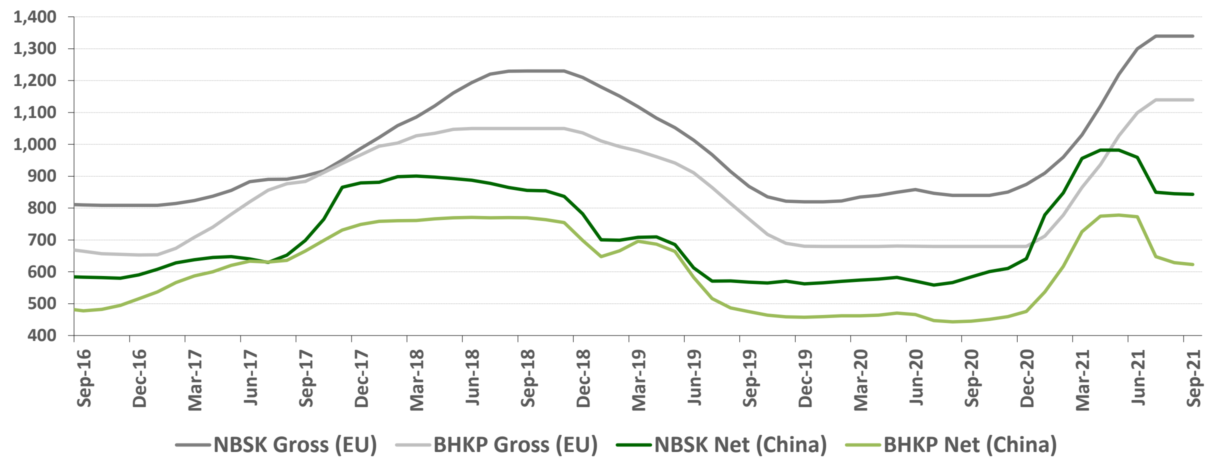
Pulp producer inventories during the last five years (at end of quarter, in no. of days)



Source: Ence, PPPC–G100

Pulp prices have rebounded swiftly since the end of 2020, having hovered at record lows for a year. In China, hardwood pulp prices peaked at $780 (net) per tonne in May, marking a recovery of 70% from their lows, and are currently trading at close to $620 per tonne. Those increases gradually spilled over to the European market, where gross prices have remained at $1,140 per tonne since July, a recovery of 68% from trough levels.

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



Source: FOEX

2.3. Revenue from pulp sales

Pulp sales volumes sustained growth of 2% year-on-year to 251,610 tonnes in 2Q21, thanks to production growth of 4.1%, partially offset by the replenishment of pulp inventories. In 1H21, pulp sales volumes totalled 497,767 tonnes, down 4.2% year-on-year, affected by the stoppage of both biomills for maintenance in the first quarter, compared to the third quarter in 2020.

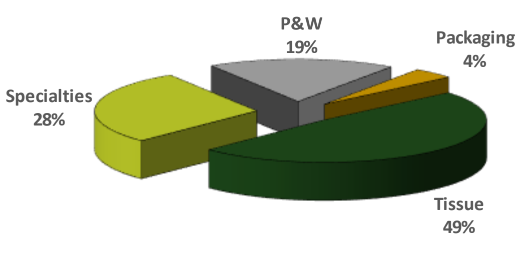
	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Pulp sales (t)	**251,610**	**246,584**	*2.0%*	**246,157**	*2.2%*	**497,767**	**519,820**	*(4.2%)*
Average sales price (€/t)	525.5	416.8	*26.1%*	403.7	*30.2%*	465.3	417.5	*11.4%*
Pulp sales revenue (€ m)	**132.2**	**102.8**	*28.6%*	**99.4**	*33.0%*	**231.6**	**217.0**	*6.7%*

Pulp inventories increased by almost 17,900 tonnes in 2Q21 to approximately 42,600 tonnes. In 2Q20, inventories increased by nearly 12,300 tonnes to approximately 55,500 tonnes.

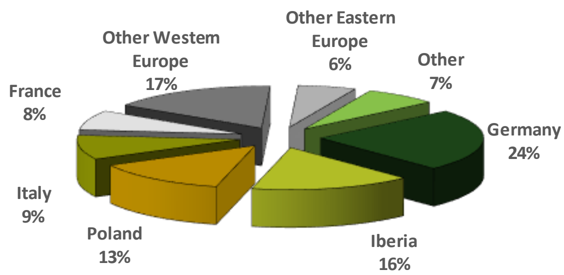
The average sales price increased by 26.1% in 2Q21 to €525.5 per tonne, thanks to growth of 46.8% in average benchmark prices, partially offset by the dollar's 9.7% slide against the euro. Note that Ence's monthly sales are largely referenced to the average benchmark price for the previous month. In 1H21, average sales prices firmed by 11.4% year-on-year.

The combination of the two factors drove year-on-year growth in revenue from pulp sales of 28.6% to €132.2m in 2Q21 and of 6.7% to €231.6m in 1H21.

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 49% of revenue from pulp sales in 1H21, followed by the specialty paper segment, at 28%. The printing and writing paper segment accounted for 19% of sales and packaging, the remaining 4%.

Most of the pulp produced by Ence is sold in Europe, namely 93% of revenue from pulp sales in 1H21. Germany and Iberia accounted for 24% and 16% of total revenue, respectively, followed by Poland (13%), Italy (9%) and France (8%). The other western European countries accounted for 17% 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, accounted for 14% of 1H21 sales.

2.4. Pulp production and the cash cost

Rigorous 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 without interruption throughout the initial outbreak and subsequent waves of the health crisis, with no jobs lost.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Navia pulp production	152,937	143,353	*6.7%*	129,655	*18.0%*	282,592	286,321	*(1.3%)*
Pontevedra pulp production	116,559	115,507	*0.9%*	94,756	*23.0%*	211,315	234,296	*(9.8%)*
Pulp production (t)	**269,496**	**258,860**	*4.1%*	**224,411**	*20.1%*	**493,907**	**520,617**	*(5.1%)*

Pulp production increased by 4.1% year-on-year in 2Q21 to 269,496 tonnes, enabled by greater stability at the Navia biomill following the capacity expansion work done at the end of 2019. In 1H21, pulp production amounted to 493,907 tonnes, down 5.1% year-on-year, as a result of the stoppage of both biomills for 12 days in March for annual maintenance purposes. In 2020, those annual stoppages were carried out at both facilities in July.

In addition to investing in maintenance, the Group invested to make its biomills safer and to reduce their emissions, odours and water consumption.

Figures in €/t	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Wood cost	211.0	206.1	*2.4%*	206.2	*2.3%*	208.8	205.2	*1.8%*
Conversion costs	96.0	105.9	*(9.3%)*	120.9	*(20.6%)*	107.4	112.0	*(4.2%)*
Sales and logistic costs	32.9	28.9	*13.6%*	32.6	*0.8%*	32.7	30.3	*7.9%*
Overheads	27.8	34.2	*(18.7%)*	26.1	*6.5%*	27.0	30.1	*(10.2%)*
Total cash cost	**367.7**	**375.1**	*(2.0%)*	**385.8**	*(4.7%)*	**375.9**	**377.6**	*(0.5%)*

The second-quarter cash cost was €367.7/tonne, an improvement of 2% (or €7.4/tonne) from 2Q20 and of 4.7% (or €18.1/tonne) from 1Q21, when the metric was affected by the stoppage of both biomills. The reduction in conversion costs and overhead was partially offset by the higher cost of wood and logistics. In 1H21, the cash cost decreased by 0.5% per tonne year-on-year (equivalent to €1.7/tonne).

Wood costs were 2.4% higher year-on-year in 2Q21 (equivalent to €4.9/tonne) as a result of the increase in the premium tied to pulp prices and the higher cost of transportation from proprietary plantations in southern in Spain in order to mitigate the temporary reduction in felling capacity in Galicia following entry into effect in June of a four-year moratorium on eucalyptus plantations. In 1H21, wood costs increased by 1.8% year-on-year (equivalent to €3.6/tonne).

Conversion costs decreased by 9.3% year-on-year in 2Q21 (or €9.9/tonne) due to a higher contribution by the energy component and better fixed price dilution thanks to higher production and sales volumes. In 1H21, conversion costs decreased by 4.2% year-on-year (equivalent to €4.6/tonne).

Logistics costs were 13.6% higher year-on-year in 2Q21 (equivalent to €4/tonne) due to higher freight costs. In 1H21, logistics costs increased by 7.9% year-on-year (equivalent to €2.4/tonne).

Lastly, overhead declined by 18.7% year-on-year in 2Q21 (equivalent to €6.4/tonne) as a result of the cost savings plan embarked on last year. In 1H21, overhead decreased by 10.2% year-on-year (equivalent to €3.1/tonne).

2.5. Revenue from the sale of energy in connection with pulp production

Ence uses the lignin and forest biomass derived from its manufacturing activities to generate the renewable energy needed for the process. Specifically, it operates a 34.6-MW lignin-fired CHP plant, integrated within the Pontevedra biomill, and a 40.3-MW CHP lignin-fired plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biomill. The renewable energy generated at these power plants is sold to the grid and subsequently repurchased.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Navia energy sales	155,523	143,745	*8.2%*	117,361	*32.5%*	272,884	283,150	*(3.6%)*
Pontevedra energy sales	71,241	67,298	*5.9%*	54,180	*31.5%*	125,452	129,018	*(2.8%)*
Energy sales linked to the pulp process (MWh)	**226,764**	**211,043**	*7.4%*	**171,541**	*32.2%*	**398,337**	**412,169**	*(3.4%)*
Average sales price - Pool + Ro (€/MWh)	104.4	78.5	*33.1%*	84.0	*24.3%*	95.6	78.4	*22.0%*
Remuneration for investment (€ m)	2.6	2.6	*0.0%*	2.6	*(0.0%)*	5.1	5.1	*(0.0%)*
Revenues from energy sales linked to pulp (€ m)	**26.2**	**19.1**	*37.3%*	**17.0**	*54.7%*	**43.2**	**37.4**	*15.5%*

The sale of energy in connection with pulp production increased by 7.4% year-on-year in the second quarter to 226,764 MWh, boosted by higher pulp output and efficiency gains at the Pontevedra turbine. In 1H21, energy sales related with pulp production fell by 3.4% year-on-year to 398,337 MWh, due to the stoppage of both biomills for annual maintenance work during the first quarter.

The averages sales price improved by 33.1% year-on-year in 2Q21 to €104.4/MWh, fuelled by higher pool prices. In 1H21, average sales prices improved by 22% year-on-year, to €95.6/MWh.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - increased by 37.3% year-on-year to €26.2m in 2Q21 and by 15.5% year-on-year to €43.2m in 1H21.

2.6. 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 wood sourced from proprietary eucalyptus plantations located in southern Spain.

	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Forestry and other revenue (€ m)	**5.6**	**6.9**	*(18.2%)*	**7.5**	*(24.3%)*	**13.1**	**13.4**	*(2.2%)*

Revenue from forestry activities amounted to €5.6m in 2Q21, down 18.2% from 2Q20, due to higher internal consumption of wood in order to offset the temporary reduction in felling capacity in Galicia following entry into effect in June of a four-year moratorium on eucalyptus plantations.

2.7. Statement of profit or loss

As a result of the National Court sentences annulling the extension of the Pontevedra biomill concession, in keeping with applicable accounting rules, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148m, together with a provision of €42m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts.

The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.

Excluding the impact of those sentences, the Pulp business would have reported a net profit of €11.1m in 2Q21 and of €2.8m in 1H21, compared to net losses of €14m and €24.3m in the same periods of 2020, respectively.

Figures in € m	2Q21 pre rullings	Rullings impact	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Total net revenue	**164.1**	**-**	**164.1**	**128.8**	*27.4%*	**123.8**	*32.5%*	**287.9**	**267.9**	*7.5%*
EBITDA before hedges	**40.6**	**1.5**	**42.1**	**8.4**	*n.s.*	**5.9**	*n.s.*	**48.1**	**18.4**	*161.6%*
EBITDA margin	*25%*		*26%*	*7%*	*19.1 p.p.*	*5%*	*20.9 p.p.*	*17%*	*7%*	*9.8 p.p.*
EBITDA	**31.2**	**1.5**	**32.7**	**3.4**	*n.s.*	**8.2**	*n.s.*	**41.0**	**8.9**	*n.s.*
EBITDA margin	*19%*		*20%*	*3%*	*17.3 p.p.*	*7%*	*13.3 p.p.*	*14%*	*3%*	*10.9 p.p.*
Depreciation and amortisation	(13.2)	-	(13.2)	(14.1)	*(6.3%)*	(13.9)	*(4.6%)*	(27.1)	(28.0)	*(3.3%)*
Depletion of forestry reserves	(3.4)	-	(3.4)	(3.2)	*4.6%*	(3.0)	*11.3%*	(6.4)	(6.7)	*(3.7%)*
Impairment of and gains/(losses) on fixed-asset disp	(0.5)	(188.5)	(189.0)	(0.1)	*n.s.*	(0.4)	*n.s.*	(189.4)	0.8	*n.s.*
Other non-recurring gains/(losses)	-	6.3	6.3	(1.3)	*n.s.*	(1.3)	*n.s.*	5.0	(2.5)	*n.s.*
EBIT	**14.1**	**(180.7)**	**(166.6)**	**(15.3)**	*n.s.*	**(10.3)**	*n.s.*	**(176.9)**	**(27.5)**	*n.s.*
EBIT margin	*9%*		*-102%*	*-12%*	*(89.7) p.p.*	*-8%*	*(93.2) p.p.*	*-61%*	*-10%*	*(51.2) p.p.*
Net finance cost	(2.4)	-	(2.4)	(2.8)	*(15.2%)*	(2.3)	*3.6%*	(4.7)	(5.4)	*(12.4%)*
Other financial results	(0.3)	-	(0.3)	(0.4)	*(23.6%)*	1.8	*n.s.*	1.5	0.5	*183.7%*
Profit before tax	**11.4**	**(180.7)**	**(169.3)**	**(18.5)**	*n.s.*	**(10.8)**	*n.s.*	**(180.1)**	**(32.3)**	*n.s.*
Income tax	(0.3)	(15.7)	(16.0)	4.6	*n.s.*	2.5	*n.s.*	(13.6)	8.0	*n.s.*
Net Income	**11.1**	**(196.5)**	**(185.4)**	**(14.0)**	*n.s.*	**(8.3)**	*n.s.*	**(193.7)**	**(24.3)**	*n.s.*

EBITDA in the Pulp business, before hedges, amounted to €42.1m in 2Q21, which is five times the 2Q20 figure, thanks to growth in the average sales price of 26.1%, the 1.8% reduction in the unit cash cost and growth of 2% in pulp sales volumes. First-half EBITDA, again excluding the impact of hedges, amounted to €48.1m, which is 2.6 times that of 1H20.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a cash inflow of €1.1m in 2Q21 and of €3m in 1H21, compared to outflows €5m and €9.5m in the same periods of 2020, respectively.

Elsewhere, in 2020, Ence took the exceptional decision of locking in a price of $773/tonne for the sale of 247,200 tonnes of pulp in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Those hedges implied a cash outflow of €10.5m in 2Q21 and of €10.1m in 1H21.

Layering in the impact of those hedges, EBITDA in the Pulp business amounted to €32.7m in 2Q21 and €41m in 1H21, 4.6 times the EBITDA posted in 1H20.

Note, lastly, that EBITDA includes other income and expenses not included in the cash cost with a net positive impact of €2.4m in 2Q21 and of €3.9m in 1H21. Those items of income and expenses include, among other things, the EBITDA generated from forestry activities, the effect of the regulatory collar on energy sales related with pulp production, charges for community work in the vicinity of the Group's biomills, working capital provisions, non-recurring staff costs and *ad-hoc* advisory service costs. In 2Q21, the Company reversed the €1.5m provision recognised at the time in respect of the 2021 Pontevedra Community Plan as a result of the above-mentioned Appellate Court sentences.

Below the EBITDA line, depreciation and amortisation charges declined by 3.3% year-on-year in 1H21 to €27.1m, following the technical review of the useful lives of the productive assets used in the Pulp business; forest depreciation charges decreased by 3.7% to €6.4m due to the lower cost of wood sourced from proprietary plantations.

"Impairment of and gains/(losses) on fixed asset disposals", in the amount of €189.7m in 1H21, mainly reflects the impairment losses recognised against assets associated with the Pontevedra biomill (€146.3m) and a provision for the estimated cost of dismantling the biomill (€42.3m).

"Other non-recurring operating items" includes (i) the reversal of the provision accumulated to the June close to cover the Company's commitments under the Pontevedra Environmental Pact in the amount of €15.2m; and (ii) a €2.9m provision to cover the potential devaluation of spare parts at the biomill and a €6m provision to cover the termination of contracts outstanding following the potential discontinuation of operations at the biomill.

Net finance costs declined by 12.4% to €4.7m, while other finance income (net) of €1.5m reflects the impact of exchange rate movements on working capital during the reporting period.

Lastly, the first-half income tax charge of €13.6m includes the derecognition of deferred taxes of €13.4m along with the tax effect of the reversal of the Environmental Pact provision, in the amount of €2.3m.

In all, the Pulp business reported a net loss of €185.4m in 2Q21 and of €193.7m in 1H21, mainly as a result of the asset impairment charges and provisions recognised in the wake of the Appellate Court sentences in keeping with applicable accounting rules.

2.8. Cash flow analysis

Cash flow from operations totalled €25m in 2Q21 and €11m in 1H21, compared to €7.7m in 1Q20 and €21.5m in 1H20. The growth in EBITDA was largely offset by the opposite trend in working capital.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**32.7**	**3.4**	*n.s.*	**8.2**	*n.s.*	**41.0**	**8.9**	*n.s.*
Non cash expenses / (income)	(0.6)	(1.5)	*(62.1%)*	(2.7)	*(79.5%)*	(3.3)	1.6	*n.s.*
Other collections / (payments)	0.1	(0.1)	*n.s.*	(0.0)	*n.s.*	0.1	0.2	*(60.9%)*
Change in working capital	(5.8)	6.4	*n.s.*	(17.2)	*(66.3%)*	(22.9)	13.2	*n.s.*
Income tax received / (paid)	-	0.0	*(100.0%)*	-	*n.s.*	-	0.0	*(100.0%)*
Net interest received / (paid)	(1.5)	(0.6)	*144.1%*	(2.4)	*(34.8%)*	(3.9)	(2.4)	*62.4%*
Net cash flow from operating activities	**25.0**	**7.7**	*223.6%*	**(14.0)**	*n.s.*	**11.0**	**21.5**	*(49.0%)*

The change in working capital implied a cash outflow of €5.8m in 2Q21 and of €22.9m in 1H21. The increase in accounts receivable in the first half, shaped by the growth in pulp prices and the reduced drawdown of the receivables factoring facilities (by €11.9m) were partially mitigated by a €6.3m reduction in inventories.

Figures in €Mn	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Inventories	(0.0)	(12.0)	*(99.7%)*	6.4	*n.s.*	6.3	(4.8)	*n.s.*
Trade and other receivables	(10.1)	(6.6)	*53.1%*	(20.7)	*(51.0%)*	(30.8)	(8.8)	*n.s.*
Financial and other current assets	1.8	0.0	*n.s.*	(1.7)	*n.s.*	0.1	(1.7)	*n.s.*
Trade and other payables	2.6	25.1	*(89.8%)*	(1.2)	*n.s.*	1.4	28.6	*(95.2%)*
Change in working capital	**(5.8)**	**6.4**	*n.s.*	**(17.2)**	*(66.3%)*	**(22.9)**	**13.2**	*n.s.*

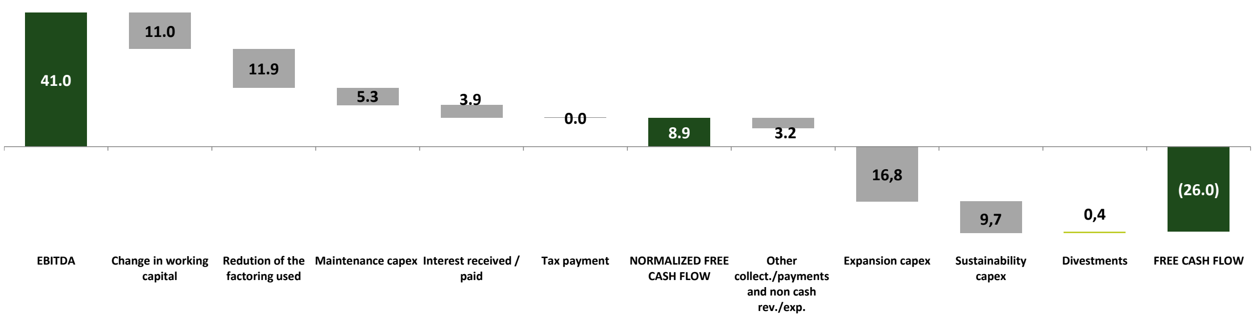
At 30 June 2021, the Pulp business had drawn down €54.2m under its receivable factoring facilities, down from €66.1m at year-end 2020. The Company has reduced its use of discounting facilities in a bid to lower the associated financial cost. In addition, Ence has a number of non-recourse reverse factoring agreements, which were drawn down by €88.4m at 30 June 2021, down from €104.6m at year-end 2020.

Figures in €Mn	2T21	2T20	Δ%	1T21	Δ%	1S21	1S20	Δ%
Maintenance capex	(3.1)	(2.9)	*6.2%*	(2.2)	*40.7%*	(5.3)	(6.7)	*(21.0%)*
Sustainability capex and other	(3.9)	(2.1)	*81.2%*	(5.8)	*(33.1%)*	(9.7)	(9.6)	*1.5%*
Efficiency and expansion capex	(5.6)	(4.3)	*30.9%*	(16.8)	*(66.8%)*	(22.4)	(21.2)	*5.4%*
Financial investments	(0.0)	0.0	*n.s.*	(0.0)	*(17.6%)*	(0.0)	0.0	*n.s.*
Investments	**(12.6)**	**(9.3)**	*35.2%*	**(24.8)**	*(49.4%)*	**(37.4)**	**(37.4)**	*(0.1%)*
Disposals	0.2	-	*n.s.*	0.2	*47.9%*	0.4	0.4	*(0.7%)*
Net cash flow used in investing activities	**(12.3)**	**(9.3)**	*32.6%*	**(24.7)**	*(50.1%)*	**(37.0)**	**(37.0)**	*(0.1%)*

Cash used in investing activities amounted to €12.3m in 2Q21 and €37m in 1H21, in line with the amounts reported in the same period of 2020.

Maintenance capex totalled €3.1m in 2Q21 and €5.3m in 1H21, compared to €2.9m in 1Q20 and €6.7m in 1H20. Investments in sustainability initiatives, meanwhile, amounted to €3.9m in 2Q21 and €9.7m in 1H21, compared to €2.1m and €9.6m in the same periods of 2020, respectively, and were mainly earmarked to reinforcing facility safety and reducing odour, noise and water consumption at the biomills, bolstering Ence's competitiveness in the long term.

Investments in efficiency and growth amounted to €5.6m in 2Q21 and €22.4m in 1H21, compared to €4.3m and €21.2m in the same periods of 2020, respectively. Those payments were largely related with the capacity increases implemented in 2019, for which €28m remains outstanding.



As a result, normalised free cash flow in the Pulp business amounted to €8.9m in 1H21, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €26m.

2.9. Change in net debt

Net debt in the Pulp business stood at €43.2m at 30 June 2021, virtually in line with the year-end 2020 balance. Free cash flow for the first half was offset by the derecognition of lease liabilities related with the concession fee in Pontevedra in the amount of €28.8m, reducing lease liabilities to €15.5m.

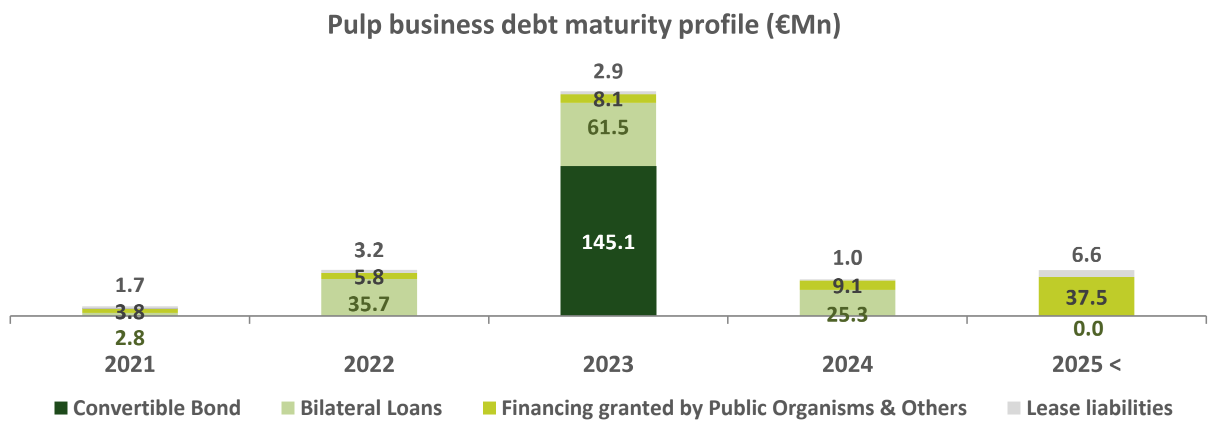
Figures in € m	2Q21 pre rullings	Rullings impact	Jun-21	Dec-20	Δ%
Non-current financial debt	315.8		315.8	401.2	*(21.3%)*
Current financial debt	19.0		19.0	54.4	*(65.1%)*
Gross financial debt	**334.8**		**334.8**	**455.6**	*(26.5%)*
Non-current lease contracts	42.3	(30.0)	12.3	42.8	*(71.3%)*
Current lease contracts	2.0	1.2	3.2	2.0	*56.8%*
Financial liabilities related to lease contracts	**44.3**	**(28.8)**	**15.5**	**44.8**	*(65.5%)*
Cash and cash equivalents	298.2		298.2	448.1	*(33.5%)*
Short-term financial investments	8.8		8.8	9.0	*(1.7%)*
Net financial debt Pulp business	**72.0**	**(28.8)**	**43.2**	**43.4**	*(0.4%)*

Due to the cyclical nature of the Pulp business, it is financed with covenant-free, long-term debt and ample liquidity. Cash and cash equivalents stood at €307m at 30 June 2021.

In light of heightened uncertainty regarding the direction of COVID-19 and following the sale of a 49% equity interest in Ence Energía in December 2020, the Company prepaid €94.6m of bilateral loans and reduced the use of receivables factoring facilities by €11.9m in the first half in order to reduce the associated financial cost. Those prepayments were additional to €24.1m of ordinary scheduled debt repayments during the first half.

After the close, in July, it also prepaid €20m of bilateral loans and refinanced the Pulp business's revolving credit facility, increasing its limit to €130m and extending its maturity to 2026.

The gross debt of €437m at the June close corresponds mainly to the €145.1m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €125.3m on bilateral loans and a series of loans totalling €64.4m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2030. 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 plants that have no relation to the pulp production process. Ence has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

The new agricultural and forestry biomass plants in Huelva (46 MW) and Puertollano (Ciudad Real) (50 MW) were brought on line on 31 January and 31 March 2020, respectively. In December 2020, Ence Energía, S.L. sold its 50-MW solar thermal plant in Puertollano (Ciudad Real).

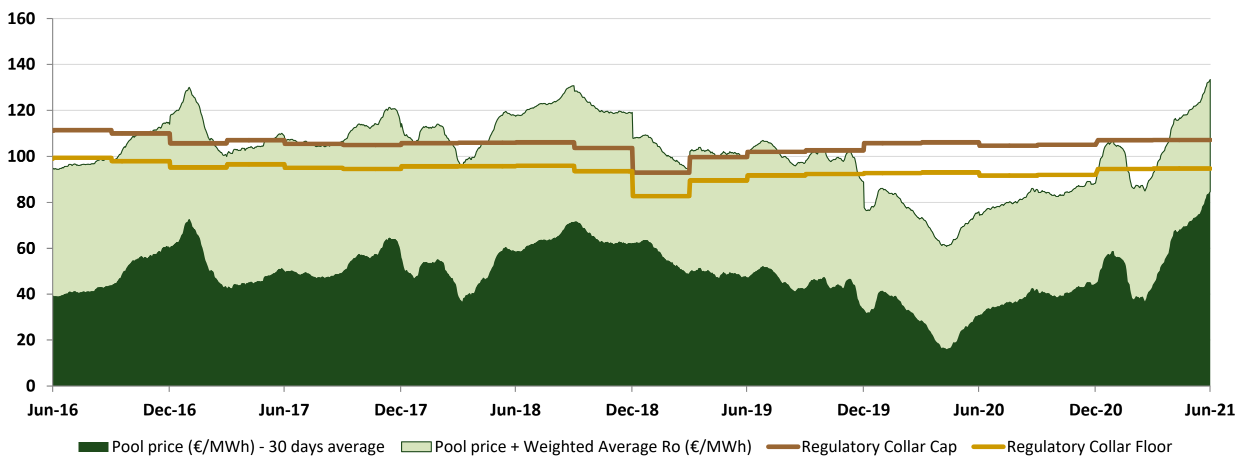
3.1. Electricity market trends

Electricity pool prices averaged €76.3/MWh in 2Q21, which is 3.3 times the 2Q20 level, and €62.2/MWh in 1H20, 2.1 times 2H20 prices.

Market figures	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Average pool price (€/MWh)	76.3	23.3	*227.8%*	48.1	*58.6%*	62.2	29.0	*114.2%*

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 remuneration concept implies annual income of €40.9m (excluding the solar thermal plant sold in December 2020).

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

3.2. Energy sales

Rigorous 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 without interruption throughout the initial outbreak and subsequent waves of the health crisis, with no jobs lost.

Energy sales volumes declined by 6.4% year-on-year in 2Q21 to 331,697 MWh, due mainly to the sale of the solar thermal power plant in Puertollano in December 2020.

On a like-for-like basis, i.e., excluding the plant sold, the volume of energy sold in the second quarter narrowed 1.1% year-on-year. Higher capacity utilisation at the Huelva 46-MW and Ciudad Real 50-MW plants, coupled with a higher contribution by the Huelva 41-MW plant, which was idled during 2Q20, partially offset the reduced contributed by the Huelva 50-MW plant, which was taken offline in 2Q21 due to an incident detected at the generator in the course of its annual review. The goal is to bring that plant back online in October.

In 1H21, energy sales volumes, in like-for-like terms, i.e., excluding the solar thermal plant, increased by 11.8%, driven by bigger contribution from the two new plants commissioned during the first quarter of 2020 and from the Huelva 41-MW plant.

The 50-MW Ciudad Real, 20-MW Merida, 16-MW Ciudad Real and 16-MW Jaen plants were stopped for their annual maintenance work during the second quarter. The 50-MW, 41-MW and 46-MW Huelva plants had been stopped for maintenance in 1Q21. The 27-MW Cordoba plant is slated for maintenance in the third quarter.

Operating figures	**2Q21**	2Q20	*Δ%*	1Q21	*Δ%*	1H21	1H20	*Δ%*
Huelva 41 MW - Biomass	48,531	-	*n.s.*	37,310	*30.1%*	85,841	28,139	*205.1%*
Jaén 16 MW - Biomass	21,779	21,927	*(0.7%)*	21,852	*(0.3%)*	43,631	46,108	*(5.4%)*
Ciudad Real 16 MW - Biomass	24,158	25,910	*(6.8%)*	25,325	*(4.6%)*	49,483	33,270	*48.7%*
Córdoba 27 MW - Biomass	50,571	47,187	*7.2%*	44,038	*14.8%*	94,609	97,479	*(2.9%)*
Ciudad Real 50 MW - CSP plant	-	19,127	*(100.0%)*	-	*n.s.*	-	24,833	*(100.0%)*
Huelva 50 MW - Biomass	-	81,122	*(100.0%)*	39,336	*(100.0%)*	39,336	168,095	*(76.6%)*
Mérida 20 MW - Biomass	35,902	33,776	*6.3%*	35,350	*1.6%*	71,252	69,254	*2.9%*
Huelva 46 MW - Biomass	79,805	64,482	*23.8%*	56,655	*40.9%*	136,424	84,787	*60.9%*
Ciudad Real 50 MW - Biomass	70,951	60,979	*16.4%*	65,928	*7.6%*	136,880	60,979	*124.5%*
Energy sales (MWh)	**331,697**	**354,508**	*(6.4%)*	**325,795**	*1.8%*	**657,455**	**612,945**	*7.3%*
Energy sales excluding the CSP plant (MWh)	*331,697*	*335,382*	*(1.1%)*	*325,795*	*1.8%*	*657,455*	*588,111*	*11.8%*
Average sales price - Pool + Ro + Collar + Hedges (€/MWh)	95.6	97.6	*(2.0%)*	102.7	*(7.0%)*	99.1	97.1	*2.1%*
Remuneration for investment (€m)	10.2	15.9	*(35.5%)*	10.2	-	20.5	31.7	*(35.5%)*
Remuneration for investment excluding the CSP plant (€m)	***10.2***	***10.2***	-	***10.2***	-	***20.5***	***20.5***	-
Revenue (€ m)	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**91.8**	*(6.3%)*
Capitalized revenues (€ m)	-	-	-	-	-	-	4.1	-
Total revenue (€ m)	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**96.0**	*(10.4%)*

Despite the rise in pool prices, Ence's average sales price narrowed by 2% year-on-year in 2Q21 as a result of the sales arranged at a fixed price within the regulatory collar limits. In 1H21, the average sales price improved by 2.1%.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar). The regulatory collar implied the recognition of a provision of €4m in 2Q21 and of €1.2m in 1H21, compared to income of €10.9m in 1Q20 and €15.0m in 1H20.

In addition, in 2020, Ence decided to lock in an average price of €44.5 MWh for the sale of 732,063 MWh of energy in 2021, at a time when prices were at record lows and the uncertainty sparked by the COVID-19 pandemic was high. Those fixed-price agreements implied a cash outflow of €4.4m in 2Q21 (equivalent to €13/MWh) and of €4.6m in 1H21 (equivalent to €7/MWh) and were accounted for as a reduction in the average sales price.

Lastly, remuneration on investment decreased by €5.7m in 2Q21 and by €11.2m in 1H21 as a result of the sale of the solar thermal plant in December 2020.

As a result, revenue in the Renewable Energy business decreased by 17% year-on-year in 2Q21 to €42.2m and by 6.3% year-on-year in 1H21, to €86m.

3.3. Statement of profit or loss

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Total revenue	**42.2**	**50.8**	*(17.0%)*	**43.9**	*(3.9%)*	**86.0**	**96.0**	*(10.4%)*
EBITDA	**13.8**	**15.5**	*(10.9%)*	**8.7**	*58.9%*	**22.6**	**26.9**	*(16.0%)*
EBITDA margin	*33%*	*31%*	*2.3 p.p.*	*20%*	*13.0 p.p.*	*26%*	*28%*	*(1.8) p.p.*
EBITDA before hedges and excluding the CSP plant	*13.8*	*10.6*	*31.0%*	*8.7*	*58.9%*	*22.6*	*18.1*	*24.4%*
EBITDA	**9.4**	**15.5**	*(39.2%)*	**8.5**	*10.9%*	**18.0**	**26.9**	*(33.1%)*
EBITDA margin	*22%*	*31%*	*(8.2) p.p.*	*19%*	*3.0 p.p.*	*21%*	*28%*	*(7.1) p.p.*
EBITDA excluding the CSP plant	*9.4*	*10.6*	*(10.7%)*	*8.5*	*10.9%*	*18.0*	*18.1*	*(0.9%)*
Depreciation and amortisation	(9.4)	(11.1)	*(14.6%)*	(9.3)	*1.7%*	(18.7)	(20.3)	*(7.9%)*
Depletion of forestry reserves	(0.0)	(0.0)	*7.9%*	(0.1)	*(48.8%)*	(0.1)	(0.2)	*(42.1%)*
Impairment of and gains/(losses) on fixed-asset disposals	(0.2)	(0.5)	*(67.8%)*	(0.1)	*35.6%*	(0.3)	(1.6)	*(82.5%)*
EBIT	**(0.2)**	**3.9**	*n.s.*	**(1.0)**	*(79.5%)*	**(1.2)**	**4.7**	*n.s.*
EBIT margin	*0%*	*8%*	*(8.2) p.p.*	*-2%*	*1.7 p.p.*	*-1%*	*5%*	*(6.3) p.p.*
Net finance cost	(2.5)	(4.1)	*(38.2%)*	(3.3)	*(22.4%)*	(5.8)	(7.7)	*(24.2%)*
Other finance income/(cost)	0.2	(0.0)	*n.s.*	(0.0)	*n.s.*	0.2	(0.0)	*n.s.*
Profit before tax	**(2.5)**	**(0.2)**	*n.s.*	**(4.2)**	*(41.1%)*	**(6.7)**	**(3.0)**	*127.3%*
Income tax	(0.3)	0.1	*n.s.*	0.9	*n.s.*	0.6	0.8	*(22.0%)*
Net Income	**(2.8)**	**(0.1)**	*n.s.*	**(3.4)**	*(17.1%)*	**(6.2)**	**(2.2)**	*179.0%*
Non-controlling interests	(0.3)	(0.5)	*(43.0%)*	(0.3)		(0.6)	(0.7)	*(19.0%)*
Atributable Net Income	**(3.1)**	**(0.6)**	*n.s.*	**(3.7)**	*(15.6%)*	**(6.8)**	**(2.9)**	*129.2%*

EBITDA before hedges in the Renewable Energy business amounted to €13.8m in 2Q21 and €22.6m in 1H21, down by 10.9% and 16% year-on-year from 1Q20 and 1H20, respectively, due to the sale of the solar thermal plant.

Like-for-like, i.e., excluding the solar thermal plant, EBITDA before hedges sustained year-on-year growth of 31% in 2Q21 and of 24.4% in 1H21, fuelled by the recovery in pool prices. The above-mentioned fixed-price hedges had a negative impact of €4.4m in 2Q21 and of €4.6m in 1H21.

Second-quarter EBITDA declined by 10.7% year-on-year even on a like-for-like basis due to the impact of the incident at the 50-MW Huelva plant. However, EBITDA was flat year-on-year on a like-for-like basis in 1H21 thanks to the higher contribution by the two new biomass plants commissioned in 1Q20 and the impact of the growth in average sales prices on the volume not covered by the fixed-price agreements, partially eroded by higher biomass costs.

Below the EBITDA line, it is worth highlighting the 7.9% decline in depreciation charges to €18.7m in 1H21, again as a result of the sale of the solar thermal plant in December 2020.

Net finance costs decreased by 24.2% to €5.8m in 1H21, due to the deconsolidation of the solar thermal power plant.

As a result, the net loss attributable to the Renewable Energy business amounted to €3.1m in 2Q21 and €6.8m in 1H21, compared to net losses of €0.6m and €2.9m in the same periods of 2020, respectively.

3.4. Cash flow analysis

Cash flow from operations totalled €19.3m in 2Q21 and €15.4m in 1H21, compared to €0.4m in 1Q20 and €7.8m in 1H20. The reduction in EBITDA was offset by the impact of the regulatory collar in 2020, which will be collected over the remaining useful lives of the plants, and an inflow of cash from changes in working capital.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
EBITDA	**9.4**	**15.5**	*(39.2%)*	**8.5**	*10.9%*	**18.0**	**26.9**	*(33.1%)*
Non cash expenses / (incomes)	2.6	(7.4)	*n.s.*	1.8	*44.2%*	4.4	(10.3)	*n.s.*
Other collections / (payments)	0.0	(0.0)	*n.s.*	(0.0)	*n.s.*	(0.0)	(0.0)	*(73.9%)*
Change in working capital	13.0	(0.9)	*n.s.*	(14.0)	*n.s.*	(0.9)	(2.4)	*(62.0%)*
Income tax received / (paid)	(0.1)	(0.2)	*(50.3%)*	0.3	*n.s.*	0.3	1.0	*(75.1%)*
Net interest received / (paid)	(5.7)	(6.7)	*(14.4%)*	(0.6)	*n.s.*	(6.3)	(7.3)	*(14.0%)*
Net cash flow from operating activities	**19.3**	**0.4**	*n.s.*	**(3.9)**	*n.s.*	**15.4**	**7.8**	*96.4%*

Change in working capital represented a cash inflow of €13m in 2Q21. Trade receivables increased by €12m once Ence Energía assumed sole representation for the Group in the electricity market. By the same token, trade payables increased by €6.7m, partially offset by growth of €5.7m in inventories. The change in working capital in 1H21 generated a cash outflow of €0.9m, including a €6.8m reduction in the use of receivables factoring facilities.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Inventories	(5.7)	(0.9)	*n.s.*	(0.8)	*n.s.*	(6.5)	(4.5)	*42.6%*
Trade and other receivables	12.0	(9.7)	*n.s.*	(6.8)	*n.s.*	5.2	(7.4)	*n.s.*
Trade and other payables	6.7	9.6	*(30.2%)*	(6.4)	*n.s.*	0.3	9.5	*(96.8%)*
Change in working capital	**13.0**	**(0.9)**	*n.s.*	**(14.0)**	*n.s.*	**(0.9)**	**(2.4)**	*(62.0%)*

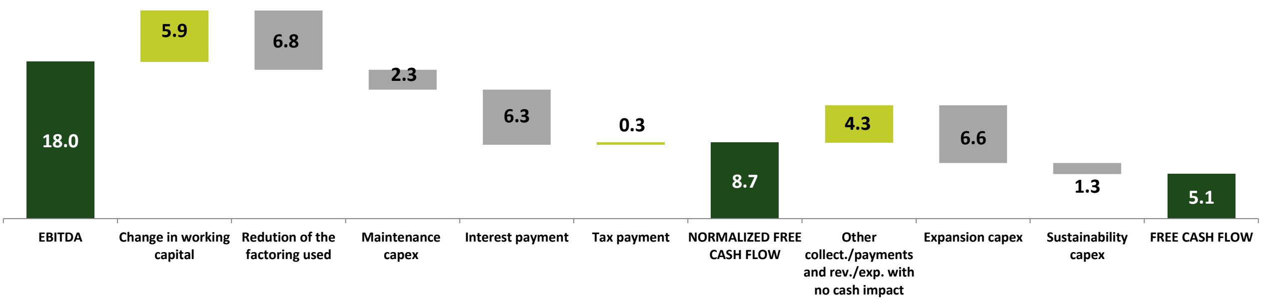
As of the June close, the Renewable Energy business had drawn down its factoring lines by €15.4m, compared to €22.2m at year-end 2020. In addition, Ence has a number of non-recourse reverse factoring agreements, which were drawn down by €28.3m at 30 June 2021, compared to €27.4m at year-end 2020.

Figures in € m	2Q21	2Q20	Δ%	1Q21	Δ%	1H21	1H20	Δ%
Maintenance capex	(0.7)	(1.0)	*(30.1%)*	(1.6)	*(56.1%)*	(2.3)	(2.4)	*(5.6%)*
Sustainability capex and other	(0.4)	(0.3)	*37.3%*	(0.9)	*(57.1%)*	(1.3)	(2.2)	*(43.2%)*
Efficiency and expansion capex	(2.5)	(3.2)	*(21.3%)*	(4.1)	*(37.7%)*	(6.6)	(35.4)	*(81.3%)*
Financial investments	(0.1)	(0.0)	*n.s.*	-	*n.s.*	(0.1)	0.0	*n.s.*
Investments	**(3.7)**	**(4.5)**	*(17.6%)*	**(6.5)**	*(43.3%)*	**(10.3)**	**(40.0)**	*(74.4%)*
Disposals	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Net cash flow from investing activities	**(3.7)**	**(4.5)**	*(17.6%)*	**(6.5)**	*(43.3%)*	**(10.3)**	**(40.0)**	*(74.4%)*

Maintenance capex decreased to €0.7m in 2Q21 and €2.3m in 1H21, compared to €1m in 1Q20 and €2.4m in 1H20. Investments in sustainability initiatives, meanwhile, amounted to €0.4m in 2Q21 and €1.3m in 1H21, compared to €0.3m and €2.2m in the same periods of 2020, respectively,

Efficiency and growth capex amounted to €2.5m in 2Q21 and €6.6m in 1H21, mainly on account of construction payments outstanding on the two biomass plants commissioned in 1Q21, for which €8.4m remains outstanding. The €35.4m of efficiency and growth capex recognised in 1H20 included the contribution of the remaining assets in Huelva by the Pulp business at a value of €26.9m, so completing the separation of the two units' assets; that transfer did not have any impact on the Group's consolidated cash flows.

As a result, normalised free cash flow in the Renewable Energy business amounted to €11.2m in 1H21, while free cash flow net of efficiency, growth and sustainability capex came in at €5.1m.

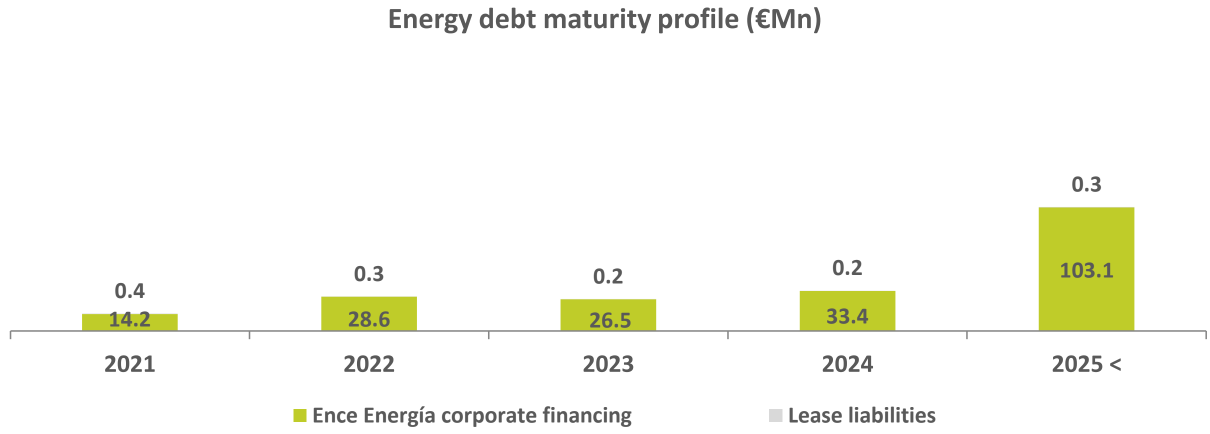


3.5. Change in net debt

Net debt in the Renewable Energy business decreased by €1.6m from year-end 2020 to €132.9m at 30 June 2021, €1.4m of which corresponds to lease liabilities.

Figures in € m	Jun-21	Dec-20	Δ%
Non-current financial debt	176.4	189.2	*(6.8%)*
Current financial debt	29.4	28.6	*2.8%*
Gross financial debt	**205.8**	**217.8**	*(5.5%)*
Non-current lease contracts	0.8	0.7	*9.0%*
Current lease contracts	0.6	0.4	*27.8%*
Financial liabilities related to lease contracts	**1.4**	**1.2**	*16.2%*
Cash and cash equivalents	74.2	84.5	*(12.2%)*
Short-term financial investments	0.0	0.0	-
Net financial debt Renewable Energy business	**132.9**	**134.5**	*(1.2%)*

Gross debt at the June close stood at €205.8m, while cash amounted to €74.2m.



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

Figures in € m	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
	1H21						1H20			
Total revenue	**287.9**	**-**	**287.9**	**86.0**	**(1.5)**	**372.4**	**267.9**	**96.0**	**(1.9)**	**362.0**
Other income	5.9	-	5.9	6.4	(0.9)	11.3	4.2	1.5	(1.1)	4.6
Foreign exchange hedging operations results	(11.0)	-	(11.0)	-		(11.0)	(9.5)	-		(9.5)
Cost of sales and change in inventories of finished produ	(138.8)	-	(138.8)	(32.6)	1.5	(169.8)	(146.5)	(29.9)	1.9	(174.6)
Personnel expenses	(34.2)	-	(34.2)	(6.4)		(40.6)	(39.0)	(6.4)		(45.5)
Other operating expenses	(70.4)	1.5	(68.9)	(35.4)	0.9	(103.4)	(68.1)	(34.2)	1.1	(101.2)
EBITDA	**39.5**	**1.5**	**41.0**	**18.0**		**58.9**	**8.9**	**26.9**		**35.7**
EBITDA margin	*14%*		*14%*	*21%*		*16%*	*3%*	*28%*		*10%*
Depreciation and amortisation	(27.1)	-	(27.1)	(18.7)	1.6	(44.3)	(28.0)	(20.3)	0.8	(47.6)
Depletion of forestry reserves	(6.4)	-	(6.4)	(0.1)		(6.5)	(6.7)	(0.2)		(6.9)
Impairment of and gains/(losses) on fixed-asset disposals	(0.9)	(188.5)	(189.4)	(0.3)		(189.7)	0.8	(1.6)	1.2	0.4
Other non-ordinary operating gains/(losses)	(1.3)	6.3	5.0	-		5.0	(2.5)	-		(2.5)
EBIT	**3.9**	**(180.7)**	**(176.9)**	**(1.2)**	**1.6**	**(176.5)**	**(27.5)**	**4.7**	**1.9**	**(20.8)**
EBIT margin	*1%*		*-61%*	*-1%*		*-47%*	*-10%*	*5%*		*-6%*
Net finance cost	(4.7)	-	(4.7)	(5.8)	0.6	(9.9)	(5.4)	(7.7)		(13.0)
Other finance income/(costs)	1.5	-	1.5	0.2	(0.6)	1.1	0.5	(0.0)		0.5
Profit before tax	**0.6**	**(180.7)**	**(180.1)**	**(6.7)**	**1.6**	**(185.3)**	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**
Income tax	2.2	(15.7)	(13.6)	0.6	3.4	(9.6)	8.0	0.8	(0.1)	8.7
Net Income	**2.8**	**(196.5)**	**(193.7)**	**(6.2)**	**5.0**	**(194.9)**	**(24.3)**	**(2.2)**	**1.9**	**(24.6)**
Non-controlling interests	-	-	-	(0.6)	0.9	0.3	-	(0.7)		(0.7)
Atributable Net Income	**2.8**	**(196.5)**	**(193.7)**	**(6.8)**	**5.8**	**(194.6)**	**(24.3)**	**(2.9)**	**1.9**	**(25.4)**
Earnings per Share (EPS)	0.01	(0.81)	(0.80)	(0.03)	0.02	(0.80)	(0.10)	(0.01)		(0.10)

4.2. Balance sheet

Figures in € m	Pulp pre rullings	Rullings impact	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
	Jun - 21						Dec - 20			
Intangible assets	15.2	(2.2)	13.0	39.0	(13.6)	38.4	15.8	40.0	(13.9)	41.9
Property, plant and equipment	622.7	(175.7)	447.0	467.4	(10.4)	904.0	627.7	476.8	(11.7)	1,092.9
Biological assets	65.0	(2.5)	62.5	0.1		62.6	71.0	0.2		71.3
Non-current investments in Group companies	125.8	-	125.8	0.0	(125.8)	0.0	125.8	0.0	(125.8)	-
Non-current borrowings to Group companies	38.3	-	38.3	-	(38.3)	-	38.3	-	(38.3)	-
Non-current financial assets	18.9	-	18.9	4.7		23.6	17.6	6.6		24.2
Deferred tax assets	69.1	(26.0)	43.1	18.0	3.4	64.4	56.2	15.8		72.0
Total non-current assets	**955.0**	**(206.4)**	**748.5**	**529.2**	**(184.7)**	**1,093.0**	**952.4**	**539.5**	**(189.7)**	**1,302.2**
Inventories	36.1	(2.9)	33.2	14.0		47.1	43.3	9.5	(1.0)	51.8
Trade and other accounts receivable	55.8	-	55.8	27.5	(11.4)	71.9	61.7	23.2	(26.7)	58.2
Income tax	0.0	-	0.0	0.1		0.1	0.0	0.9		1.0
Other current assets	15.3	-	15.3	0.2		15.5	1.3	0.1		1.3
Hedging derivatives	0.0	-	0.0	-		-	6.8	-		6.8
Current financial investments	8.8	-	8.8	0.0		8.8	18.2	0.0		18.2
Cash and cash equivalents	298.2	-	298.2	74.2		372.4	448.1	84.5		532.6
Total current assets	**414.2**	**(2.9)**	**411.3**	**116.0**	**(11.4)**	**515.9**	**579.4**	**118.3**	**(27.7)**	**669.9**
TOTAL ASSETS	**1,369.1**	**(209.3)**	**1,159.8**	**645.2**	**(196.1)**	**1,608.9**	**1,531.8**	**657.8**	**(217.5)**	**1,972.1**
Equity	**697.3**	**(206.8)**	**490.5**	**262.5**	**(146.4)**	**606.7**	**733.0**	**268.5**	**(151.3)**	**850.1**
Non-current borrowings	358.1	(30.0)	328.1	177.2		505.2	444.0	190.0		634.0
Non-current loans with Group companies and associates	-	-	-	75.2	(38.3)	36.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-	-	3.9		3.9	0.1	5.5		5.6
Deferred tax liabilities	18.2	-	18.2	1.7		19.8	19.9	1.8		21.7
Non-current provisions	7.4	43.0	50.5	0.1		50.6	2.7	0.1		2.8
Other non-current liabilities	3.5	-	3.5	7.4		10.9	4.5	8.8		13.3
Total non-current liabilities	**387.2**	**13.0**	**400.3**	**265.4**	**(38.4)**	**627.3**	**471.2**	**281.3**	**(38.3)**	**714.2**
Current borrowings	21.0	1.2	22.1	30.0		52.1	56.4	29.0		85.5
Current derivatives	47.4	-	47.4	2.9		50.4	4.9	3.2		8.1
Trade and other account payable	187.8	(1.5)	186.3	75.1	(11.4)	250.1	238.0	68.2	(26.8)	279.3
Short-term debts with group companies	0.0	-	0.0	0.6		0.6	0.0	(0.0)		-
Income tax	0.0	-	0.0	7.3		7.3	0.0	5.6		5.6
Current provisions	28.3	(15.3)	13.1	1.4		14.5	28.4	1.9	(1.0)	29.4
Total current liabilities	**284.6**	**(15.6)**	**269.0**	**117.3**	**(11.4)**	**374.9**	**327.8**	**108.0**	**(27.8)**	**407.9**
TOTAL EQUITY AND LIABILITIES	**1,369.1**	**(209.3)**	**1,159.8**	**645.2**	**(196.1)**	**1,608.9**	**1,531.9**	**657.8**	**(217.5)**	**1,972.2**

4.3. Statement of cash flows

Figures in € m	1H21 Pulp pre rullings	1H21 Rullings impact	1H21 Pulp	1H21 Energy	1H21 Adjustments	1H21 Consolidated	1H20 Pulp	1H20 Energy	1H20 Adjustments	1H20 Consolidated
Consolidated profit/(loss) for the period before tax	**0.6**	**(180.7)**	**(180.1)**	**(6.7)**	**1.6**	**(185.3)**	**(32.3)**	**(3.0)**	**1.9**	**(33.3)**
Depreciation and amortisation	33.5		33.5	18.9	(1.6)	50.8	34.7	20.6	(0.8)	54.5
Changes in provisions and other deferred expense	(0.1)	(7.8)	(7.9)	3.4		(4.5)	11.7	4.8		16.5
Impairment of gains/(losses) on disposals intangible asset	0.9	188.5	189.4	0.3		189.7	(1.0)	1.6	(1.2)	(0.6)
Net finance result	3.3		3.3	5.6		8.9	5.2	7.7		12.9
Energy regulation adjustment (regulatory collar)	(0.0)		(0.0)	1.2		1.2	(7.1)	(15.0)		(22.1)
Government grants taken to income	(0.4)		(0.4)	(0.2)		(0.6)	(0.5)	(0.1)		(0.6)
Adjustments to profit	**37.1**	**180.7**	**217.9**	**29.1**	**(1.6)**	**245.4**	**43.0**	**19.5**	**(1.9)**	**60.6**
Inventories	6.3		6.3	(6.5)		(0.1)	(4.8)	(4.5)		(9.4)
Trade and other receivables	(30.8)		(30.8)	5.2		(25.5)	(8.8)	(7.4)		(16.2)
Current financial and other assets	0.1		0.1	-		0.1	(1.7)	-		(1.7)
Trade and other payables	1.4		1.4	0.3		1.7	28.6	9.5		38.1
Changes in working capital	**(22.9)**		**(22.9)**	**(0.9)**		**(23.8)**	**13.2**	**(2.4)**		**10.9**
Interest paid	(3.9)		(3.9)	(6.3)		(10.2)	(2.4)	(7.3)		(9.7)
Dividends received	0.0		0.0	-		0.0	-	-		-
Income tax received/(paid)	-		-	0.3		0.3	-	1.0		1.0
Other collections/(payments)	-		-	-		-	0.0	-		-
Other cash flows from operating activities	**(3.9)**		**(3.9)**	**(6.1)**		**(9.9)**	**(2.4)**	**(6.3)**		**(8.7)**
Net cash flow from operating activities	**11.0**		**11.0**	**15.4**		**26.3**	**21.5**	**7.8**		**29.3**
Property, plant and equipment	(36.5)		(36.5)	(10.1)		(46.6)	(35.3)	(39.7)	26.9	(48.1)
Intangible assets	(0.9)		(0.9)	(0.1)		(0.9)	(2.1)	(0.3)		(2.5)
Other financial assets	(0.0)		(0.0)	(0.1)		(0.1)	0.0	0.0		0.1
Disposals	0.4		0.4	-		0.4	0.4	-		0.4
Net cash flow used in investing activities	**(37.0)**		**(37.0)**	**(10.3)**		**(47.2)**	**(37.0)**	**(40.0)**	**26.9**	**(50.1)**
Free cash flow	**(26.0)**		**(26.0)**	**5.1**		**(20.9)**	**(15.5)**	**(32.2)**	**26.9**	**(20.8)**
Buyback/(disposal) of own equity instruments	(1.3)		(1.3)	-		(1.3)	(0.5)	26.9	(26.9)	(0.5)
Proceeds from and repayments of financial liabilities	(122.6)		(122.6)	(15.4)		(138.0)	142.5	(7.3)		135.2
Dividends payments	-		-	-		-	-	-		-
Net cash flow from/ (used in) financing activities	**(123.9)**		**(123.9)**	**(15.4)**		**(139.3)**	**142.0**	**19.7**	**(26.9)**	**134.7**
Net increase/(decrease) in cash and cash equivalents	**(149.9)**		**(149.9)**	**(10.3)**		**(160.2)**	**126.5**	**(12.6)**		**113.9**

5. KEY DEVELOPMENTS

National Court Sentences affecting the concession in Pontevedra

On 15 July 2021, Spain's National Court issued two sentences annulling the extension of the concession over the public-domain land on which Ence's biomill in Pontevedra is located.

The Company plans to appeal the sentences before the Supreme Court and will exhaust all legal avenues to defend the lawfulness of the concession extension.

If the Supreme Court does not agree to hear, or dismisses, the appeal, it would fall to the Ministry of Green Transition and Demographic Challenges to determine (in a decision endorsed by the National Court) the deadline for potentially discontinuing activities at the biomill.

In keeping with applicable accounting rules and assuming the potential discontinuation of activities in the biomill in 2023 or 2024, ENCE has recognised in its second-quarter financial statements asset impairment charges and provisions which won't imply any cash outflow in a net amount of €148.2m, together with a provision of €42.3m to cover the estimated cost of the potential dismantling of the bio-mill and a provision of €6m to cover the estimated cost of the potential termination of outstanding contracts.

The cost of restructuring the surplus labor, including the associated corporate overhead, which would be caused by the potential closure of the bio-mill has not been provisioned yet in the financial statements, as the requirements for its accounting have not been fulfilled.

If, having exhausted all appeal options, the annulment of the extension of the Pontevedra biomill concession extension is upheld, the Company will claim the patrimonial responsibility of the Spanish Administration and seek compensation for all damages caused by said annulment.

Improvement in ESG score

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices.

In May 2021, Sustainalytics increased Ence's overall ESG score to 91 points out of 100, which ranks it has the global leader in the pulp and paper sector.

In January 2021, Ence received an AA rating (on a scale from AAA to CCC) on MSCI's ESG Rating Assessment.

Lastly, the Company has been part of the prestigious FTSE4Good Index Series since January 2021.

Measures taken to prevent and minimise the spread of Covid-19

Maintenance of activity and jobs

Ence continues to apply and update its internal COVID-19 protocol rigorously. That protocol has proven effective at preventing transmission of the virus in our places of work, making it possible to continue our business activities and preserve jobs.

COVID-19 protocol

The protocol is applicable in all of Ence's places of work and to all of its employees, as well as its service providers. To ensure stringent compliance, daily audits are carried out in each work centre, with all activities reviewed every three days at most.

Among other things, the protocol stipulates the following:

- ✓ Limits on travel and factory visits.
- ✓ Preventive quarantines for anyone with symptoms and anyone who has had close contact with people who have or may have the virus.
- ✓ A periodic test regime and health and protocol quizzes for all staff, with a frequency that depends on a series of indicators, including the accumulated case incidence numbers in each region. That regime is managed by means of a mobile-friendly electronic COVID Passport application.
- ✓ Specific measures governing travel to work and temperature checks before entering.
- ✓ Mandatory use of face masks at all times (certified, washable hygienic masks, surgical masks or FFP2-grade masks, depending on risk levels and the level of protection required).
- ✓ Social distancing.
- ✓ 15-minute long ventilation intervals every hour.
- ✓ Preventive measures with respect to workplace and personal hygiene, and the provision of materials at all workplaces.
- ✓ Specific measures for the various classes of contractors and suppliers who need access to Ence's places of work.
- ✓ Promotion of the use of remote working arrangements such as video conference calls to facilitate social distancing; widespread use of walkie talkies with intercoms for field work to enable employee interaction without breaching the 2-metre distance rule.

COVID-19 related costs

In the first half of 2021, the costs induced by Covid-19 amounted to €1m. 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.

2021 Annual General Meeting

Ence held its Annual General Meeting remotely on 26 March 2021. It was attended by shareholders representing 60% of its share capital who ratified all of the agenda items. The motions were carried with over 82% of votes in favour on average. The items ratified included:

- ✓ Approval of the 2020 financial statements, management report and sustainability report.
- ✓ Approval of the Board of Directors’ performance and proposed appropriation of profit for 2020.
- ✓ Re-election of Ms. Rosa María García Piñeiro as independent director.
- ✓ Appointment of Mr. Javier Arregui Abendivar as proprietary director.
- ✓ Appointment of Mr. Oscar Arregui Abendivar as proprietary director.
- ✓ Appointment of Mr. Gorka Arregui Abendivar as proprietary director.
- ✓ Ratification of the appointment of Mr. José Ignacio Comenge Sánchez-Real as proprietary director.
- ✓ Appointment of Ms. María de la Paz Robina Rosat as independent director.
- ✓ Establishment of the number of members of the Board of Directors at 13.
- ✓ Appointment of the auditor of the Company and its consolidated group.

Moody's credit ratings

On 6 April 2021, Moody's affirmed Ence's Ba3 rating with a stable outlook. Moody's believes the recovery in pulp prices in 2021 will allow Ence to reduce its credit ratios to levels that are compatible with its current credit rating. It also highlighted the Company's liquidity position following the disposals completed in the Renewable Energy business towards the end of 2020.

APPENDIX 1: MASTER SUSTAINABILITY PLAN

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

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2021, Sustainalytics increased Ence's overall ESG score to 91 points out of 100, which ranks it has the global leader in the pulp and paper sector. Also in 2021, Ence received an AA rating (on a scale from AAA to CCC) on MSCI's ESG Rating Assessment. Lastly, the Company joined the prestigious FTSE4Good Index Series in 2021.

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

1. People and values

Ence's commitment to its people has guided the Company's actions since the onset of the pandemic induced by COVID-19. During the first few months of 2021, the Company continued to revise and fine-tune its general protocols, as well as the protocols addressing stoppages and restriction easing, to adapt them for the circumstances prevailing at all times.

In addition to a swift response 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.

In terms of the **generation of quality work**, note that, in addition to preserving all jobs throughout the pandemic, as of June 2021, 86.9% of Ence employees had indefinite employment contracts and 98.5% were working full time.

The **workplace climate improvement plan** is a top cross-cutting priority. Thanks to the efforts the Company has been making since embarking on this project, the last annual workplace climate survey (2020) revealed an improvement in the aggregate workplace climate score of over 13% from 2019, topping the sector average. And for the first time, the Company secured Great Place to Work certification.

On the **talent development** front, Ence is striving to ensure that it attracts, develops and retains the professionals it needs to ensure that the organisation has the human capital required to successfully execute its 2019-2023 Business Plan. To that end, Ence is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies. During the first six months of the year, it promoted 35 professionals.

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

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

- ✓ Occupational Health and Safety Policy
- ✓ Sustainability
- ✓ Digital Transformation
- ✓ Environmental Awareness
- ✓ Compliance
- ✓ Operations and Maintenance Services
- ✓ Development of Leadership Skills

In 1Q21, the Company imparted 9,179 hours of training, i.e., 7.96 hours per employee, adapting the formats for remote working arrangements and other safety protocols derived from the health crisis.

In terms of its effort to bring about effective **equality and diversity**, Ence remains strategically committed to its female hiring thrust, lifting female representation by 7.7% in 1H21. Moreover, 65.2% of new hires were female.

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

Elsewhere, as part of the drive to create **sustainability awareness**, Ence has launched equality and sustainability related training programmes addressed at the entire organisation. Some 8,197 people participated in the various online courses offered in the first half of 2021.

Ence works to build **management-employee relations** based on dialogue and joint responsibility, the idea being to foster a climate that is propitious to achieving efficiency and productivity gains. To that end it engages in open and continuous dialogue with its employees' various representatives at all of its places of work. Ence updates its safety protocol regularly and meets periodically to monitor Covid-19 developments.

2. Climate action

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

In the mitigation area, Ence has approved specific GHG reduction targets, which call for the reduction of specific scope 1 and 2 emissions in the Pulp segment by 25% by 2025 compared to the base year, defined as 2018. To deliver that target, Ence has devised emission-cutting plans based on continuous improvement and the substitution of fossil fuels at the biomills. In the first half of the year, it implemented the measures set down in those plans, starting with the substitution of fossil fuels (coke) with biomass at the Pontevedra biomill.

In 1H21, Ence also updated its inventory of greenhouse gas emissions to include, for the first time, the analysis of the net carbon balance of the forests owned by the Company. That analysis, which was performed in keeping with the IPCC guidelines, showed that in 2020 the forests managed by Ence sequestered nearly 230,000 tonnes of carbon, net of that withdrawn in the form of wood and biomass.

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

3. Safe and eco-friendly operations

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

The first half of the year was marked by a robust performance in terms of **occupational health and safety**, which translated into healthy accident readings across all business units and considerable improvements in those metrics year-on-year. The accident frequency rate was 2.98 in 1H21, down substantially year-on-year (1H20: 7.40), creating a new benchmark in the long-run series.

Indeed, all of the business units (Pulp, Independent Power Plants, Forestry Purchases, Biomass Supplies and Forest Assets) improved their frequency readings in the first half and two of them (Independent Power Plans and Biomass Supplies) were accident-free (frequency rate = 0), a remarkable milestone considering the fact that the annual maintenance stoppages took place in Pontevedra, Navia and Huelva during the period. Moreover, all units outperformed the key benchmark accident indicators (for Spanish industry, the pulp and paper industry and the chemicals industry in Spain).

It is also worth highlighting the accolade received by the forestry purchases and strategy unit: the “Escolástico Zaldivar” prize awarded by the Fraternidad-Muprespa mutual society in the workplace safety category, given to organisations that exhibit a strong commitment to safety. The prize-winning project was the mathematical algorithm developed by the Northern Forestry area using artificial intelligence tools to analyse and correlate various forestry operation variables to evaluate the probability of people getting hurt in order to introduce preventative measures.

The Pontevedra biomill renewed the certification of its occupational health and safety system under ISO 45001:2018.

On the **health front**, the situation continued to be dominated by the global COVID-19 pandemic, in which the proactive stance taken by Ence early on became a benchmark for many other industrial firms, due to the speed of implementation and innovative nature of the strategies it rolled out to combat the virus. Indeed, the Company has prioritised the ongoing health and safety of the entire Ence family, meaning its own employees and those of the companies it subcontracts. Pandemic-related developments are monitored by a high-level committee, which, advised by a pandemic of scientific experts, continually updates and fine-tunes the existing protocols with a view to continue to prevent transmission. Those protocols encompass initiatives on different fronts, including: the organisation of work; ventilation and air renewal; the use of specific personal protection equipment; regular disinfection; screening tests; training, education and communication; the provision of health resources; and the preparation of emergency response plans.

As for Ence’s **environmental performance**, both biomills improved their odour emission readings compared to last year, with the Navia biomill standing out with a year-on-year reduction of 52%. Odour emissions at Pontevedra came down by 8%.

Particle emissions from prime sources also came down at both biomills: by 26% at the recovery furnace and by 47% at the causticising kilns in Pontevedra; and by 77% at the recovery furnace and by 16% at the causticising kilns in Navia.

In terms of Ence’s **circular economy** effort, both biomills continue to report high levels of waste recycling, recovery and reuse (96.7% in Navia and 99.9% in Pontevedra), earning them AENOR’s Zero Waste certificate, a seal only given to facilities that send less than 10% of their waste to landfill.

In 1H21, the two biomills also renewed their ISO 14001: 2015 and EMAS **certifications**, endorsing their robust environmental management systems. The Pontevedra facility additionally managed to certify the efficiency of its energy management system under ISO 50.001:2011 criteria.

In tandem, Ence made progress on the implementation of an environmental observations **preventive tool**, designed to deliver tighter control over the facilities’ environmental aspects and promote a culture of environmental awareness among its employees. Lastly, Ence continued to implement the ‘Works of Particular Environmental Risk’ tool, which ensures detailed analysis and planning of any environmentally-risk work to be undertaken by the Company.

4. Rural and forest development

Ence works to ensure the sustainability and traceability of the raw materials it sources (wood and biomass) and create value for land owners, suppliers and other stakeholders in the agricultural and forestry sectors, generating positive knock-on effects 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® (Forest Stewardship Council®, with license numbers FSC®-C099970 and FSC®-C081854) and PEFC™ (Program for the Endorsement of Forest Certification, with licence numbers PEFC/14-22-00010 and PEFC/14-33-00001) schemes to the forest assets it manages and encouraging their adoption by its supply chain. In 1H21, around 85% of its forest assets were certified under one or other of those standards and a little over 74% of the wood that entered its biomills from its proprietary forests, suppliers and forest owners during the period came with one or both certifications.

Ence successfully completed FSC® and PEFCs' external chain of custody audits in March and June 2021, respectively. In the case of the FSC® audit, Ence's chain of custody certificate was renewed for five years with no incidents detected in terms of the system enabling the traceability of wood (purchase and sale of wood), the transfer or credits or the subsequent sale of pulp to customers. As for the PEFC audit, the meeting was a follow-up session and confirmed Ence's ability to ensure compliance with its voluntary undertakings (the PEFC chain of custody), mandatory rules and the effectiveness of the overall management system. The external FSC® Forest Management audit also took place in April, extending the certificate for five years. Elsewhere, Assurance Services International (ASI) undertook an extraordinary audit in January to assess the Company's auditing procedures by directly auditing Ence in accordance with its chain of custody certification requirements. That assessment endorsed the work performed by the Company's audit firm - SCS Global Services - as no incidents were detected with respect to the audits carried out at Ence; indeed the results of the audit were very positive, reinforcing and cementing Ence's chain of custody effort.

Lastly, in June, the FSC® chain of custody regime was audited internally with the goal of analysing and reviewing the control mechanisms established for the wood certification process with respect to the chain of custody, in keeping with the standards defined by FSC®.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. Indeed, the Company has set itself the target to studying biodiversity in its owned forests in 2021 in collaboration with Huelva University; during the first half, it conducted 43 flora biodiversity studies in its forests in southern Spain and a further six in northern Spain. During the second half of the year, the Company plans to document the potential fauna living in its owned forest tracts.

As regards its effort to **create value for forest owners and suppliers**, Ence lends particular support to small firms: in the case of wood supplies, 73.8% of the volume purchased came from small suppliers, while in the case of standing wood purchases, 78.8% corresponded to small-scale owners (including forest associations). In 1H21, the Company purchased over €14.5 million worth of wood from 808 forest owners. As for biomass, Ence mobilised over 900,000 tonnes, worth €35.5 million, through its independent plants. It supplied more than 147,000 tonnes of biomass worth over €9.9 million to its biomills.

Ence also strives to **contribute to development** in the areas in which it operates.. To that end it encourages the purchase of local wood: in 1H21, all of the wood bought came from Galicia, Asturias, Cantabria and the Basque region. Local wood purchases not only helps generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering the Company's (scope-3) carbon footprint. All of the biomass procured by the Company is similarly sourced nearby (including from Portugal in the case of the plants in Huelva and Merida).

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

Compliance with the 10-Point Declaration in respect of agricultural biomass was 63% in 1H21, the target for all of 2021 being 71%. For industrial biomass, 1H21 compliance was running very close to the target for 2021 of 60%.

Certification of Ence's producers of wood and agricultural-forestry biomass stands at 100% and 95%, respectively. Certification of gardening and industrial biomass suppliers topped 57% for pruning waste and 79% for industrial biomass.

As for the implementation of RED II certification systems across its plants, the plan has gotten underway with the plant in Extremadura (Merida), followed by the biomill in Pontevedra, with the rest of the plants slated for incorporation over the course of 2021, in line with the agreed timetable.

5. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019, the result of years of R&D and industrial and product development work.

Under the umbrella of that platform, Ence is working to develop **products with a lower carbon footprint** as alternatives to hardwood pulp (which has a larger wood consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging apt for substituting materials such as plastic. The preliminary work needed to get Naturcell the Carbon Zero label was completed during the first half; during the second half, the steps will be taken to establish and certify this product’s carbon neutrality credentials.

In order to be transparently accountable for its products’ sustainability attributes, Ence is working to develop **Environmental Product Declarations**, framed by the International EPD System. The EDPs for the Company’s unbleached pulp, Naturcell, and for the standard beached pulp made in Pontevedra were published on Environdec’s website in 1Q21. In 2Q21, work progressed on drafting the product category rule (PCR) for the manufacture of pulp. The EDP contains verified information about a product’s environmental performance, while the PCR provides the guidelines for standard product analysis so as to yield comparable results. Ence’s products are the first pulp products to obtain this certification.

Increased sales of its greener products is one of Ence’s sustainability targets: in 1H21, sales of those sustainable products accounted for 14% of overall pulp sales. Ence backed the creation in 2021 of a cluster comprising 30 of its customers who produce products that are **good potential substitutes for plastic**. The target is for that cluster to account for 40% of the Company’s sales, a goal that was attained during the first half. Going forward, Ence plans to continue to work to increase the volumes sold to that cluster and to participate in other joint substitution projects.

In terms of its customer engagement effort, in 1H21 the Company achieved its goal of conducting six sustainability-related customer interviews in the whole year, which is not to say it won’t continue to set up additional interviews for the second half.

6. Community commitment

On the community work front, Ence remains committed to **investing in its local communities** under the umbrella of 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, among others. Ence also has agreements with the town councils of Navia and San Juan del Puerto (the latter having been renewed in May), each endowed with €100,000 per annum, 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, having sought fit to grant the beneficiaries extra time 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 strived 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, Ence continues to roll out **specific relations plans** for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company’s activities. Under the umbrella of those plans, it organised a total of 550 visits to the facilities in Navia, Pontevedra and Huelva in the first half of 2021, reconfiguring them as online visits after the onset of the pandemic. In parallel to those facility tours, Ence carried out numerous training, education and volunteering activities with the help of its employees.

Institutional and community relations and proximity are one of the articulating thrusts of Ence's sustainability policy. Against that backdrop, in the second quarter of the year, it rolled out a number of initiatives in collaboration with a host of entities to promote local social, cultural, education, sports and economic development, as well as environmental care. 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 6,900 direct, indirect and induced jobs, of which more than 400 are at the facility itself. The Navia biomill also has a significant positive impact on local forestry, where it is responsible for an estimated 2,900 jobs, and on industries related with Ence's activities, such as wood 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 hundreds of trucks that enter the biomill daily paint a picture of the significance of the complex's activities for the local business landscape.

7. Corporate governance

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

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

The recent ratification of all the resolutions submitted to its shareholders at the last Annual General Meeting endorses Ence’s commitment to delivering on its objectives, with those related with **diversity on the Company’s governing bodies** standing out. Specifically, the Company has appointed a new independent director, so lifting female representation in its boardroom from 7% in 2017 to 38.5% in 2021. One of the Company's female directors was also appointed lead independent director. Following those appointments, Ence's commitment to diversity is similarly tangible in the composition of its board committees: 60% of the members of both the Audit and Compliance and Appointments and Remuneration Committees are women; and they are all independent directors. Moreover, those committees are chaired by women.

During the first half, the Company’s governing entities also analysed the changes emanating from publication of Law 5/2021, amending the consolidated text of the Corporate Enterprises Act (enacted by Legislative Royal Decree 1/2010) and other financial regulations as regards the encouragement of long-term shareholder engagement at listed companies, to ensure all the measures are duly implemented at Ence.

Lastly, the Company updated its **Director Training Programme** for 2021 to focus primarily on cybersecurity and sustainability.

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 2021 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	28.6	-	2032
			55,319	Agroforestry biomass	52.4	-	
Navia	Biomass co-generation	40.3	-	Lignin	26.7	-	2034
	Biomass generation	36.2	230,425	Agroforestry biomass	53.6	7,500	
Huelva 41MW	Biomass generation	41.0	246,318	Agroforestry biomass	59.9	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,058	Olive Pulp	38.5	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,058	Olive Pulp	39.7	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,620	Olive Pulp	41.9	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	36.5	-	2030
Huelva 50MW	Biomass generation	50.0	266,483	Agroforestry biomass	51.9	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,608	Agroforestry biomass	50.8	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	Agroforestry biomass	47.9	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	Agroforestry biomass	47.9	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 €41m in the Renewable Energy business (having excluded the solar thermal plant sold in December 2020) 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

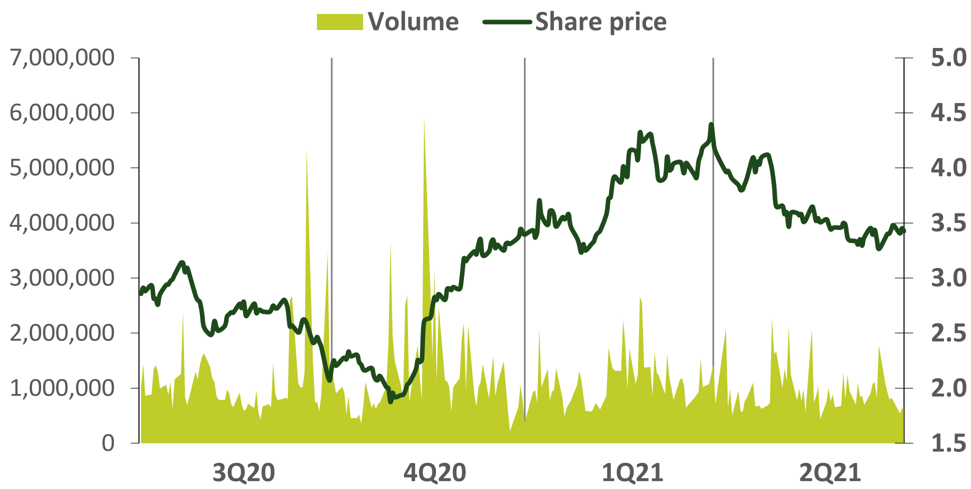
   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 7,500 hours in the case of power generated using biomass and 2,016 hours for solar thermal electric power (there is no cap in the case of CHP). Output above this 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 closed the first half at €3.43, a gain of 0.9% from year-end 2020. Over the same timeframe, the Company's peers' share prices gained 4.4% on average.



Source: Bloomberg

SHARES	2Q20	3Q20	4Q20	1Q21	2Q21
Share price at the end of the period	2.91	2.19	3.40	4.26	3.43
Market capitalization at the end of the period	717.6	539.8	836.1	1,047.9	843.7
Ence quarterly evolution	16.6%	(24.8%)	54.9%	25.3%	(19.5%)
Daily average volume (shares)	1,677,385	1,149,625	1,272,577	1,145,084	960,860
Peers quarterly evolution *	2.5%	(1.4%)	34.4%	18.5%	(11.3%)

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

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

CONVERTIBLE BOND	2Q20	3Q20	4Q20	1Q21	2Q21
Bond price at the end of the period (ask)	93.26	87.73	94.49	97.60	98.14
Yield to worst at the end of the period*	3.927%	6.387%	3.553%	2.063%	2.075%

*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**	**06/04/2021**
S&P	**BB-**	**Stable**	**24/11/2020**

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 its 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: wood, 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 before the impact of hedges, which are not included in the cash cost calculations either.

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.

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

CASH FLOWS

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.

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.

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.

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 include, however, the measurement of derivatives or borrowings from Group companies and associates.

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 Group's indebtedness and is a metric that is widely used in the capital markets to compare the financial position of different companies.

€ 000	1H21 Pulp	1H21 Renewable Energy	1H21 Adjustments & Eliminations	1H21 CONSOLIDATED TOTAL	1H20 Pulp	1H20 Renewable Energy	1H20 Adjustments & Eliminations	1H20 CONSOLIDATED TOTAL
EBITDA:								
OPERATING PROFIT/(LOSS)	(176,9)	(1,2)	1,6	(176,5)	(27,5)	4,7	1,9	(20,8)
Depreciation and amortisation charges	27,1	18,7	(1,6)	44,3	28,0	20,3	(0,8)	47,6
Depletion of forest reserve	6,4	0,1	-	6,5	6,7	0,2	-	6,9
Impairment of and gains/(losses) on disposal of fixed assets	189,4	0,3	-	189,7	(0,8)	1,6	(1,2)	(0,4)
Other non-recurring operating items	(14,0)	-	-	(14,0)	2,5	-	-	2,5
EBITDA	**32,0**	**18,0**	**-**	**50,0**	**8,9**	**26,9**	**(0,0)**	**35,7**
FREE CASH FLOW:								
Net cash from operating activities	11,0	15,4	-	26,3	21,5	7,8	-	29,3
Net cash used in investing activities	(37,0)	(10,3)	-	(47,2)	(37,0)	(40,0)	26,9	(50,1)
FREE CASH FLOW	**(26,0)**	**5,1**	**-**	**(20,9)**	**(15,5)**	**(32,2)**	**26,9**	**(20,8)**
PAYMENTS ON INVESTMENTS:								
Maintenance capex	(5,3)	(2,3)	-	(7,6)	(6,7)	(2,4)	-	(9,1)
Efficiency and growth capex	(22,4)	(6,6)	-	(29,0)	(21,2)	(35,4)	26,9	(29,7)
Sustainability capex	(9,7)	(1,3)	-	(11,0)	(9,6)	(2,2)	-	(11,8)
Financial assets	-	(0,1)	-	(0,1)	-	-	-	-
Disposals	0,4	-	-	0,4	0,4	-	-	0,4
NET CASH USED IN INVESTING ACTIVITIES	**(37,0)**	**(10,3)**	**-**	**(47,3)**	**(37,1)**	**(40,0)**	**26,9**	**(50,2)**
NORMALISED FREE CASH FLOW:								
EBITDA	32,0	18,0	-	50,0	8,9	26,9	(0,0)	35,7
Changes in working capital:								
Inventories	6,3	(6,5)	-	(0,1)	(4,8)	(4,5)	-	(9,4)
Trade and other receivables	(30,8)	5,2	-	(25,5)	(8,8)	(7,4)	-	(16,2)
Short-term investments	0,1	-	-	0,1	(1,7)	-	-	(1,7)
Trade payables, other payables and other liabilities	1,4	0,3	-	1,7	28,6	9,5	-	38,1
Maintenance capex	(5,3)	(2,3)	-	(7,6)	(6,7)	(2,4)	-	(9,1)
Interest paid, net (including right-of-use assets)	(3,9)	(6,3)	-	(10,2)	(2,4)	(7,3)	-	(9,7)
Income tax paid	-	0,3	-	0,3	0,0	1,0	-	1,0
NORMALISED FREE CASH FLOW	**(0,1)**	**8,7**	**-**	**8,6**	**13,0**	**15,7**	**(0,0)**	**28,8**

	30 June 2021				31 December 2020			
NET DEBT:								
Non-current borrowings:								
Notes and other marketable securities	144,2	91,9	-	236,2	147,2	91,7	-	238,9
Bank borrowings	113,7	84,5	-	198,2	193,6	97,5	-	291,1
Other financial liabilities	70,1	0,8	-	70,9	103,3	0,7	-	104,0
	-	-	-	-	-	-	-	-
Current borrowings:	-	-	-	-	-	-	-	-
Bank borrowings	12,4	29,4	-	41,8	50,5	28,6	-	79,1
Other financial liabilities	9,7	0,6	-	10,3	6,0	0,4	-	6,4
	-	-	-	-	-	-	-	-
Cash and cash equivalents	298,2	74,2	-	372,4	448,1	84,5	-	532,6
Current financial assets - Other financial assets	18,0	0,0	-	18,0	18,2	-	-	18,2
NET DEBT	**34,0**	**132,9**	**-**	**166,9**	**34,1**	**134,5**	**-**	**168,6**

DISCLAIMER

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

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

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