



ENCE Energía y Celulosa, S.A. and subsidiaries

Condensed consolidated interim financial
statements for the first half of 2022
prepared under the International Financial
Reporting Standards adopted by the
European Union and the corresponding
Interim Consolidated Management Report

**Condensed consolidated interim
financial statements for the first
half of 2022**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2022

€ 000	Note	30 June 2022 (*)	31 Dec. 2021 (**)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	12	-	1.493
Other intangible assets	12	36.121	36.445
Property, plant and equipment	13	832.574	883.561
Biological assets	15	58.463	59.722
Investments accounted for using the equity method	20	-	26
Non-current financial assets			
Hedging derivatives	20 & 26	2.034	-
Other financial assets	20 & 23.2	27.000	26.480
Deferred tax assets	28	46.813	45.563
		1.003.005	1.053.290
CURRENT ASSETS:			
Inventories	17	59.570	65.693
Trade and other receivables	20 & 21	95.161	78.958
Other taxes receivable	28	23.781	15.895
Income tax receivable	28	1.752	1.842
Current financial assets			
Loans to group companies and related parties	20 & 30	36	36
Other financial assets	20 & 23.2	14.489	15.115
Cash and cash equivalents	20 & 23.1	413.669	379.964
Other current assets		12.403	2.177
		620.861	559.680
TOTAL ASSETS		1.623.866	1.612.970
EQUITY:			
Share capital	18.1	221.645	221.645
Share premium		170.776	170.776
Parent company reserves	18.2	227.851	225.596
Parent company retained earnings (prior-period losses)	18.2	(181.378)	-
Reserves in fully-consolidated companies	18.2	44.642	53.646
Reserves in equity-accounted investees	18.2	(106)	(79)
Interim dividend	19	(13.119)	-
Translation differences		(3)	9
Own shares - parent company shares	18.3	(12.181)	(12.296)
Valuation adjustments	18.4	35.540	33.875
Other equity instruments	18.5	6.714	9.897
Profit/(loss) for the year attributable to owners of the parent	19	44.697	(190.409)
Equity attributable to owners of the parent		545.078	512.660
Non-controlling interests	18.7	116.795	112.858
TOTAL EQUITY		661.873	625.518
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	20 & 24	78.273	217.674
Bank borrowings	20 & 24	150.603	169.352
Other financial liabilities	20 & 24	61.103	65.243
Derivative financial instruments	20 & 26	-	2.161
Grants		10.143	4.879
Deferred tax liabilities	28	411	-
Non-current provisions	27	51.434	51.225
Non-current accruals and deferred income		2.234	2.256
Other non-current liabilities	25	103.128	84.619
Non-current borrowings from group companies and related parties	20 & 30	36.835	36.835
		494.164	634.244
CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	20 & 24	88.832	-
Bank borrowings	20 & 24	29.941	35.614
Other financial liabilities	20 & 24	10.732	10.366
Derivative financial instruments	20 & 26	8.678	9.592
Current borrowings from group companies and related parties	20 & 30	608	1.261
Trade payables and other current liabilities	20 & 22	287.049	261.897
Income tax payable	28	11.471	78
Other taxes payable	28	13.451	15.578
Current provisions	27	17.067	18.822
		467.829	353.208
TOTAL EQUITY AND LIABILITIES		1.623.866	1.612.970

The accompanying notes 1 to 32 and the Appendix are an integral part of the condensed consolidated statement of financial position at 30 June 2022.

(*) Unaudited figures

(**) The consolidated statement of financial position at 31 December 2021 is presented exclusively for comparative purposes.

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2022

€ 000	Note	First-half 2022 (*)	First-half 2021 (**)
Continuing operations:			
Revenue	6	553.686	372.426
Gains/(losses) on hedging transactions	26	(11.313)	(10.967)
Changes in inventories of finished goods and work in progress	17	(8.964)	(1.572)
Self-constructed assets	13 & 15	4.153	1.490
Other operating income		2.031	6.475
Grants taken to profit and loss		5.217	3.351
Operating income		544.810	371.203
Cost of goods sold	7	(223.520)	(168.253)
Employee benefits expense	8	(45.296)	(40.579)
Depreciation and amortisation charges	12 & 13	(39.906)	(44.270)
Depletion of forest reserve	15	(3.978)	(6.542)
Impairment of and gains/(losses) on disposal of fixed assets	16	(37.321)	(189.685)
Impairment of financial assets		(43)	4
Other operating expenses	9	(127.696)	(98.390)
Operating expenses		(477.760)	(547.715)
OPERATING PROFIT/(LOSS)		67.050	(176.512)
Finance income	10	1.632	3.291
From equity investments:			
Third parties		-	40
From marketable securities and other financial instruments:			
Third parties	10	1.632	3.251
Finance costs	10	(15.345)	(13.763)
Change in fair value of financial instruments	26.2	317	231
Exchange differences		2.041	1.449
NET FINANCE INCOME/(COST)		(11.355)	(8.792)
Share of profit/(loss) of entities accounted for using the equity method		(44)	(11)
PROFIT/(LOSS) BEFORE TAX		55.651	(185.315)
Income tax	28	(8.736)	(9.564)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		46.915	(194.879)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD		46.915	(194.879)
Profit/(loss) for the the period from continuing operations attributable to non-controlli	18.7	(2.218)	282
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (-**)		44.697	(194.597)
Profit/(loss) per share attributable to owners of the parent		€/share	
Basic	11	0,18	(0,80)
Diluted	11	0,18	(0,80)

The accompanying notes 1 to 32 and Appendix are an integral part of the condensed consolidated statement of profit or loss for the six months ended 30 June 2022

(*) Unaudited figures

(**) Unaudited figures The condensed consolidated statement of profit or loss for the six months ended 30 June 2021 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 2022

€ 000	Note	First-half 2022 (*)	First-half 2021 (**)
GROUP PROFIT/(LOSS) FOR THE PERIOD (****)		46.915	(194.879)
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (***)		(7.523)	(60.026)
- Translation differences (***)		(12)	(3)
- Tax effect		1.881	4.688
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	18	(5.654)	(55.341)
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (***)		12.349	12.251
- Tax effect		(3.088)	(3.063)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	18	9.261	9.188
TOTAL COMPREHENSIVE INCOME		50.522	(241.032)
Attributable to:			
Owners of the parent		48.304	(240.750)
Non-controlling interests		2.218	(282)

The accompanying notes 1 to 32 and Appendix are an integral part of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2022

(*) Unaudited figures

(**) Unaudited figures The condensed consolidated statement of comprehensive income for the six months ended 30 June 2021 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 2022

€ 000	Issued capital	Own shares	Share premium	Reserves	Interim dividend	Profit/(loss) for the year	Translation differences	Valuation adjustments	Other equity instruments	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
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)
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
Balance at 31 December 2021	221.645	(12.296)	170.776	279.163	-	(190.409)	9	33.875	9.897	512.660	112.858	625.518
Total recognised income/(expense)	-	-	-	-	-	44.697	(12)	3.619	-	48.304	2.218	50.522
Appropriation of prior-year profit/(loss)	-	-	-	(190.409)	-	190.409	-	-	-	-	-	-
Dividends distributed	-	-	-	-	(13.119)	-	-	-	-	(13.119)	-	(13.119)
Trading in own shares	-	115	-	1.271	-	-	-	-	-	1.386	-	1.386
Non-controlling interests and other movements	-	-	-	984	-	-	-	(1.954)	(3.183)	(4.153)	1.719	(2.434)
Balance at 30 June 2022 (*)	221.645	(12.181)	170.776	91.009	(13.119)	44.697	(3)	35.540	6.714	545.078	116.795	661.873

The accompanying notes 1 to 32 and Appendix are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2022

(*) Unaudited figures

(**) Unaudited figures The condensed consolidated statement of changes in equity for the six months ended 30 June 2021 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 2022

€ 000	Note	First-half 2022 (*)	First-half 2021 (**)
OPERATING ACTIVITIES:			
Profit before tax from continuing operations		55.651	(185.315)
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	12 & 13	39.906	44.270
Depletion of forest reserve	15	3.978	6.542
Changes in provisions and other deferred expense (net)		5.171	(3.973)
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	16	37.321	189.685
Adjustments for tariff shortfall/surplus and sector regulations	6	26.498	1.160
Finance income and costs (net)	10	11.754	8.862
Accrual of fixed costs		(6.998)	(496)
Grants taken to profit and loss		(325)	(616)
		117.305	245.434
Change in working capital			
Inventories	17	7.369	(108)
Trade and other receivables	21	(24.515)	(25.529)
Financial and other current assets	23	626	149
Trade payables, other payables and other liabilities	22	19.904	1.659
		3.384	(23.829)
Other cash flows from operating activities			
Interest paid, net (including right-of-use assets)		(13.095)	(10.199)
Income tax received/(paid)	28	(4.344)	251
		(17.439)	(9.948)
Net cash flows from operating activities		158.901	26.342
INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	13 & 15	(28.499)	(46.615)
Intangible assets	12	(1.744)	(913)
Financial assets		(28)	(129)
		(30.271)	(47.657)
Proceeds from disposals:			
Property, plant and equipment	13	3	409
Financial assets		380	-
		383	409
Net cash flows used in investing activities		(29.888)	(47.248)
FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests		-	490
Buyback of own equity instruments	18.3	(26.997)	(35.285)
Disposal of own equity instruments	18.3	28.385	33.532
		1.388	(1.263)
Proceeds from/(repayments of) financial liabilities:			
Notes (net of arrangement fees)	24	(53.432)	(4.682)
Increase/(decrease) in bank borrowings, net of issuance costs	24	(24.790)	(130.697)
Increase/(decrease) in other borrowings	24	(3.976)	(63)
Payments for right-of-use assets	14	(2.756)	(2.589)
Grants received, net		1.377	-
		(83.577)	(138.031)
Dividend payments			
Dividends paid to ENCE shareholders	19	(13.119)	-
		(13.119)	-
Net cash flows used in financing activities		(95.308)	(139.294)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		33.705	(160.200)
Cash and cash equivalents - opening balance	23.1	379.964	532.620
Cash and cash equivalents - closing balance	23.1	413.669	372.420

The accompanying notes 1 to 32 and Appendix are an integral part of the condensed consolidated statement of cash flows for the six months ended 30 June 2022

(*) Unaudited figures

(**) Unaudited figures The condensed consolidated statement of cash flows for the six months ended 30 June 2021 is presented exclusively for comparison purposes

**Notes to the condensed
consolidated interim
financial statements for the
first half of 2022**

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ENCE Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the condensed consolidated interim financial statements for the first half of 2022

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 pulp biomills) is 111 megawatts (MW).

The Group also manages 61,214 hectares of forest in Spain, 43,250 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. Operational renewable 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



The Group is also in the process of permitting three biomass power generation developments with aggregate capacity of 140 MW, for which it has already secured sites and locked in grid connection rights. Permitting of one of the projects is complete and the process of permitting the other two is expected to finalise in 2022. ENCE also plans to continue to develop new photovoltaic solar power projects in order to increase its diversification in renewable energy technologies.

In December 2021, Magnon Green Energy, S.L., the Renewable Energy business' holding company, agreed the sale to third parties of five photovoltaic developments with total capacity of an estimated 373 MW; those developments are currently at the permitting phase. Their sale will complete once the developments attain "ready-to-build" permitting status, milestones expected to be reached by the various projects between the second quarter of 2022 and the first quarter of 2024.

Other:

In December 2020, ENCE closed the sale of a minority interest, of 49%, in Magnon Green Energy, 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 2022 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 2021 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 31 March 2022, 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 26 July 2022.

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 2021 consolidated financial statements, as detailed in notes 2 and 3 thereof, modified solely as outlined in section 2 below.

1.4. Comparison of information and transaction seasonality

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2021 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2022. In the case of the consolidated statement of financial position, the comparative data correspond to 31 December 2021.

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 from renewable sources require annual stoppages of between 10 and 15 days for maintenance purposes. The Group carried out its maintenance stoppages at both of its pulp biomills during the first halves of 2022 and 2021.

1.5. Key IFRS-related decisions

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.

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

In the first half of 2022, Ence Energía y Celulosa, S.A. incorporated Ence Biogás, S.L.U., which is 100%-owned by the Parent, in order to initiate analysis of a potential biogas business line.

1.7. Russia-Ukraine conflict

Armed conflict between Russia and Ukraine broke out on 24 February 2022. That conflict is having a significant impact on the global economy and financial markets. The energy sector is one of the most affected and oil and gas prices have increased sharply.

ENCE is monitoring the situation and developments caused by the crisis continuously in order to manage the potential risks. Its priority has been to limit and reduce the impact of the increase in commodity and energy prices, which are affecting the cost of certain inputs used in its manufacturing processes and shipping costs. It is also stepping up its internal defence measures and controls for the protection of its digital infrastructure. Energy-wise, ENCE's Pulp business is self-sufficient as it consumes roughly as much electricity as it generates. The Renewable Energy business, meanwhile, generates an energy surplus as its core business is the generation of power from renewable sources.

The Group is also monitoring its main customers closely in order to track how they are being affected by the energy crisis and adopt alternative sales practices if necessary.

None of the Group's counterparties are exposed to or affected by the sanctions. The Group has no transactions or supply agreements related with Russia.

The situation is constantly evolving. Regulatory uncertainty is currently very high and in the current context of high and volatile prices, ENCE is monitoring the key macroeconomic and business variables continuously so as to have real-time information to feed the best possible estimates of the potential impacts on its future cash flows. The solidity of ENCE's capital structure and its low level of indebtedness are factors that mitigate the risks derived from this situation.

1.8. Climate change and the Paris Agreement

ENCE's strategy factors in the targets agreed at the Paris Agreement in an attempt to keep global warming at under 2°C and attain climate neutrality by 2050. Specifically, they have been taken into consideration in preparing the interim condensed consolidated financial statements for the six months ended 30 June 2022.

More specifically, in the preparation process, management has contemplated the effect of the commitments assumed by ENCE on its assets' useful lives estimates, on the potential cost of having to close electricity facilities and on the its non-financial asset impairment tests.

As disclosed in note 16, the projections used in the non-financial asset impairment tests are based on the best forward-looking information available and reflect current investment plans for each cash-generating unit (CGU) at the time of their preparation. Those plans emanate from ENCE's strategy which factors in the Paris Agreement targets. In addition, the above-mentioned projections have factored in the expected impact of wholesale and retail electricity market prices, the commissioning of new renewable power generation facilities and the possible trend in gas, oil and GHG emission allowance prices.

2. Accounting policies and measurement criteria

2.1 New and amended standards taking effect during the reporting period

The accounting standards used to prepare these interim consolidated annual financial statements are the same as those used in the year ended 31 December 2021, except for the application of the following standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union for application in Europe from 1 January 2022:

Standard	Contents
Amendments and/or interpretations: Applicable from 1 January 2022: Amendments to IFRS 3 - Reference to the Conceptual Framework (published in May 2020) Amendment to IAS 16 - Proceeds before intended use (published in May 2020) Amendment to IAS 37 Onerous contracts – Cost of fulfilling a contract (published in May 2020) Amendments to IAS 1 Disclosure of accounting policies (published in February 2021) Amendments to IAS 8 Definition of accounting estimates (published in February 2021)	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. 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. This amendment specifies that the costs of fulfilling a contract include both incremental costs and an allocation of other costs directly related to the contract. Amendments designed to provide guidance on the application of materiality judgements to accounting policy disclosures. Modification and clarifications as to what constitutes a change in accounting estimate.

The above amendments and interpretations have not had a material impact on the accompanying interim condensed consolidated financial statements. Although the amendment of IAS 16 - *Proceeds before intended use* modifies one of the Group’s accounting policies, there was no such proceeds in 2022 or 2021 that were deducted from the cost of the PP&E.

2.2 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying interim condensed consolidated 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
Amendments and/or interpretations applicable from 1 January 2023:	
Amendment to IAS 1 Classification of liabilities as current or non-current (published in January 2020)	Clarifications with respect to the presentation of liabilities as current or non-current
Amendments to IAS 12 - Deferred taxes related to assets and liabilities arising from a single transaction (published in May 2021)	Clarification as to when entities should recognise the deferred tax arising from certain transactions such as leases and dismantling obligations.
Amendments to IFRS 17 Insurance contracts - Initial application of IFRS 17 and IFRS 9. Comparative information (published in December 2021)	Amendment of the IFRS 17 transition requirements for insurers that apply IFRS 18 and IFRS 9 for the first time simultaneously.

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

3. Key accounting estimates and judgements

Preparation of these interim condensed consolidated financial statements 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 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 annual consolidated financial statements for 2021.

The accounting policies and transactions entailing assumptions and estimates that have a material impact on these interim condensed consolidated financial statements are the following (for further information, refer to note 7 of ENCE's annual consolidated financial statements for 2021):

- Control over the Renewable Energy business
- Contingent consideration derived from the sale of interests in subsidiaries without losing control
- Useful lives of property, plant and equipment and intangible assets and dismantling costs
- Right-of-use assets
- Recoverable amount of non-financial instruments
- Revenue from energy sales Regulated activity settlement
- Provisions for liabilities and charges
- Calculation of income tax and recognition of deferred tax assets

- Derivatives and other financial instruments

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 was 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 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 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.

The National Appellate Court's Chamber for Contentious Administrative Proceedings issued three rulings, two on 15 July 2021 and the third on 21 September 2021, upholding the appeals lodged by Greenpeace Spain, the town council of Pontevedra and ADPR, 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.

ENCE lodged appeals against the rulings before the Supreme Court on 28 September 2021 and 29 November 2021. The Supreme Court agreed to hear two of the appeals, specifically the appeal against the sentence issued in the case brought by Greenpeace Spain and the appeal lodged against the sentence issued in the case brought by the town council of Pontevedra, on 23 February and 23 March 2022, respectively. The Supreme Court has announced it will vote and rule on the appeal against the sentence issued in the case brought by Greenpeace Spain on 4 October 2022 so that a ruling is expected during the fourth quarter of this year. The Supreme Court decided on 29 March 2022 to suspend the appeal lodged against the sentence issued in the case brought by APDR until after it rules on the first two appeals.

If the Supreme Court dismisses the above appeals, the Appellate Court rulings would become final, triggering enforcement of the original sentences, which would, by ENCE's estimates, 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, because of the specific circumstances surrounding the matter in dispute, in keeping with applicable accounting rules, the Group deemed it advisable to recognise a range of impacts, which are described in detail in the annual consolidated financial statements for 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.

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.

Impacts recognised in ENCE's annual consolidated 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 continues to recognise the impairment losses and provisions in its interim condensed consolidated financial statements for the six months ended 30 June 2022:

€ 000	Note	Statement of financial position	
		Assets	Liabilities (*)
Provision for dismantling	13 & 27	42.267	(42.267)
Impairment of other intangible assets	13 & 16	(2.589)	-
Impairment of property, plant and equipment	13 & 16	(144.814)	-
Impairment of property, plant and equipment - Provision for dismantling	13 & 16	(42.267)	-
Impairment of biological assets	15 & 16	(2.479)	-
Impairment of inventories	16 & 17	(2.929)	-
Provision for potential contractual obligations	27	-	(6.025)
		(152.811)	(48.292)

(*) Before factoring in the unwind of the non-current provisions

Moreover, if the Supreme Court upholds the National Appellate Court rulings, ENCE would lose the concession and could therefore no longer continue to operate at the biomill, forcing it to close the facility. If that happens, ENCE 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.

5. Operating segments

The Group has defined the following reporting segments for which detailed and discrete financial information is available and reviewed regularly by senior management, along with the operating results, 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 timber parts that cannot be transformed into 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.

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; they are developed and operated independently.

In order to expand the disclosures provided in this note, the appendices attached to these interim condensed consolidated financial statements include the condensed consolidated statement of financial position at 30 June 2022 and 31 December 2021 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.

5.1 Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2022 and 2021, based on the management information reviewed regularly by senior management:

30 June 2022	€ 000						
	PULP business				ENERGY Business & Segment	Adjustments & Eliminations	Total
	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP			
Revenue:							
Third parties	377.700	871	-	378.571	175.115	-	553.686
Inter-segment revenue	1.150	5.439	(5.162)	1.427	111	(1.538)	-
Total revenue	378.850	6.310	(5.162)	379.998	175.226	(1.538)	553.686
Earnings:							
Impairment of and gains/(losses) on disposal of fixed assets	(539)	(675)	154	(1.060)	(36.903)	642	(37.321)
EBITDA (*)	65.646	4.172	-	69.818	78.559	-	148.377
Operating profit/(loss)	44.869	(633)	-	44.236	21.575	1.239	67.050
Finance income	2.578	24	(403)	2.199	88	(655)	1.632
Finance costs	(6.742)	(383)	403	(6.722)	(9.278)	655	(15.345)
Hedging derivatives	-	-	-	-	317	-	317
Exchange differences	2.078	(6)	-	2.072	(31)	-	2.041
Impairment of financial instruments	-	-	-	-	-	-	-
Share of profit/(loss) of investees accounting for using equity method	-	(44)	-	(44)	-	-	(44)
Income tax	(1.567)	212	-	(1.355)	(7.308)	(73)	(8.736)
Profit/(loss) for the period	41.216	(830)	-	40.386	5.363	1.166	46.915
Profit/(loss) attributable to non- controlling interests	-	-	-	-	994	(3.212)	(2.218)
Profit/(loss) attributable to owners of the parent	41.216	(830)	-	40.386	6.357	(2.046)	44.697

(*) 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 2022 EARNINGS REPORT" appended to the Interim Consolidated Management Report for the six months ended 30 June 2022.

6. Revenue and other operating income

Revenue corresponds to revenue from contracts with customers. The breakdown of Group revenue by segment in the first six months of 2022 and 2021 is as follows:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Consol. Group	Pulp	Renewable Energy	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	487.059	-	487.059	497.767	-	497.767
Energy sales volume (MWh) (**)	222.494	823.125	1.045.619	398.337	657.455	1.055.792
Revenue						
Pulp	337.961	-	337.961	231.599	-	231.599
Electric energy	35.836	174.841	210.677	43.222	85.644	128.866
Timber and forestry services	4.663	385	5.048	11.591	370	11.961
Inter-segment sales	1.538	-	-	1.511	1	-
	379.998	175.226	553.686	287.923	86.015	372.426

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2022 and 2021 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 two interim reporting periods in the amounts of €1,138 thousand and €1,512 thousand, respectively.

The accounting treatment of the adjustment for tariff shortfalls/surpluses (“Tariff Adjustment”) in the first half of 2022 implied a reduction in revenue from the sale of renewable energy of €31,080 thousand (1H21: a reduction of €1,164 thousand) with a balancing entry under “Other non-current liabilities” in the consolidated statement of financial position (note 25).

The above reduction in revenue is the result of early collections in the current electricity market climate in which pool prices are above regulated prices but does not reduce the facilities’ income over the course of their regulatory useful lives.

As stipulated in measurement rule 3.15, “Income and expense recognition”, detailed in the Group’s annual consolidated financial statements for 2021, the Group recognises the Tariff Adjustment on its consolidated statement of financial position whether it is positive (as an asset) or negative (as a liability), limited in the case of negative adjustments to the net asset value (“NAV”) of the facility, with a balancing entry under “Revenue” in the consolidated statement of profit or loss.

In the first half of 2022, the Group did not recognise any liability associated with the negative Tariff Adjustment of €39,644 thousand (1H21: 0) associated with facilities in which its recognition would result in the recognition of a liability in respect of the Tariff Adjustment that is higher than the facilities’ expected NAV at year-end. That situation affects the following Renewable Energy facilities: 41-MW Huelva; 16-MW Jaen; 16-MW Ciudad Real, and 14-MW Cordoba, for which it is estimated that the remuneration for investment parameter in 2023 will be zero or scanty material having recovered most of their NAVs via current and estimated electricity pool prices in 2022 and prior years.

Nor has the Group recognised any Tariff Adjustment in respect of the facilities that qualify for the so-called special co-generation and waste regime that had a NAV of zero from the outset. That is the case of the energy facilities in the Pulp business fuelled by black liquor, the 13-MW Cordoba energy plant, which is fuelled by gas, and the 50-MW Puertollano and 46-MW Huelva facilities.

The only exception to this general rule are situations in which the Group considers that it is highly probable, based on its best estimate of the outlook for pool prices, that the facilities will earn higher returns in the market than those established in Royal Decree 413/2014 and that, therefore, abandoning the remuneration regime would not have significantly more adverse financial consequences than remaining under the regime, in which case negative Tariff Adjustments are not recognised. That situation arises at standard facilities at which, factoring current forecasts for market prices, the Group’s management believes that at year-end, during the review of the remuneration parameters applicable for the next regulatory stub period, it is probable they will no longer be entitled to remuneration from the regulator or only entitled to a very insignificant amount. ENCE has applied the general rule at all of its renewable energy generation facilities in preparing these interim condensed consolidated financial statements for the first half of 2022.

During the first six months of 2022, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €108 million (1H21: €92 million).

6.1 Geographic revenue split

All of the revenue from energy sales was generated in Spain. The breakdown of Group revenue by geographic segment in the first six months of 2022 and 2021 is as follows:

Percentage of pulp sales	1H22	1H21
Germany	23,2	24,0
Spain	16,0	14,4
Poland	12,8	13,3
Italy	10,4	9,3
France	6,2	7,6
UK	4,8	6,4
Greece	4,0	1,3
Romania	3,6	2,7
Sweden	3,4	3,3
Netherlands	3,2	3,1
Turkey	0,3	5,2
Other	12,1	9,4
	100,0	100,0

(*) Breakdown considering place of delivery

6.2 Energy sector regulations

A number of pieces of legislation were passed in the first half of 2022 with an impact on ENCE's energy business.

Royal Decree-Law 6/2022, of 29 March 2022, enacting urgent measures under the scope of a national plan addressing the economic and social consequences of the war in Ukraine (hereinafter, RDL 6/2022) includes, among other things, measures for speeding up the execution of power generation facilities fuelled by renewable sources of energy; fiscal measures designed to mitigate the run-up in electricity prices, including the extension until 30 June 2022 of the suspension of the tax levied on the value of electricity output and of the reduced rates of VAT and duty levied on electricity; measures designed to alleviate the consequences for the manufacturing industry of the increase in natural gas prices, including a support mechanism for safeguarding the competitiveness of industrial firms that make intensive use of electricity; and the concession of an extraordinary loan to finance the loss of toll income and facilities for industrial firms that make intensive use of gas.

The legislation stipulates that the cost of the so-called social voucher will be borne by electricity sector players that participate in the supply of electricity (i.e., its production, transmission, distribution and sale) and by direct market consumers. It introduces the requirement to reduce fuel cycle GHG emission intensities and introduces amendments to several sector-specific regulations.

Among the measures introduced by RDL 6/2022 with the greatest impact on ENCE it is worth highlighting the revision of the remuneration parameters established in Ministerial Order TED/171/2020, of 24 February 2020:

- The new calculations will rely on the assumptions and parameter values prevailing at the date of effectiveness of RDL 6/2022, with the exception of the estimate of revenue from the sale of energy during the remaining useful life valued at market prices, the remuneration parameters directly related with the latter and, for standard facilities whose operating costs depend essentially on the price of fuel, the price of that fuel and the price of GHG emission allowances.
- The pool price to be used to estimate future revenue will be calculated as the arithmetic average of the quoted prices of annual futures contracts traded in the electricity futures market organised by

OMIP between 1 June and 30 November of the previous year until the start of the stub period for which the pool price is being estimated.

- Estimation of the price of fossil fuels for each half of 2022 will consider the six-monthly changes in the cost of the commodities and, as applicable, in the access tolls contemplated in Ministerial Order IET/1345/2015 (of 2 July 2015), which establishes the methodology for updating remuneration for the operation of facilities entitled to the specific remuneration regime.
- The 2020-2022 regulatory stub period has been sub-divided into two: the 2020-2021 stub period and the 2022 stub period. Calculation of the adjustments for tariff shortfall/surplus (the Tariff Adjustment) for 2020 and 2021 will be based on annual average pool prices of €33.94/MWh and €111.90/MWh, respectively. Those average prices will be corrected by the so-called adjusting coefficients corresponding to each type of technology.

RDL 6/2022 mandates the publication of a ministerial order within less than two months from its publication in order to define the remuneration parameters for standard facilities, operating costs and operating income, among others, for the new 2022 stub period. The proposed ministerial order updating the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste with effect in 2022 was published on 12 May 2022. The definitive ministerial order has not been published by the date of authorising these interim condensed consolidated financial statements for issue.

One of the measures contemplated in the proposed ministerial order with the biggest impact on ENCE is the establishment of a regulatory pool price for 2022 of €121.92/MWh, and of new applicable upper and lower band limits. The proposed order also introduces the adjusting coefficients applicable to each standard facility in 2022 and the new remuneration for investment values applicable this year.

Royal Decree-Law 10/2022 (of 13 May 2022) establishes a temporary production cost adjustment mechanism designed to reduce electricity prices in the wholesale market. To that end it establishes an adjustment to the cost of production of marginal fossil-fuel technologies which is determined as the difference between a benchmark gas price and the actual daily natural gas price in the spot market. The adjustment mechanism will remain in place for 12 months, and no later than 31 May 2023.

Another of the measures with a significant impact on ENCE's activities is the revision of sections 3 and 4 of article 22 of Royal Decree 413/2014 with the aim of stimulating exposure to co-generation and waste generation in the forward markets. The modification entails switching the benchmark from the annual average price in the day-ahead and intraday market for the purpose of determining the Tariff Adjustment to the weighted average value of a basket of prices that factors in annual day-ahead and intraday prices as well as annual, quarterly and monthly futures prices.

Lastly, Royal Decree-Law 11/2022, published on 26 June 2022, adopts and extends certain measures in response to the economic and social consequences of the war in Ukraine in order to remedy situations of social and economic vulnerability and foster economic and social recovery in the Island of La Palma (hereinafter, "RDL 11/2022").

Among the measures applicable to the energy sector with an impact on ENCE it is worth highlighting the application of an electricity excise duty rate of 0.5% and the temporary suspension of the tax levied on the value of electricity output, both until 31 December 2022, and the modification of the tax base for calculating the levy on the value of electricity output in respect of related-party transactions.

Below are the main impacts of implementation of the foregoing regulations on the interim condensed consolidated financial statements for the first half of 2022:

Charge / (Income)	€ m
Remuneration for operation (Ro) not received	59,7
Adjustment for tariff shortfall/surplus	-39,7
Tolls, social voucher and other	1,2
	21,2

The establishment of a pool price for regulatory purposes for 2022 that is higher than the Group's facilities' operating expenses means they will not receive the remuneration for operation parameter in 2022, with the exception of the 13-Mw Cordoba 13 MW facility (whose estimated remuneration for operation in 2022 is €72.29/MWh). In addition, establishment of that new regulatory pool price, coupled with the new ceilings and floors contemplated for 2022, modify the Tariff Adjustment corresponding to the 2022 regulatory stub period.

Below are the main characteristics of the Group's renewable energy facilities and the remuneration for investment applicable to the facilities managed by ENCE in 2022, which factor in the above-listed regulatory developments:

Standard facility	Facility	Capacity (MW)	Regulatory useful life	Ri (€/MW)
Renewable Energy business:				
IT-00841	50-MW Huelva	50	2037	203.307
IT-00829 / IT-00832	41-MW Huelva	40,95	2025	124.762
IT-00843	20-MW Merida	20	2039	232.189
IT-00831 / IT-00855	16-MW Jaen	16	2027	149.173
IT-00831 / IT-00855	16-MW Ciudad Real	16	2027	149.173
IT-00859	14-MW Cordoba - Biomass	14,3	2031	149.007
	13-MW Cordoba - Gas	12,8	2030	-
IT-04005	50-MW Puertollano - Biomas	50	2044	-
IT-04005	46-MW Huelva	46	2044	-
Pulp business:				
IT-00838	37-MW Navia	36,2	2034	160.824
IT-01035	40-MW Navia	40,3	2034	-
IT-00836 / IT-00837 / IT-01035	35-MW Pontevedra (*)	34,57	2033	36.363

7. Cost of sales

Cost of sales in the first six months of 2022 and 2021 breaks down as follows:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	143.107	40.869	184.292	116.208	28.713	144.574
Change in raw materials and other inventories	4.267	2.058	6.325	4.895	(6.840)	(1.945)
Other external expenses	22.433	12.324	32.903	16.083	10.706	25.624
	169.807	55.251	223.520	137.186	32.579	168.253

(*) The difference between the figures presented under “Consolidated Group” for the first halves of 2022 and 2021 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 two interim reporting periods in the amounts of €1,138 thousand and €1,512 thousand, respectively.

This heading mainly includes the cost of acquiring timber, chemical products, fuel and other variable costs, as well as timber harvesting and transport services.

8. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in the first six months of 2022 and 2021 is provided below:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Wages and salaries	26.745	6.680	33.425	24.924	4.623	29.547
Social Security	7.149	1.631	8.780	7.080	1.498	8.578
Contributions to pension plans	990	155	1.145	1.008	121	1.129
Other benefit expense	541	82	623	502	87	589
	35.425	8.548	43.973	33.514	6.329	39.843
Long-term remuneration plans	177	53	230	387	-126	261
Termination benefits	1.091	2	1.093	273	202	475
	36.693	8.603	45.296	34.174	6.405	40.579

8.1 Headcount

The average Group headcount during the first halves of 2022 and 2021:

Job category	Average headcount during the period					
	1H22			1H21		
	Men	Women	Total	Men	Women	Total
Officers	50	14	64	48	12	60
Managers	58	23	81	61	18	79
Team leaders	68	5	73	69	4	73
Skilled professionals	192	117	309	195	125	320
Clerical staff	16	39	55	13	43	56
Operators	287	31	318	309	25	334
Support and upgrade staff	47	49	96	50	49	99
Maintenance	129	2	131	131	1	132
	847	280	1.127	876	277	1.153

The Board of Directors was made up of 13 directors at 30 June 2022, eight men and five women.

8.2 Long-term remuneration plans

2019-2023 long-term bonus plan

At 30 June 2022, the plan covered a total of 74 professionals from the Pulp business and the maximum expected cost, assuming delivery levels of 100%, amounts to €9,436 thousand. Of that total, 50% corresponds to key management personnel (note 29).

The expense / (income) accrued in this respect in the first six months of 2022 and 2021, broken down by their counterbalancing entries, is shown in the table below:

€ 000	Pulp		Renewable Energy	
	1H22	1H21	1H22	1H21
Other equity instruments (note 18.5)	124	271	0	(101)
Current and non-current provisions (note 27.1)	53	116	53	(25)
	177	387	53	(126)

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 and implied the payment of €279 thousand and 111,983 ENCE shares.

2021-2025 long-term bonus plan

At 30 June 2022, this plan covered a total of 31 professionals, all from the Renewable Energy business, and the maximum expected cost, assuming delivery levels of 100%, amounts to €3,794 thousand. Of that total, 31% corresponds to key management personnel (note 29).

The Group accrued €53 thousand of expense in respect of this plan in the first half of 2022; that expense has been recognised under “Non-current provisions” in the accompanying consolidated statement of financial position (note 27).

To determine the amount accrued in respect of these undertakings, 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.

9. Other operating expenses

The breakdown of this heading of the condensed consolidated statement of profit or loss for the six months ended 30 June 2022 and 2021 by ENCE's business lines:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	85.855	33.187	118.501	68.990	26.757	94.826
Use of emission allowances (note 27)	4.026	1.797	5.823	2.148	1.395	3.543
Taxes other than income tax	1.448	1.524	2.972	1.489	929	2.418
Electricity generation levy	-	-	-	3.056	6.203	9.259
Change in trade and other provisions	236	43	279	2.292	52	2.344
Other non-recurring operating expenses (notes 4 & 27)	121	-	121	(14.000)	-	(14.000)
	91.686	36.551	127.696	63.975	35.336	98.390

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2022 and 2021 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 two interim reporting periods in the amounts of €541 thousand and €921 thousand, respectively.

9.1 External services

The breakdown of "External services" in the first six months of 2022 and 2021 is as follows:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	32.275	594	32.869	22.313	548	22.861
Utilities	31.202	3.974	35.132	18.933	1.337	20.234
Repairs and upkeep	10.785	10.273	21.058	8.464	10.846	19.310
Independent professional services	2.045	697	2.742	3.251	233	3.484
Insurance premiums	2.283	1.778	4.061	1.846	1.111	2.957
Banking and similar services	732	384	1.116	726	311	1.037
Rent and fees	246	69	315	175	152	327
Advertising, publicity and public relations	501	17	518	228	13	241
Research and development costs	49	-	49	29	-	29
Other services	5.737	15.401	20.641	13.025	12.206	24.346
	85.855	33.187	118.501	68.990	26.757	94.826

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2022 and 2021 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 two interim reporting periods in the amounts of €541 thousand and €921 thousand, 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. That coverage cost the Group €94 thousand in the first six months of 2022.

9.2 Services provided by the auditor

The only non-audit services provided by the statutory auditor during the first half of 2022 related to a financial ratio review as part of the Group's obligations under its financing agreements and the review of certain financial metrics in order to certify the fact that several Group facilities qualify as "electro-intensive consumers".

10. Finance income and costs

The breakdown of these headings of the consolidated statement of profit or loss in the first six months of 2022 and 2021 was as follows:

€ 000	1H22			1H21		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
Convertible bonds	2.031	-	2.031	2.468	-	2.468
Notes	-	1.374	1.374	-	1.613	1.613
Loans, credit facilities & other	1.616	1.304	2.920	2.636	1.637	4.273
Unwind of discount - Tariff Adjustment	956	3.107	4.063	161	532	693
Fees and other charges	2.029	1.140	3.169	1.233	912	2.145
Capitalised borrowing costs (note 14)	(123)	(4)	(127)	(115)	(6)	(121)
Inter-business finance income/costs	(655)	1.301	646	(588)	1.196	608
Right-of-use assets (note 14)	213	20	233	782	18	800
Contingent consideration	(526)	(72)	(598)	(1.309)	(575)	(1.884)
Other finance income (note 24)	(1.018)	(16)	(1.034)	(848)	(559)	(1.407)
	4.523	8.154	12.677	4.420	4.768	9.188
Hedging derivatives:						
Settlement of IR swap (note 26)	-	1.036	1.036	253	1.031	1.284
	-	1.036	1.036	253	1.031	1.284
	4.523	9.190	13.713	4.673	5.799	10.472

11. Earnings per share

The basic and diluted earnings per share calculations for the six months ended 30 June 2022 and 30 June 2021 are shown below:

Basic and diluted earnings per share	Unit	1H22	1H21
Consolidated profit/(loss) for the period attributable to owners of the parent	€ 000	44.697	(194.597)
Weighted average ordinary shares outstanding (*)	Millions of shares	242,6	242,4
Weighted average diluted shares	Millions of shares	263,5	265,0
Basic earnings per share	€	0,18	(0,80)
Diluted earnings per share	€	0,18	(0,80)

(*) 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 (19.5 million shares in 1H22 and 20.5 million in 1H21) and the potential shares

related with delivery of the 2019-2023 long-term bonus plan targets (1.1 million shares in 1H22 and 2.1 million shares in 1H21) in either reporting period as their inclusion with have anti-dilutive effects.

12. 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 2022 and 2020 is as follows:

	€ 000			
1H22	Balance at 1 January 2022	Additions/ (charges)	Transfers	Balance at 30 June 2022
Goodwill	2.737	-	-	2.737
Software	31.309	40	773	32.093
Development costs	18.452	-	-	18.452
Prepayments	2.248	1.675	(773)	3.150
Electric power generation rights	21.002	-	-	21.002
Other intangible assets	10.719	9	-	10.728
Total cost	86.467	1.724	-	88.162
Software	(24.746)	(1.015)	-	(25.732)
Development costs	(13.383)	(242)	-	(13.625)
Electric power generation rights	(1.484)	(421)	-	(1.905)
Other intangible assets	(1.602)	(251)	-	(1.853)
Total amortisation	(41.215)	(1.929)	-	(43.115)
Impairment (note 16)	(7.314)	(1.612)	-	(8.926)
Total	37.938			36.121

The goodwill recognised 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 energy plants in Jaén and Ciudad Real, respectively. That goodwill was fully written down for impairment at 30 June 2022 (note 16).

13. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 1H22 and 1H21 is as follows:

	€ 000					
30 June 2022	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 30 June 2022
Forest land	83.794	-	-	-	-	83.794
Other land	14.325	18	-	(7)	11	14.347
Buildings	161.395	-	(1.494)	403	-	160.304
Plant and machinery	1.878.953	4.105	(35.973)	11.244	3	1.858.332
Other PP&E	64.339	111	(8.236)	362	1	56.577
Prepayments and PP&E in progress	27.293	16.045	(2.253)	(12.002)	-	29.083
Right-of-use - Land (note 14)	13.407	513	(521)	-	-	13.399
Right-of-use assets - Other assets (note 14)	11.602	2.888	(1.265)	-	-	13.225
Total cost	2.255.108	23.680	(49.742)	-	15	2.229.061
Buildings	(70.116)	(2.445)	1.142	-	-	(71.419)
Plant and machinery	(1.052.048)	(33.465)	29.312	-	(7)	(1.056.208)
Other PP&E	(39.175)	(632)	7.353	-	(1)	(32.455)
Right-of-use - Land (note 14)	(2.145)	(335)	396	-	-	(2.084)
Right-of-use assets - Other assets (note 14)	(4.344)	(1.435)	782	-	-	(4.997)
Total depreciation	(1.167.828)	(38.312)	38.985	-	(8)	(1.167.163)
Impairment (notes 4 & 16)	(203.719)	(34.654)	9.049	-	-	(229.324)
Carrying amount	883.561					832.574

The Group's productive assets are mostly located in Spain.

13.1 Additions

The Group invested in its productive facilities in both the Pulp and Renewable Energy businesses in the first half of 2022 with a view to making its production processes more efficient, boosting power generation and making them more environmentally friendly. That capital expenditure breaks down as follows:

	€ 000	
	1H22	1H21
Pulp business:		
Pontevedra	5.287	49.047
Navia	9.078	16.201
Other	862	128
Renewable Energy business:		
46-MW Huelva	714	3.171
50-MW Huelva	2.021	3.941
50-MW Puertollano	777	2.144
Other	1.540	6.055
Subtotal	20.279	80.687
Rights of use (note 14)	3.401	5.217
	23.680	85.904

A portion of that figure, specifically €1,391 thousand, corresponds to costs capitalised during the first half of 2022, which have been recognised under “Self-constructed assets” in the accompanying statement of profit or loss.

Capital commitments

The Group was contractually committed to capital expenditure totalling €19.8 million at the June 2022 close.

13.2 Assets derecognised

ENCE ceased producing pulp at the Huelva industrial complex in 2014, which meant that some of its industrial assets ceased to be used for business purposes, prompting their remeasurement to their recoverable amount. The Group continued to dismantle that complex over the course of the first half of 2022, derecognising the dismantled assets accordingly.

13.3 Insurance cover

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

14. Right-of-use assets

14.1 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 2022:

		€ 000			
30 June 2022	Note	Balance at 1 January 2022	Additions/ (charges)	Derecognitions	Balance at 30 June 2022
Right-of-use assets:					
Pontevedra biomill land	13	3.791	-	-	3.791
Forest leases	13	9.616	513	(521)	9.608
Other (*)	13	11.602	2.888	(1.265)	13.225
Cost		25.009	3.401	(1.786)	26.624
Depreciation:					
Pontevedra biomill land	13	-	-	-	-
Forest leases	13	2.145	335	(396)	2.084
Other (*)	13	4.344	1.435	(782)	4.997
Depreciation		6.489	1.770	(1.178)	7.081
Impairment	13	3.790	-	-	3.790
Carrying amount		14.730	1.631	(608)	15.753

(*) Mainly includes office and vehicle leases.

14.2 Lease liabilities

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of the first half of 2022 is as follows:

		€ 000						
30 June 2022	Note	Balance at 1 January 2022	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 30 June 2022
Lease liabilities:								
Current debt	24.2	3.995	-	(2.756)	(98)	3.087	233	4.461
Non-current debt	24.2	13.576	3.405	-	(522)	(3.087)	-	13.372
		17.571	3.405	(2.756)	(620)	-	233	17.833

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

14.3 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 six months ended 30 June 2022:

		€ 000		
1H22	Note	Depreciation	Interest expense (*)	Lease payments
Pontevedra biomill land	10 & 13	-	37	785
Forest leases	10 & 13	335	127	462
Other	10 & 13	1.435	69	1.509
		1.770	233	2.756
Depreciation charges capitalised		(335)	(127)	-
		1.435	106	2.756

(*) In the first half of 2022, the Group capitalised €127 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 amounted to €365 thousand in 1H22.

15. 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 2022:

1H22	€ 000			
	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Balance at 30 June 2022
Pulp business:				
Forest cover	115.804	3.202	(548)	118.458
Depletion of forest reserve	(51.791)	(3.971)	362	(55.400)
Impairment (notes 4 & 16)	(4.430)	(500)	181	(4.749)
	59.583	(1.269)	(5)	58.309
Renewable Energy business:				
Forest cover	2.381	22	-	2.403
Depletion of forest reserve	(2.133)	(7)	-	(2.140)
Impairment (note 16)	(109)	-	-	(109)
	139	15	-	154
	59.722			58.463

In the first half of 2022, the Group planted 193 hectares of land and carried out forest preservation and protection work on 9,283 hectares, work which entailed investments totalling €3,223 thousand. A portion of the amount capitalised - €2,762 thousand - has been recognised within “Self-constructed assets” in the consolidated statement of profit or loss.

In the first half of 2022, the Group capitalised €461 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs.

16. Impairment of non-financial assets

The impairment losses recognised by the Group against non-financial assets at 30 June 2022 are shown in the table below:

		€ 000					
		Additions/(charges)					
	Note	01/01/2021	Pontevedra concession arrangement (note 4)	Other	Amounts used	Amounts reversed	30/06/2022
Goodwill	12	1.244	-	1.493	-	-	2.737
Other intangible assets	12	6.070	119	-	-	-	6.189
Property, plant and equipment	13	203.719	516	34.138	(8.946)	(103)	229.324
Biological assets	15	4.539	-	500	(181)	-	4.858
Inventories			-	-	-	-	-
Spare parts	17	18.774	-	279	(4.962)	-	14.091
Net realisable amount & other	17	42	-	-	-	-	42
		234.388	635	36.410	(14.089)	(103)	257.241

The breakdown of “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 2022 is shown below:

€ 000	Note	1H22		Total
		Impairment losses (*)	Gains/(losses) on derecognition/sale	
Goodwill	12	1.493	-	1.493
Other intangible assets	12	119	-	119
Property, plant and equipment	13	34.551	658	35.209
Biological assets	15	500	-	500
		36.663	658	37.321

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

At the June 2022 close, the Group reassessed the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount as a result of recovering their net asset values (NAV) for regulatory purposes via existing and estimated wholesale pool prices in 2022.

The Group re-ran its impairment tests for those biomass-fuelled power generation assets using the criteria and methodology outlined in notes 3.5 and 21 of the Group's annual consolidated financial statements for 2021.

In determining their value in use, it relied on expected cash flow projections until the end of life of each cash-generating unit (CGU). Those projections incorporate assumptions about output, costs and other fundamental variables substantiated by specific studies prepared by experts or borne out by historical data, sales price assumptions based on available information gleaned from the futures markets and assumptions regarding macroeconomic developments based on data sourced from reliable independent sources.

The updated calculations revealed that the recoverable amount of the facilities with shorter regulatory useful lives - 41-MW Huelva; 16-MW Jaen; 16-MW Ciudad Real; and 27-MW Cordoba - was lower than their aggregate carrying amount by €35,505 thousand, prompting the Group to recognise 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 2022. That impairment loss includes €1,368 thousand corresponding to the remaining goodwill allocated to the 16-MW Jaen and 16-MW Ciudad Real plants (note 12).

In addition, an independent sensitivity analysis was conducted to test the assumptions that have the biggest impact on the value-in-use estimation. That analysis showed that a 5% decrease in pool prices in 2023-2024 would increase the impairment loss recognised by €4.7 million. By the same token, a 5% increase in fuel costs over the next five years would increase the impairment loss by €2.1 million.

17. Inventories

The breakdown of the Group's inventories at 30 June 2022 and 2021 is as follows:

€ 000	1H22	1H21
Timber and biomass	13.621	16.468
Other raw materials	5.012	4.192
High-turnover spare parts (*)	9.391	9.005
Greenhouse gas emission allowances	10.627	7.332
Finished goods and work in progress	17.731	26.686
Prepayments to suppliers	250	390
Projects under development	2.980	1.662
Impairment (note 16)	(42)	(42)
	59.570	65.693

(*) Presented net of impairment allowances of €14,090 thousand and €18,774 thousand at 30 June 2022 and 31 December 2021, respectively.

There are no restrictions on title to inventories.

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

17.1 Emission allowances

The reconciliation of the opening and closing Group-owned greenhouse gas (GHG) emission allowance balances for the first half of 2022 is provided in the next table:

	1H22	
	Number of allowances	€ 000
Opening balance	277.467	7.332
Allocations	108.990	9.103
Delivered (*)	(192.355)	(7.579)
Purchased	28.000	1.771
Closing balance	222.102	10.627

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

The Spanish government approved a new plan for the free allocation of GHG emission allowances for 2021 to 2025 on 13 July 2021. Under the Plan, in 2022 the Group received allowances equivalent to 108,990 tonnes of carbon emissions, valued at €9,103 thousand.

“Current provisions” on the liability side of the consolidated statement of financial position includes €5,824 thousand in this respect at 30 June 2022, corresponding to the liability derived from the consumption of 103,797 allowances in the first half of the year.

18. Equity

18.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2022 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 2022 and 31 December 2021 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 June 2022	31 December 2021
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
Directors with ownership interest of < 3%	0.55	0.54
Own shares	1.40	1.59
Free float	54.94	54.76
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.

18.2 Reserves

Below is the reconciliation of the opening and closing reserve balances for the first six months of 2022 and 2021:

	Parent company reserves					Reserves in fully-consolidated investees	Reserves in equity-accounted investees	Total reserves
	Legal reserve	Cancelled capital reserve	Capitalisation reserve	Voluntary reserves	Retained earnings (prior-year losses)			
€ 000								
Balance at 31 December 2020	45.049	10.566	14.660	99.141	(5.573)	144.329	(8)	308.164
Appropriation of prior-year profit/(loss)	-	-	5.041	33.220	5.573	(70.195)	(71)	(26.432)
Trading in own shares	-	-	-	201	-	-	-	201
Other changes	-	-	-	(881)	-	451	-	(430)
Balance at 30 June 2021	45.049	10.566	19.701	131.681	-	74.585	(79)	281.503
Balance at 31 December 2021	45.049	10.566	19.701	150.280	-	53.646	(79)	279.163
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	-	-	(181.378)	(9.031)	-	(190.409)
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	1.271	-	-	-	1.271
Non-controlling interests and other movements	-	-	-	984	-	27	(27)	984
Balance at 30 June 2022	45.049	10.566	19.701	152.535	(181.378)	44.642	(106)	91.009

18.3 Own shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of the six-month period ended 30 June 2022 is as follows:

	1H22	
	No. of shares	€ 000
Opening balance	3.923.750	12.296
Purchases	8.799.981	26.997
Sales	(9.273.767)	(27.112)
Closing balance	3.449.964	12.181

The own shares held by the Company at 30 June 2022 represent 1.4% of its share capital and were carried at €3,105 thousand. Those shares were acquired at an average price of €3.53 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2019-2023 bonus plan" (note 8).

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.

18.4 Valuation adjustments

The breakdown of "Valuation adjustments" at 30 June 2022 is provided below:

€ 000	30/06/2022			31/12/2021		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation	54.102	13.509	40.593	54.102	13.509	40.593
Hedging transactions (note 26)						
IR swap	1.415	354	1.061	(1.981)	(495)	(1.486)
Exchange rate	(8.156)	(2.042)	(6.114)	(6.977)	(1.745)	(5.232)
	47.361	11.821	35.540	45.144	11.269	33.875

18.5 Other equity instruments

The reconciliation of the movement in the carrying amount of "Other equity instruments" on the consolidated statement of financial position during the first half of 2022 is as follows:

€ 000	Balance at 1 January 2022	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 30 June 2022
Convertible bonds (note 24)	8.778	(3.276)	-	-	5.502
Long-term bonus plan (note 8.2)	1.119	-	124	(31)	1.212
	9.897	(3.276)	124	(31)	6.714

18.6 Corporate credit ratings

Ence suspended its credit ratings services in 2022.

The last rating awarded by Standard & Poor's, dated 6 December 2021, was BB- (negative outlook). Meanwhile, the last rating awarded by Moody's, dated 14 October 2021, was Ba3 (negative outlook). Both agencies' negative outlooks were influenced by the risk of annulment of ENCE's concession in Pontevedra.

18.7 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 2022 is as follows:

1H22 Company	€ 000			
	Balance at 1 January 2022	Profit/(loss) attributable to NCI	Other changes	Balance at 30 June 2022
Energía de la Loma, S.A.	4.818	906	-	5.724
Energías de la Mancha Eneman, S.A.	5.535	435	-	5.970
Bioenergía Santamaría, S.A.	439	(3.620)	-	(3.181)
Ence Energía, S.L. and subsidiaries	102.066	4.497	1.719	108.282
Total	112.858	2.218	1.719	116.795

19. Shareholder remuneration

19.1 Shareholder remuneration

The Board of Directors of ENCE approved a new shareholder remuneration policy on 28 February 2022, applicable from 2022. The purpose of the policy is to establish, within the scope of applicable legislation, the Company's Bylaws and prevailing corporate governance recommendations, a series of remuneration criteria designed to tie its financial performance to the remuneration received by its shareholders, framed by principles of sustainability, profitability and financial prudence.

To that end, the criteria that articulate and guide the policy are cash generation at ENCE and its subsidiaries, coupled with the ability to keep leverage at a level deemed prudent for the types of business carried on by the Group and compliance with its legal and contractual obligations.

As a result, annual shareholder remuneration will be determined by the cash available for distribution while ensuring an appropriate level of leverage of, by way of reference, a factor of ENCE's earnings before interest, tax, depreciation and amortisation ("EBITDA") of 2.5 times in the Pulp business and 5 times in the Energy business, using mid-cycle prices, and considering existing commitments and investment plans.

In order to align remuneration with the Company's actual cash generation, the Board proposes the following dividend payment time schedule: (i) two interim dividends agreed at the end of the second and third quarters of each year, i.e., in the months of July and October; and (ii) a final dividend for submission at the Company's Annual General Meeting within the first six months of the following year.

The Board of Directors may propose the forms of shareholder remuneration it deems most fitting at any given point in time, potentially including the repurchase of shares for cancellation, flexible remuneration schemes or in-kind distributions.

19.2 Interim dividend

At a meeting held on 26 July 2022, the Parent's Board of Directors resolved to pay a second interim cash dividend from 2022 profits of €0.130 per share (before withholdings) on 12 August 2022.

Before that, at a meeting held on 28 February 2022, the Board of Directors of the Parent had authorised the payment of a first interim cash dividend from 2022 profits of €0.054 per share (before withholdings). That dividend was paid on 11 May 2022.

The table below sets out the related forecast liquidity position, as required under article 277 of the Consolidated Text of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity at Ence Energía y Celulosa, S.A. to justify payment of the above interim dividends:

€ m	31/03/2022	30/06/2022
Available liquidity at the resolution date:		
Cash	289,1	270,5
Payment of interim dividend (maximum amount considering the number of shares outstanding at the resolution date)	-13,1	-31,6
Forecast net cash flows until date of approval of interim dividend	-	-
Forecast liquidity as of date of approval of interim dividend	276,0	238,9
Forecast collections over next 12 months:		
Cash flows from operating activities (proceeds net of payments)	62,6	60,5
Dividends collected	25,5	20,4
Forecast payments over next 12 months:		
Capital expenditure and income tax payments	-10,3	-18,9
Repayment of debt and payment of interest	-126,8	-88,3
Dividends paid	-62,0	-60,4
Forecast liquidity position in 12 months' time	165,0	152,3

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 2022:

1H22			Fair value through other comprehensive income	Fair value through profit or loss	Total at 30 June 2022
€ 000	Note	Amortised cost			
Investments accounted for using the equity method		-	-	-	-
Trade and other receivables	21	94.549	-	-	94.549
Trade receivables and other financial assets - Group companies and related parties	21 & 30	648	-	-	648
Other financial assets	23.2	18.116	-	23.373	41.489
Cash and cash equivalents	23.1	413.669	-	-	413.669
Total financial assets		529.016	-	23.373	552.389
Derivative financial instruments	26	-	8.678	-	8.678
Trade payables	22	285.169	-	-	285.169
Other accounts payable	25	103.128	-	-	103.128
Trade payables and other financial liabilities - Group companies and related parties	22 & 30	39.323	-	-	39.323
Notes and other marketable securities	24.1	78.273	-	-	78.273
Bank borrowings	24.1	269.376	-	-	269.376
Other financial liabilities	24.1	71.835	-	-	71.835
Total financial liabilities		847.104	8.678	-	855.782

The convertible bonds issued by ENCE were trading at 100.2% of par at 30 June 2022. The fair value of the rest of the Group's financial assets and liabilities carried at amortised cost, which include financing arranged at fixed rates of interest (note 24), is not significantly different from their amounts at which they are carried.

21. Trade and other receivables

The breakdown at 30 June 2022 and 31 December 2021 of "Trade and other receivables" in the condensed consolidated statement of financial position is as follows:

€ 000	30/06/2022	31/12/2021
Trade receivables:		
Pulp	79.674	42.325
Renewable Energy	12.673	29.521
Other items	1.148	1.058
Trade receivables, group companies and related parties (note 30)	612	700
Sundry receivables	5.582	9.839
Provision for impairment	(4.528)	(4.485)
	95.161	78.958

With respect to the trend in the balances receivable in exchange for the sale of renewable energy, the reader should note that sales to the pool are usually collected within a period of approximately 10 days. The balances due from the regulator, on the other hand, tend to be collected at around 60 days.

21.1 Discounting facilities

The Group had drawn down €49,956 thousand under non-recourse discounting facilities with an aggregate limit of €100,000 thousand at 30 June 2022. The balance drawn corresponds entirely to Pulp business receivables.

The trade receivables not discounted under those facilities at 30 June 2022 are expected to be collected from the corresponding debtors, rather than via sale.

22. Trade payables and other current liabilities

The breakdown at 30 June 2022 and 31 December 2021 of “Trade and other payables” in the consolidated statement of financial position is as follows:

€ 000	30/06/2022	31/12/2021
Trade and other payables	250.366	227.019
Trade payables, group companies and related parties	1.880	2.301
Payable to fixed-asset suppliers	19.557	24.452
Employee benefits payable	5.729	6.597
Adjustments for tariff shortfall/surplus (note 25)	9.517	1.528
	287.049	261.897

The Group has recognised the amount received provisionally from the electricity sector regulator in 2022, which it expects to have to return as a result of application of the new remuneration arrangements approved this year, in the amount of €34.5 million, under “Trade and other payables”.

The Group had drawn down €99,491 thousand under non-recourse reverse factoring facilities with an aggregate limit of €183,000 thousand at 30 June 2022. In the Pulp business the limit and balance drawn amounted to €140,000 thousand and €79,049 thousand, respectively. In the Renewable Energy business the limit and balance drawn amounted to €43,000 thousand and €20,442 thousand, respectively.

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 €413,669 thousand of cash and cash equivalents at 30 June 2022 (€217,674 thousand of which corresponding to the Pulp business and €141,995 thousand, to the Renewable Energy business).

At 30 June 2022, the Group had €4,510 thousand of cash in dollars.

23.2 Other financial assets

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

€ 000	30/06/2022		31/12/2021	
	Current	Non-current	Current	Non-current
ENCE's share liquidity agreement (note 18.3)	2.039	-	318	-
Contingent consideration (note 30)	8.510	14.863	8.510	14.264
Debt cash reserve	-	10.000	-	10.000
Security deposits and other accounts receivable	3.940	2.137	6.287	2.216
	14.489	27.000	15.115	26.480

The "Debt cash reserve" includes €10 million of cash held to cover the obligation, stipulated in the financing taken on by the Renewable Energy business, 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 30 June 2022.

24. Borrowings

24.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 30 June 2022 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

30 June 2022 - € 000	Limit	Drawn down	Maturity					Total non-current
			2022	2023	2024	2025	2026	
Borrowings - Pulp business								
Notes issued	88.984	88.984	-	88.984	-	-	-	88.984
Notes repurchased								-
Revolving credit facility	130.000	-	-	-	-	-	-	-
Bank loans	94.999	94.999	-	7.500	28.414	43.981	15.104	94.999
Arrangement fees	-	(769)	(133)	(251)	(154)	(154)	(77)	(636)
Bond issue	-	(152)	(55)	(97)	-	-	-	(97)
Bank loan	-	(617)	(78)	(154)	(154)	(154)	(77)	(539)
Interest and coupons payable and other	-	1.159	1.159	-	-	-	-	-
	313.983	184.373	1.026	96.233	28.260	43.827	15.027	183.347
Borrowings - Renewable Energy business								
Notes issued	79.000	79.000	-	-	-	79.000	-	79.000
Revolving credit facility	20.000	-	-	-	-	-	-	-
Bank loans	85.750	85.750	14.700	27.067	33.733	10.250	-	71.050
Tranche A	34.000	34.000	7.000	11.667	9.333	6.000	-	27.000
Tranche B	39.000	39.000	6.000	12.000	21.000	-	-	33.000
Tranche E	12.750	12.750	1.700	3.400	3.400	4.250	-	11.050
Arrangement fees	-	(1.474)	(380)	(579)	(370)	(145)	-	(1.094)
Bond issue	-	(727)	(163)	(261)	(190)	(113)	-	(564)
Bank loan	-	(747)	(217)	(318)	(180)	(32)	-	(530)
Interest and coupons payable and other	-	-	-	-	-	-	-	-
	184.750	163.276	14.320	26.488	33.363	89.105	-	148.956
	498.733	347.649	15.346	122.721	61.623	132.932	15.027	332.303

ENCE's average borrowing cost in the first half of 2022 was 2.38%. The average borrowing cost in the Pulp business was 1.52%, compared to 4.19% in the Renewable Energy business.

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 2022, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

ENCE's borrowings do not carry any clauses that would imply their modification or renegotiation as a result of a change in its credit ratings.

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 (*):	8,0901
Conversion premium:	40%
Conversion ratio (shares / bond):	12.361
Maximum no. of shares to be issued:	19.777.259
Potential dilution (% increase in share capital):	8,03%
Traded on:	Frankfurt stock exchange
ISIN:	XS1783932863
Issuance costs:	2.075.000 €

(*) The conversion price changed to 8.5636 on 1 July 2022

In the first half of 2022, ENCE bought back bonds with a face value of €39,50 thousand at an average price of 99.82% of par. It recognised finance income of €761 thousand as a result of those transactions (note 10). In previous years it had repurchased bonds with a face value of €31,300 thousand.

Under the scope of that issue, the Group also arranged a €130 million revolving credit facility with a syndicate of Spanish and international banks which accrues interest at EURIBOR plus a spread and matures in 2026. The revolving credit facility was fully drawn down at 30 June 2022. 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

At 30 June 2022, ENCE had arranged several loans in a combined amount of €95 million; those loans fall due between 2024 and 2026. A portion of those loans, with a face value of €70 million, accrues interest at fixed rates ranging between 1.65% and 1.95%. The remainder mainly accrue interest at EURIBOR plus a spread of

between 1.43% and 2.0%. 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.

Borrowings - Renewable Energy business

Recourse borrowings

On 24 November 2017, Magnon Green Energy, S.L. (hereinafter, "Magnon"), 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, Magnon 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		Maturity	Interest rate (*)
	Undrawn	drawn		
Senior notes (iv)	36.000	36.000	Dec. 2025 (ii)	3,45%
Tranche 1	28.000	28.000	Dec-2024	1.75% - 3.25%
Tranche 2	6.000	6.000	Dec. 2025 (ii)	3,45%
Tranche 3 (iii)	39.000	39.000	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)	12.750	12.750	Dec-2025	1.75% - 3.25%
	184.750	164.750		

- (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.

In the first half of 2022, Magnon bought back notes with a face value of €14,000 thousand for €14,000 thousand.

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:

30 June 2022 - € 000	Drawn down	Maturity						
		2022	2023	2024	2025	2026	2027	Beyond
Other financial liabilities - Pulp business								
Financing granted by public organisms	54.002	3.536	7.857	8.431	8.277	8.277	6.386	11.238
Liabilities for right-of-use assets (note 14)	16.722	2.021	3.731	1.751	2.205	1.095	374	5.545
	70.724	5.557	11.588	10.182	10.482	9.372	6.760	16.783
Other financial liabilities - Renewable Energy business								
Liabilities for right-of-use assets (note 14)	1.111	280	269	275	115	35	36	101
	71.835	5.837	11.857	10.457	10.597	9.407	6.796	16.884

25. Other current and non-current assets and 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:

€ 000	30/06/2022		31/12/2021	
	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus	9.517	102.023	1.528	83.514
Other	-	1.105	-	1.105
	9.517	103.128	1.528	84.619

The line item "Other non-current liabilities" on the accompanying consolidated statement of financial position reflects the "Adjustment for tariff shortfall/surplus" account, which includes the Group's non-current payables to the sector regulator, the CNMC, under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste, in respect of the Tariff Adjustments concept (note 6).

The current balance due in this respect amounts to €9,517 thousand and is recognised in "Trade and other payables" in the accompanying consolidated statement of financial position (note 22).

26. Derivative financial instruments

The breakdown of this consolidated statement of financial position heading at 30 June 2022 and 31 December 2021, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

€ 000	Non-current assets		Non-current liabilities		Current liabilities	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Cash flow hedges:						
IR swap	1.856	-	-	2.441	522	2.615
IR swap arrangement fee	178	-	-	(280)	-	-
Currency hedges	-	-	-	-	8.156	6.977
Total	2.034	-	-	2.161	8.678	9.592

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in the first half of 2022 are shown below:

€ 000 - Gain/(loss)	1H22	1H21
Impact on operating profit:		
Currency hedges	(11.386)	3.076
Pulp price hedges	73	(10.161)
Energy sales price hedges	-	(3.882)
Subtotal	(11.313)	(10.967)
Impact on net finance costs:		
IR swap (note 10)	(1.036)	(1.284)
Total	(12.349)	(12.251)

All of the derivatives arranged by ENCE at 30 June 2022 qualify for hedge accounting.

26.1 Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate in respect of highly probable transactions, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 30 June 2022:

Underlying	Maturity	Strike price	Strike price	Notional amount (USD m)
		Call	Put	
EUR/USD	3Q22	1,170	1,197	38,5
EUR/USD	4Q22	1,130	1,155	38,8
EUR/USD	1Q23	1,114	1,144	24,5
EUR/USD	2Q23	1,033	1,120	15,0
				116,8

The contracts outstanding at 30 June 2022 cover approximately 19% and 10% of forecast pulp sales in the second half of 2022 and the first half of 2023, respectively.

Those instruments presented a negative market value of €8,156 thousand at 30 June 2022 (a positive market value of €6,977 thousand at year-end 2021).

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 2022 is shown below:

€ 000	Change in USD/EUR exchange rate	Operating profit (-)/+	Impact on equity (-)/+
	5% depreciation	4.788	3.591
	5% appreciation	(5.536)	(4.152)

26.2 Interest rate swaps:

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

€ 000	Fair value (*)	Notional principal amounts at year-end:		
		2022	2023	2024
Renewable Energy business	1.333	134.038	111.371	3.188
(*) Balance receivable				

There were inefficiencies in the interest rate derivatives in the first half of 2022, prompting the Group to recognise a gain of €317 thousand under “Change in fair value of financial instruments” in the consolidated statement of profit or loss for the six months ended 30 June 2022.

The sensitivity of operating profit and equity to interest rate movements as a result of the impact on the derivative financial instruments arranged by the Group at 30 June 2022 is shown below:

€ 000	Change in interest rates	Impact on finance cost (-)/+	Impact on equity (-)/+
	50bp increase	(1.269)	(952)
	50bp decrease	1.289	967

27. Provisions, guarantees and contingent liabilities

27.1 Provisions

The reconciliation of the opening and closing balances of current and non-current provisions during the reporting period is as follows:

30 June 2022	€ 000			
	Balance at 1 January 2022	Additions/ (charges)	Derecognitions or decreases	Balance at 30 June 2022
Non-current:				
Long-term remuneration plan (note 8.2)	375	106	-	481
Provision for dismantling (note 4)	42.631	364	-	42.995
Provision for contractual obligations (note 4)	6.059	34	-	6.093
Other	2.160	-	(295)	1.865
	51.225	504	(295)	51.434
Current				
Long-term remuneration plan (note 8.2)	309	-	-	309
Emission allowances (notes 9 & 17.1)	7.578	5.824	(7.579)	5.823
Other provisions	10.935	-	-	10.935
	18.822	5.824	(7.579)	17.067

27.2 Guarantees extended to third parties

At 30 June 2022, several financial institutions had extended the various Group companies the following guarantees:

	€ 000
Government permitting of renewable energy power generation plants	40.551
Subsidised loans (note 24.2)	9.922
Grid access - Pre-allocations	15.764
Receivable discounting lines	7.500
Execution of forest projects	4.413
Pontevedra concession	3.050
Electricity market	7.600
Environment related	1.605
Payments to suppliers	1.261
Other	1.940
	93.606

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.

27.3 Contingent assets and liabilities

At 30 June 2022, 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:

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 the Group 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 Energía y Celulosa, S.A. and certain Group companies (hereinafter, “ENCE”) 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, ENCE 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. On 15 November 2021, the Ministry of Ecological Transition and Demographic Challenges sent ENCE a report from the General Directorate of Energy Policy and Mining which concludes that its claim for damages is not admissible. ENCE presented its arguments against that conclusion within the deadline granted to that end.

Any decision ENCE 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.

28. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2022 and 31 December 2021 are shown below:

€ 000	30/06/2022		31/12/2021	
	Assets	Liabilities	Assets	Liabilities
Non-current:				
Deferred tax assets	65.609	-	64.149	-
Deferred tax liabilities	(18.796)	411	(18.586)	-
Total	46.813	411	45.563	0
Current:				
VAT	18.767	8.711	15.414	11.474
Current tax on profits for the year	1.752	11.471	1.842	78
Electricity generation levy	-	967	-	982
Sundry other taxes	5.014	3.772	481	3.122
Total	25.533	24.921	17.737	15.656

ENCE Energía y Celulosa, S.A. has been filing its income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Spanish Corporate Income Tax Act (Tax Group 149/02), along with all the Spanish companies itemised in Appendix I in which it has a shareholding of over 75%, since 2002.

Magnon Green Energy, S.L. has been filing its income tax returns under the consolidated tax regime provided for in Chapter VI of Title VIII of the Spanish Corporate Income Tax Act (Tax Group 410/21), along with all the Spanish companies itemised in Appendix I in which it has a shareholding of over 75%, since 2021.

The rest of the Group companies file individual tax returns.

The statutory income tax rate in Spain is 25%.

28.1 Deferred tax assets and liabilities

The reconciliation of this consolidated statement of financial position heading at the beginning and end of the interim reporting period:

€ 000	Deferred tax assets				Deferred tax liabilities
	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	Total	
Opening balance	44.851	2.472	16.826	64.149	18.586
2021-2022 corporate income tax	(2.494)	-	3.240	746	-
Change in fair value of hedging instruments	-	(1.127)	-	(1.127)	-
Capitalised tax losses and certified tax credits	2.129			2.129	-
Other			(288)	(288)	621
	44.486	1.345	19.778	65.609	19.207

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

The deferred tax assets recognised correspond 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.

ENCE only recognises deferred tax assets insofar as it is deemed probable that the entities (individually or on a consolidated basis) that have generated them will generate sufficient taxable profit in the future to enable their utilisation.

It reviews its recognised deferred tax assets at each year-end to check that they continue to qualify for capitalisation and are considered recoverable within a timeframe of approximately 10 years. That analysis is based on: (i) assumptions to test for the existence of sufficient taxable income to enable the utilisation of the tax losses in question, which coincide with those used to test the Group's non-financial assets for impairment; and (ii) the prescription periods and limits stipulated in prevailing tax legislation for the utilisation of unused tax credits. The cash flows so estimated indicate that the deferred tax assets recognised will be recovered within an period of around 10 years.

At 30 June 2022, the Group had unused tax losses of €88.4 million in Spain and €1.3 million in Portugal, all of which at the Pulp business, for which it had not recognised deferred tax assets. Elsewhere, the Group has not recognised any deferred tax assets in connection with the impairment losses and provisions recognised

mainly as a result of the rulings annulling the extension of the Pontevedra biomill public-domain concession in the amount of €150.8 million (tax base).

28.2 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay).

All of the Group's relevant decisions have been analysed internally and also by external advisors and the conclusion reached is that those decisions are lawful and based on reasonable interpretations of tax regulations. The Group also analyses the existence of uncertainty over tax treatments. As a general rule, it takes a prudent approach to factoring any such uncertainty into determination of its tax. ENCE has not identified any uncertain tax positions requiring assessment.

29. Director and key management personnel pay and other benefits

Note 35 of the Group's annual consolidated financial statements for 2021 and Appendix III of the Consolidated Management Report that accompanies those annual financial statements, which includes the Annual Corporate Governance Report and the Annual Report on Director Remuneration, detail the existing agreements with respect to the remuneration and other benefits provided to the Parent's Board of Directors and key management personnel. Below is a summary of the most significant items of remuneration and benefits accrued during the six months ended 30 June 2022.

At the Annual General Meeting on 31 March 2022, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2022-2024 (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 2022 and 2021:

	Thousands of euros	
	1H22	1H21
Board of Directors:		
Remuneration for Board membership:		
Fixed remuneration	334	353
Per diems & other	392	414
	726	767
Remuneration for performance of executive duties (*)	358	300
Key management personnel:		
Total remuneration (*)	1,012	1,018

(*) The above amounts do not include any variable remuneration in respect of 2022 as those bonuses will be determined, subsequent to year-end, as a function of the degree of delivery of the established targets.

29.1 Compensation paid to the members of the Board of Directors

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, the Company offers its directors and their spouses an annual medical check-up.

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 2022.

Remuneration for the performance of executive duties

Ence Energía y Celulosa, S.A.'s Director Remuneration Policy stipulates fixed remuneration for the Chairman & CEO of €664 thousand and an annual bonus of up to 120% of his fixed remuneration. ENCE also provides its Chairman & CEO with a range of in-kind compensation, including a company car, health insurance and an annual medical check-up.

Ignacio de Colmenares Brunet accrued fixed remuneration for the performance of his executive duties of €332 thousand in the first half of 2022. The Chairman & CEO is also the beneficiary of a mixed savings, life and accident insurance policy.

In addition to the above-mentioned remuneration, ENCE's Chairman & CEO has a retirement insurance policy (the benefit payable under the plan is one year's remuneration, to be received upon termination of his contract, so long as this happens at the age of 62 or over). The contribution made in that respect in 2022 amounts to €184 thousand, half of which accrued in the first half of the year.

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 (note 8). The Chairman & CEO received €59 thousand and 23,712 ENCE shares under that settlement.

Lastly, the Chairman & CEO is a beneficiary under Cycle II of the 2019-2023 long-term bonus plan (note 8). Assuming full delivery of the targets to which that incentive scheme is tied, he stands to receive €598 thousand and 240,330 ENCE shares.

Other aspects

The Group companies have not extended ENCE's directors any advances or loans. Nor have ENCE's directors received any termination benefits. 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 2022.

ENCE had no pension or alternative insurance related obligations to its directors at 30 June 2022, 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 2022 are outlined below: (i) Carmen Aquerreta Ferraz and Rosalía Gil-Albarellos Marcos joined the Board of Directors as independent directors and Ángel Agudo Valenciano joined as proprietary director; (ii) Victor Urrutia Vallejo, Isabel Tocino Biscarolasaga and Amaia Gorostiza Tellería stepped down from the Board of Directors.

29.2 Key management personnel remuneration

Key management personnel comprise the officers who report directly to the Board of Directors or the Chairman & CEO, as well as the head of the Internal Audit function and any other executives the Board of Directors deems as such. The breakdown at 30 June 2022:

Nombre	Cargo
D. Ignacio de Colmenares y Brunet	Presidente y Consejero Delegado
D. Alfredo Avello de la Peña	D. General Finanzas y Desarrollo Corporativo y Patrimonio Forestal
D. Jordi Aguiló Jubierre	D.General. de Celulosa
D. Marc Gómez Ferret	Consejero Delegado y Director General de Magnon Green Energy, S.L.
D ^a Reyes Cerezo Rodríguez-Sedano	Secretaria General/D.General de Sostenibilidad
D ^a María José Zuera Saludas	D.General Capital Humano
D. Modesto Saiz Suárez	Director Comercial y Logística Celulosa
D. Fernando González-Palacios Carbajo	Director de Planificación y Control
D. Ángel J. Mosquera López-Leyton	Director de Auditoría Interna

The key management personnel are the beneficiaries of a mixed savings, life and accident insurance policy. Elsewhere, ENCE provides its key management personnel with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up.

As contemplated in the plan rules, Cycle I of 2019-2023 long-term bonus plan was settled in July 2022 (note 8). The Group's key management personnel received €88 thousand and 35,337 ENCE shares under that settlement.

In addition, the Group's key management personnel are beneficiaries of Cycle II of ENCE's 2019-2023 long-term bonus plan and of Magnon Green Energy, S.L.'s 2020-2025 long-term bonus plan (note 8). Assuming full delivery of the targets to which those incentive schemes are tied, they stand to receive €1,986 thousand and 330,069 ENCE shares.

The termination benefits to which key management personnel are contractually entitled are disclosed in section C.1.39 of the Annual Corporate Governance Report which is included as part of the Consolidated Management Report accompanying the annual consolidated financial statements for 2021.

30. Transactions with Group companies and related parties

30.1 Transactions with investees accounted for using the equity method and resulting balances

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

	€ 000		
	Current loans	Current receivables (note 21)	Current payables (note 22)
30 June 2022			
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	458	800
	36	458	800

The transactions performed with investees accounted for using the equity method of consolidation in the first half of 2022 were as follows:

1H22	€ 000	
	Services rendered	Operating expenses
Capacitación de Servicios Forestales, S.L.	1.059	331
	1.059	331

30.2 Balances and transactions with related parties

The balances outstanding with non-controlling interests at 30 June 2022 are as follows:

30 June 2022	€ 000					
	Non-current financial assets (note 23.2)	Current financial assets (note 23.2)	Current receivables (note 21)	Non-current borrowings	Current borrowings	Current payables (note 22)
Ancala Partners LLP	13.076	8.510	-	36.835	608	-
San Miguel Arcángel, S.A.	-	-	-	-	-	816
Aceites y Energía Santamaría, S.A.	-	-	154	-	-	264
	13.076	8.510	154	36.835	608	1.080

The transactions carried out with non-controlling shareholders in the first half of 2022:

1H22	€ 000			
	Sales	Purchases	Operating expenses	Finance costs (note 10)
Ancala Partners LLP	-	-	-	646
San Miguel Arcángel, S.A.	-	3.225	-	-
Aceites y Energía Santamaría, S.A.	194	2.307	138	-
	194	5.532	138	646

30.3 Transactions with directors

ENCE had no balances outstanding with its directors at 30 June 2022. Moreover, ENCE did not perform any transactions with its directors in the first half of 2022.

31. Environmental management

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 commitments are borne out, first and foremost, in its strategic approach to its business activities:

- ✓ 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 environmental impacts derived from its customers' manufacturing process. A good example of that approach is the development of unbleached pulp, Naturcell, 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.
- ✓ With its Renewable Energy activities, ENCE contributes to the decarbonisation of the Spanish generation mix. Moreover, the recovery and reuse of agricultural biomass prevents the harmful diffuse emissions associated with uncontrolled burning of crop waste in rural areas without any form of treatment. Moreover, it mobilises forestry biomass.

In addition to helping protect the environment through its business activities, the Group is committed to framing its manufacturing processes with environmental considerations: its motto is to look beyond the legal thresholds stipulated in its facilities' environmental permits and uses best available techniques and continuous improvement methodology to reduce the environmental impact of its activities in terms of material consumption, waste generation, emissions, effluents, noise and odours. That commitment translates into significant investments designed to pave the way for implementation of best available techniques and process efficiency improvements, notably including those related with emission filtering and measurement and air quality systems that enable the ongoing reduction of environmental impacts and enhance relations with nearby communities.

Environmental capital expenditure amounted to €6,413 thousand in the first half of 2022 (Pulp: €4,239 thousand; Renewable Energy: €2,174 thousand).

In short, the Group 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 the Company's ambition is to go beyond its legal obligations, ENCE's environmental commitment first and foremost entails stringent and exhaustive compliance with prevailing legislation, which stipulates the requirements to be met by all of the activities related with the production of pulp and the generation of power from renewable sources, and to adapt for the best available techniques (BAT) defined in the sector BREF (Best Available Techniques Reference Document for the pulp and paper industry, 2014) approved by the European Parliament's ENVI Committee and the Best Available Techniques (BAT) Reference Document for Large Combustion Plants - Industrial Emissions Directive 2010/75/EU (2017).

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.

To that end, those permits set emission limits for each facility based on best available techniques, as well as surveillance plans in respect of all relevant environmental parameters. ENCE avails of all measures within

its reach to meet or even surpass the limits set in the permits and reports to the corresponding authorities on its performance in this respect on a timely basis. ENCE's integrated permits are on public record in the corresponding regional government registers.

Environmental management systems

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, in 2011. Under the scope of that model it has defined its environmental policy, which sets the Group's general objectives in this arena and a series of key improvement targets that are clearly focused on the environment and aimed at:

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

Under the scope of the TQM model, the Group has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the plan-do-check-act (PDCA) and standardise-do-check-act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

ENCE has developed an integrated management system with the overriding goal of ensuring that all of the Company's activities are carried out under the scope of the management policy established by senior management and the defined targets and goals are met. That integrated system is certified by an accredited organism that carries out the corresponding audits. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement. The integrated management systems comply with the following international standards, among others:

- UNE-EN-ISO 9001 - quality management
- UNE-EN-ISO 14001 - environmental management
- ISO 45001 - workplace health and safety management
- UNE-EN-ISO 50001 - energy management

Integration of the environmental management systems at the plants is underway in 2022 with external certification slated for September.

Elsewhere, the Pontevedra and Navia biomills were pioneers in their respective regions in obtaining certification under Regulation (EC) No. 1221/2009 Community eco-management and audit scheme (EMAS), a voluntary commitment undertaken 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.

Within the plants' environmental management systems, in 2022, ENCE continues to enhance its performance by leveraging 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.

Other environmental excellence certifications

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.

The facilities in Pontevedra, Navia, Merida, Enemansa, La Loma and Biollano also hold Zero Waste certification, while the Huelva plant is "Towards Zero Waste" certified. It is ENCE's intention to have all of its facilities attain that certification, so endorsing them as benchmarks in efficient waste management and recovery.

All of ENCE's plants boast biomass sustainability SURE certification since 2021. The SURE label is one of the tools developed to ensure compliance with the requirements emanating from the Renewable Energy Directive (Directive (EU) 2018/2001, the European rules stipulating a host of criteria to be met by all biomass used in the bioenergy sector with the aim of ensuring its sustainability, an appropriately balanced mix, the reduction of greenhouse gas emissions and energy efficiency. ENCE is therefore compliant ahead of time with the key milestones implied by transposition of that Directive and remains at the forefront, taking a proactive approach to the future sustainability of biomass as a source of energy. ENCE set out on that path in 2017, with its 10-Point Declaration on the Sustainability of Biomass as a Fuel, a trailblazing initiative in Spain rolled out to guarantee fully sustainable and responsible use of biomass and care for the environment in using it as an energy source.

Transitioning to 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.

Climate change and carbon footprint mitigation

ENCE's business model directly helps combat climate change. Thanks to the power it generates from renewable sources, ENCE is helping to change the Spanish energy model, contributing a type of energy - that generated from biomass - that is not only renewable but is also manageable, a trait other renewable generation technologies do not present. The use of surplus biomass represents a sustainable energy alternative with major environmental and emission-reducing benefits and contributes to the transition towards a low-carbon energy model, in line with European Union guidelines and Spanish energy policy.

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

In parallel to the contribution it makes through its business model, ENCE is working to reduce the greenhouse gas emissions generated by its operations. In 2021, the Company made progress on several decarbonisation projects with the aim of delivering its emissions-cutting targets in 2025. For example, it replaced fossil fuels with biomass at the Pontevedra biomill, consolidated its self-generation capabilities at the Merida and Huelva power plants thanks to the use of photovoltaic solar panels and built new facilities in Huelva and Biollano. Thanks to those initiatives, in 2021, the Group cut its direct GHG emissions by 9%, bringing ENCE ever closer to its stated targets.

Sustainable forestry management

ENCE maintained its position and role as the leading private forest manager and a key player in the timber-based product market in Spain in 2022.

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. ENCE invested €3.2 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.

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 with all the sector players 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.

Improvements to that policy have translated into a steady rise in the percentage of incoming timber that is certified, which currently stands at 72% overall. As for the forests under its management, over 83% of the land area managed by ENCE is certified under one or other scheme.

ENCE's end-to-end forestry activities were audited in 2022 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 Navia biomill, the Sales Department, the third-party sales operations in Huelva and management of an intermediate asset completed their annual follow-up audits. The audits 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.
- PEFC Chain of Custody Audit. The fourth follow-up audit of the PEFC chain of custody certificate covering the Navia biomill, the third-party sales operations in Huelva and the Sales Department took place in June. That audit verified implementation of the management system with respect to the requirements stipulated in PEFC ST 2002:2020 and PEFC ST 2001:2020 and 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 to collaborate with the research being conducted by FSC® certifier, Assurance Services International (ASI), as part of FSC®'s transaction verification policy, responding to all the requests for information received. In addition to fostering certified sustainable forestry management, ENCE undertakes research and development work in the following areas: best forestry care practices; enhanced plants suited for emerging climate conditions; and innovative methods for waging biological warfare against the pests and diseases that affect the eucalyptus.

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. Specifically, the Company 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 also 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 financial 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.

ENCE seeks to contribute to development in the communities in which it operates, fostering the purchase of local timber in Galicia, Asturias, Cantabria and the Basque region. Local wood purchasing 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.

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.

Sustainable management of biomass procurement

In 2022, 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 2022, Ence has continued to foster implementation of its 10-Point Declaration on the Sustainability of Biomass, monitoring progress monthly. The major biomass sustainability challenge faced by ENCE in 2022 has been renewal of SURE scheme certification at all of the independent power plants and biomills under the scheme. Having certified the plants and biomills in 2021 and 2022, in parallel to the process of renewing the various facilities' certificates, ENCE has been working towards its goal of getting its entire supply chain SURE-certified, which is vital to attaining the milestones set down in the legislation transposing the EU's Renewable Energy Directive into Spanish Law. That Directive and its transposition into Spanish law stipulate the criteria to be met by all biomass used in the bioenergy sector with the aim of ensuring its sustainability, an appropriately balanced mix, the reduction of greenhouse gas emissions and energy efficiency.

SURE certification encompasses the entire biomass management process end to end, specifically including sourcing (agricultural land, forests or industrial waste), the supply chain itself, logistics at the facilities and plants and the production of renewable energy. All of which well-oiled to ensure maximum efficiency.

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.

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. In the first half of 2022, the biomass procurement effort involved a total of close to 500 suppliers and nearly 1 tonnes of biomass, 53% of which came from crops, 29% from forest waste and the remaining 18%, from industrial sources.

Pulp business

Navia biomill

In 2019, the Navia biomill started to upgrade and optimise the facility's technology. That work included the implementation of best available practices in a significant number of productive processes to unlock an increase in capacity of 80,000 ADt, as well as improving the biomill's environmental performance by enhancing equipment and system technology throughout the productive process.

The results of that environmental upgrade effort materialised over the course of the project's execution in the form of higher-quality discharges and lower emissions. The main environmental improvements introduced:

- 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.
- The investments also included a new primary effluent treatment system comprising a new dissolved air flotation (DAF) unit, which has replaced the existing decanter, enabling the separation of particles suspended in the effluents by injecting tiny air bubbles, whereby the suspended matter adheres to the bubbles on their way up, floating towards the upper separation system.
- Optimisation of the recovery boiler which has increased the production of steam and the current electrostatic precipitators' ability to eliminate particles.

Kraft pulp mills generate odorous compounds, which is why ENCE has been working for years in Navia to improve its processes, facilities and operations in order to prevent and at least manage its odorous gases. It is working towards a 'zero odour' target. That effort is articulated around a Zero Odour Plan which began in 2010, since when odour emissions from point sources have been slashed by 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.

The audit to renew the biomill's AENOR Zero Waste Regulation certification is scheduled for July 2022. ENCE was one of the first companies in Spain to obtain this certificate, with recovery ratios of over 96%. That certification, obtained for the first time in June 2020, adds to those already earned and renewed in external audits of the integrated management system, e.g., renewal of the environmental and quality management certification by organisations accredited to provide UNE-EN-ISO 14001:20015 certification and of the Community eco-management and audit scheme (EMAS); those reviews did not reveal any shortcomings and endorse ENCE's steady progress towards environmental excellence. The biomill continues to work to boost the circularity of its productive processes and is analysing different alternatives for recovering bioslurry at the biological treatment facility for incorporation into the biomass furnace.

ENCE's circular economy approach towards its productive model also strives to reduce emissions into the air. To that end, the monitoring and improvement of emissions metrics is another of ENCE's environmental management targets across all its facilities. The Navia biomill has continuous measurement systems to monitor the main emissions parameters and ensure not only that they not do breach the limits set in the integrated permit but actually come down steadily over time, framed by the integrated management system predicated on continuous improvement.

In May 2021, the biomill successfully completed the audit required to renew its environmental management system under ISO 14001/2015; to verify compliance with the requirements stipulated in Regulation (EC) No. 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), Regulation (EC) No. 1505/2017 and Regulation (EU) No. 2026/2018, which amend the former; and to verify its 2021 Environmental Statement. That audit confirmed the validity of the statement and compliance with those regulatory requirements; no areas were flagged for special attention, evidencing the organisation's strategic commitment to continuous improvement and its determination to comply with environmental regulations and adapt for best available practices (BREF). It is worth highlighting the active involvement of the entire organisation in the environmental control and performance areas, an effort that has translated into tangible results.

Energy efficiency is another top priority at the Navia biomill. To that end, in October 2021 it certified its energy management system under the international ISO 50001 standard. That certification endorses ENCE's energy policy and its ability to adequately manage the energy aspects related with the biomill's activities, translating into real and quantifiable savings in energy costs. The next energy management system audit is scheduled for September 2022. In March 2022, the biomill renewed its certification under the SURE scheme, obtained for the first time in 2021, demonstrating that the facility meets the requirements for the sustainable production of energy from renewable forestry biomass, in keeping with Directive (EU) 2018/2001.

Contribution to the surroundings in Navia

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

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

Under the scope of that agreement, ENCE has spearheaded the sponsorship and patronage of multiple community, cultural and sports events and helped with the donation of gear to local residents. It is worth highlighting the support lent to the second football campus organised in Navia by the Royal Oviedo Foundation, the provision of assistance to sports clubs in the Navia bay area for the purchase of sports equipment and gear and the contribution, on the community front, to the support programmes developed by a local association for persons with disabilities, ADINORA.

The Company is also collaborating with the town council of Coaña and other entities in that town, which has close ties with the Navia biomill, and in the neighbouring town of Villayón, by contributing to works to upgrade public infrastructure and to social and cultural causes and events in the community.

Pontevedra biomill

In Pontevedra ENCE prioritises respect for the communities surrounding its biomill in its bid to earn its social license to operate. As a responsible corporate citizen, the biomill sets targets for controlling and reducing any impacts that could cause unpleasantness in the community, such as odour.

To avoid those impacts, it is working on process management and facility upgrades so as to advance towards its zero odour target. It therefore continues to execute Zero Odour Plan initiatives, an effort that delivered a 19% year-on-year reduction in odour measured in minutes. That means the odour perceived from the complex continues improve: emissions from channelled sources have declined by over 99% since the project got underway in 2010.

Responsible management of water resources at the Pontevedra biomill is a cornerstone of the sustainability strategy, to which end ENCE is working to rationalise consumption and improve the quality of its wastewater. Thanks to the TQM methodology and process fine-tuning to boost efficiency and maximise the reuse of water, a new milestone was attained during the first half of 2022 when the facility recorded consumption of 27.1 m³ per tonne of pulp, a new record low in the biomill's history.

As for its wastewater, the Pontevedra biomill defended the results attained in prior years. All of the biomill's wastewater readings are well below the limits set in its 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 58%, coming in at 2.9 kg/ADt, compared to the stipulated cap of 7 kg/ADt.

The trend in that metric confirms the progress the biomill has made on improving the quality of its end wastewater. Note, additionally, that COD in Pontevedra is 85% better than the upper end of the reference range set for this parameter in the pulp sector BREF.

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.

Against that backdrop, one of the targets set in ENCE's Sustainability Master Plan is to obtain AENOR's Zero Waste certification, which distinguishes organisations that reuse the various waste fractions they generate, avoiding the use of landfills. The Pontevedra biomill was the first of ENCE's facilities to obtain that seal. It renewed that certification during the first half of 2022 with a waste recovery ratio of over 99%.

By the same token, ENCE's circular economy approach towards its productive model encompasses the reduction of emissions into the air. To that end, the monitoring and improvement of emissions metrics is another of ENCE's environmental management targets across all its facilities. The Pontevedra biomill has continuous measurement systems to monitor the main emissions parameters and ensure not only that they not do breach the limits set in the integrated permit but actually come down steadily over time, framed by the integrated management system predicated on continuous improvement.

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, 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.

Lastly, and once again framed by the effort to apply circular economy principles to its productive processes, the Pontevedra biomill is taking a circular approach to product design, creating pulp products whose production requires more rational use of chemicals. The best exponent of that design strategy is its production of unbleached pulp, called Naturcell, which, by doing away with the need for bleaching agents, consumes far fewer chemicals per tonne produced.

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.

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

Operations Centre under the scope of its corporate social responsibility strategy. Effectiveness of those commitments and projects is conditional upon the validity and subsistence of ENCE's concession in Pontevedra.

Renewable Energy business

In the Renewable Energy business ENCE is working across the board on key improvement targets, notably related to enhancing its environmental management systems, reducing its water consumption and minimising its environmental risks. In the first half of 2022, ENCE remained in contact with the environmental authorities on completing the last adaptation milestone by filing applications to have its integrated environmental permits revised for Best Available Techniques adaptation purposes.

Circular economy

ENCE continues to look for new ways to reuse the waste generated in its operations to give it a second lease of life and minimise environmental impacts. It is worth highlighting the start of a number of initiatives for recovering and using the ash produced during biomass combustion to restore damaged quarries, making use of the unique properties of ash.

Classification of ash and slag was as a sub-product.

One of the chief sources of waste at the Group's energy plants is the ash generated in the biomass combustion facilities. That ash is high in water-soluble potassium, which makes it a compelling substitute for commercial potassium. The Group, 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), the Group 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 that authorisation for the ash produced at the La Loma and Lucena plants and, most recently, the 46-MW Huelva plant. The Ministry is in the process of evaluating the application for classifying the ash generated at the Huelva-50 plant as a sub-product. In 2022, ENCE starting the process of applying for that same certification for the ash generated at the 50-MW Puertollano plant. Thanks to that effort, the Group's ash waste is now being incorporated into fertiliser manufacturing processes. The Group has since applied for similar authorisations for the ash generated at the rest of its energy plants and is awaiting the corresponding ministerial rulings.

Thanks to its activities, ENCE plays a key role in helping other sectors to close the circle, e.g., it helps the agriculture sector by using vine shoots and olive pomace produce power. Not only does it 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.

Water consumption rationalisation plans.

ENCE is firmly committed to sustainability in all its manifestations. Environmental care is a priority and minimum use of the various raw materials it needs is a key objective. Water savings are of particular importance in light of its different uses. It is used for industrial purposes, human consumption and watering. In 2021 ENCE studied potential sources of water savings and better usage across the energy plants and set specific improvement targets for 2022.

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 and an action and investment plan for 2022 and 2023 was put together.

Construction of a new photovoltaic solar plant to make the plant self-sufficient in terms of energy consumption began in 2022. The solar facilities cover part of the auxiliary installations' consumption requirement and improve the complex's overall energy efficiency, while helping reduce the Group's carbon footprint.

Lastly, in terms of the dismantling of the pulp-making facilities, in 2022, 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. That dismantling work is scheduled to finish in 2022.

Merida operations centre

In 2022 Merida continued to comply with its wastewater and emissions requirements.

The new photovoltaic plant adjacent to the biomass plant, built to reduce the facility's Scope 2 emissions, is fully operational this year.

The Merida plant also consolidated the sustainability milestone achieved in 2021, retaining certification of its environmental management system under ISO 14001:2015 and its Zero Waste certification from AENOR.

In Merida, the Group continues to participate 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.

Enemansa operations centre

In 2022, this plant has consolidated the improvement in its noise and diffuse particle emissions, while further enhancing the already high quality of its liquid effluents.

La Loma operations centre

In 2022, this plant has consolidated the forced evaporation system for its discharges and continued to diversify its 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. The plant reported noteworthy improvements in all its key environmental performance indicators: emissions, effluents and waste management.

Lucena operations centre

Here it is worth highlighting an internal assessment of the plant's alignment with the Best Available Techniques for Large Combustion Plants even though they do not apply to the facility. That effort highlights the Group's internal goal of always applying the most stringent standards in environmental matters. All the atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

In 2022, the Lucena plant has begun to implement an environmental management system which it aims to have certified during the second half of the year.

Biollano operations centre (Puertollano)

The effort to reduce emissions continued at Biollano. Its Zero Waste certification from AENOR guarantees maximum recovery of the waste generated at the facility.

The environmental management system remains a key tool and it is worth highlighting the environmental awareness training and communication sessions provided to Group staff and subcontractors.

32. Events after the reporting date

At the end of June, Ence announced it was analysing a new project in the town of As Pontes, Coruña, for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made in Pontevedra. The project embodies the fair transition and circular bioeconomy thrusts as it would transform land that used to be part of a fossil fuel power plant into an innovative facility that would recover and reuse natural resources, all of which framed by an eco-efficient and environmentally-friendly carbon-free process that would be self-sufficient for energy purposes. The project consists of a fibre recovery line with annual capacity of 100,000 tonnes, a certified biomass co-generation facility that would cover the factory's heat and electricity needs and a line for the manufacture of 30,000 tonnes of paper products. The idea would be to build the three components in phases. The project would entail total investment of €355m.

In light of the environmental flow data for the Lérez River, from which the Pontevedra biomill sources its water, the Company decided on 20 July 2022 to temporarily suspend activity at that complex.

Based on the information currently at hand, it is not possible to estimate how long the current situation will last or what impact it will have on output at the biomill. Note, however, that the Company estimates that the situation would have to last for more than one month to have a material impact on its results for the year.

On 21 July 2022, Spain's Ministry of Ecological Transition and Demographic Challenges, called a tender for the award of remunerated renewable energy capacity, which includes 140 MW of biomass-fuelled capacity. That competitive tender is scheduled to take place on 25 October 2022.

No other significant events have taken place since 30 June 2022, other than those already disclosed in the accompanying condensed consolidated interim financial statements, that would imply having to modify them.

Appendix I – Condensed Consolidated Financial Information 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 2022 AND 31 DECEMBER 2021

€ 000	30 June 2022				31 December 2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	-	-	-	-	1.493	-	1.493
Other intangible assets	13.369	35.751	(12.999)	36.121	13.161	36.571	(13.287)	36.445
Property, plant and equipment	434.337	406.877	(8.640)	832.574	436.856	456.297	(9.592)	883.561
Biological assets	58.309	154	-	58.463	59.582	140	-	59.722
Non-current financial assets:								
Securities portfolio	112.528	-	(112.528)	-	112.528	-	(112.528)	-
Investments accounted for using the equity method	(1)	1	-	-	25	1	-	26
Loans to group companies and associates	38.342	20	(38.362)	-	38.342	-	(38.342)	-
Hedging derivatives	-	2.034	-	2.034	-	-	-	-
Other financial assets	15.009	11.991	-	27.000	14.560	11.920	-	26.480
Deferred tax assets	19.716	23.835	3.262	46.813	20.106	22.123	3.334	45.563
	691.609	480.663	(169.267)	1.003.005	695.160	528.545	(170.415)	1.053.290
CURRENT ASSETS:								
Inventories	46.983	12.587	-	59.570	53.598	12.095	-	65.693
Trade and other receivables	82.088	25.131	(12.058)	95.161	59.768	36.673	(17.483)	78.958
Other taxes receivable	16.450	7.331	-	23.781	10.413	5.482	-	15.895
Income tax receivable	1.506	246	-	1.752	1.507	335	-	1.842
Current financial assets:								
Loans to group companies and associates	655	45	(664)	36	-	36	-	36
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial assets	14.463	26	-	14.489	15.107	8	-	15.115
Cash and cash equivalents	271.674	141.995	-	413.669	318.496	61.468	-	379.964
Other current assets	10.637	1.766	-	12.403	2.191	(14)	-	2.177
	444.456	189.127	(12.722)	620.861	461.080	116.083	(17.483)	559.680
TOTAL ASSETS	1.136.065	669.790	(181.989)	1.623.866	1.156.240	644.628	(187.898)	1.612.970

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2022 AND 31 DECEMBER 2021

€ 000	30 de junio de 2022				31 de diciembre de 2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share capital	221.645	22.604	(22.604)	221.645	221.645	22.604	(22.604)	221.645
Share premium	170.776	48.955	(48.955)	170.776	170.776	48.955	(48.955)	170.776
Parent company reserves	227.851	10.964	(10.964)	227.851	225.596	10.964	(10.964)	225.596
Parent company retained earnings (prior-year losses)	(181.378)	6.964	(6.964)	(181.378)	-	-	-	-
Reserves in fully-consolidated companies	69.515	(49.679)	24.806	44.642	71.505	(17.176)	(683)	53.646
Reserves in equity-accounted investees	(106)	-	-	(106)	(79)	-	-	(79)
Interim dividend	(13.119)	-	-	(13.119)	-	-	-	-
Translation differences	(3)	-	-	(3)	9	-	-	9
Own shares - parent company shares	(12.181)	-	-	(12.181)	(12.296)	-	-	(12.296)
Valuation adjustments	34.479	2.081	(1.020)	35.540	35.360	(2.182)	697	33.875
Other equity instruments	6.714	-	-	6.714	9.897	-	-	9.897
Other owner contributions	-	170.517	(170.517)	-	-	170.517	(170.517)	-
Consolidated profit/(loss) for the year	40.386	6.357	(2.046)	44.697	(183.387)	(25.546)	18.524	(190.409)
Equity attributable to owners of the parent	564.579	218.763	(238.264)	545.078	539.026	208.136	(234.502)	512.660
Non-controlling interests	-	9.436	107.359	116.795	-	10.429	102.429	112.858
TOTAL EQUITY	564.579	228.199	(130.905)	661.873	539.026	218.565	(132.073)	625.518
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	-	78.273	-	78.273	125.567	92.107	-	217.674
Bank borrowings	95.000	55.603	-	150.603	99.305	70.047	-	169.352
Other financial liabilities	60.524	579	-	61.103	64.497	746	-	65.243
Derivative financial instruments	-	-	-	-	-	2.161	-	2.161
Grants	8.761	1.382	-	10.143	4.113	766	-	4.879
Deferred tax liabilities	141	270	-	411	-	-	-	-
Non-current provisions	51.302	132	-	51.434	51.147	78	-	51.225
Non-current accruals and deferred income	11	2.223	-	2.234	11	2.245	-	2.256
Other non-current liabilities	32.895	70.233	-	103.128	19.594	65.025	-	84.619
Borrowings from group companies and associates	-	75.197	(38.362)	36.835	-	75.177	(38.342)	36.835
	248.634	283.892	(38.362)	494.164	364.234	308.352	(38.342)	634.244
CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	88.832	-	-	88.832	-	-	-	-
Bank borrowings	542	29.399	-	29.941	6.208	29.406	-	35.614
Other financial liabilities	10.200	532	-	10.732	9.985	381	-	10.366
Derivative financial instruments	8.156	522	-	8.678	6.980	2.612	-	9.592
Current borrowings from related parties	12	1.259	(663)	608	3	1.258	-	1.261
Trade payables and other current liabilities	189.662	109.446	(12.059)	287.049	207.676	71.704	(17.483)	261.897
Trade payables, third parties	179.756	106.493	-	286.249	204.369	56.664	-	261.033
Trade payables, related parties	9.906	2.953	(12.059)	800	3.307	15.040	(17.483)	864
Income tax payable	1.261	10.210	-	11.471	22	56	-	78
Other taxes payable	8.917	4.534	-	13.451	6.001	9.577	-	15.578
Other current liabilities	-	-	-	-	-	-	-	-
Current provisions	15.270	1.797	-	17.067	16.105	2.717	-	18.822
	322.852	157.699	(12.722)	467.829	252.980	117.711	(17.483)	353.208
TOTAL EQUITY AND LIABILITIES	1.136.065	669.790	(181.989)	1.623.866	1.156.240	644.628	(187.898)	1.612.970

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2022 AND 2021

€ 000	First-half 2022				First-half 2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	379.998	175.226	(1.538)	553.686	287.923	86.015	(1.512)	372.426
Gains/(losses) on hedging transactions	(11.313)	-	-	(11.313)	(10.967)	-	-	(10.967)
Changes in inventories of finished goods and work in progress	(8.964)	-	-	(8.964)	(1.572)	-	-	(1.572)
Self-constructed assets	2.834	1.319	-	4.153	1.350	140	-	1.490
Other operating income	1.551	1.021	(541)	2.031	1.807	5.589	(921)	6.475
Grants taken to income	3.777	1.440	-	5.217	2.703	648	-	3.351
Gain on the sale of subsidiaries	-	-	-	-	-	-	-	-
Operating income subtotal	367.883	179.006	(2.079)	544.810	281.244	92.392	(2.433)	371.203
Cost of goods sold	(169.807)	(55.251)	1.538	(223.520)	(137.186)	(32.579)	1.512	(168.253)
Employee benefits expense	(36.693)	(8.603)	-	(45.296)	(34.173)	(6.406)	-	(40.579)
Depreciation and amortisation charges	(20.427)	(19.991)	512	(39.906)	(27.086)	(18.738)	1.554	(44.270)
Depletion of forest reserve	(3.971)	(7)	-	(3.978)	(6.421)	(121)	-	(6.542)
Impairment of and gains/(losses) on disposal of fixed assets	(1.060)	(36.988)	727	(37.321)	(189.407)	(278)	-	(189.685)
Impairment of financial assets	(3)	(40)	-	(43)	110	(106)	-	4
Other operating expenses	(91.686)	(36.551)	541	(127.696)	(63.975)	(35.336)	921	(98.390)
Operating expenses subtotal	(323.647)	(157.431)	3.318	(477.760)	(458.138)	(93.564)	3.987	(547.715)
OPERATING PROFIT/(LOSS)	44.236	21.575	1.239	67.050	(176.894)	(1.172)	1.554	(176.512)
Finance income								
From equity instruments:								
Third parties	-	-	-	-	40	-	-	40
From marketable securities & other financial instruments:								
Related parties	655	-	(655)	-	588	-	(588)	-
Third parties	1.544	88	-	1.632	2.117	1.134	-	3.251
Finance costs:								
Borrowings from related parties	-	(1.301)	655	(646)	-	(1.196)	588	(608)
Third-party borrowings	(6.722)	(7.977)	-	(14.699)	(7.418)	(5.737)	-	(13.155)
Change in fair value of financial instruments	-	317	-	317	-	231	-	231
Net exchange gains/(losses)	2.072	(31)	-	2.041	1.455	(6)	-	1.449
Impairment of and gains/(losses) on disposal of financial assets	-	-	-	-	-	-	-	-
NET FINANCE INCOME/(COST)	(2.451)	(8.904)	-	(11.355)	(3.218)	(5.574)	-	(8.792)
Share of profit/(loss) of entities accounted for using the equity method	(44)	-	-	(44)	(11)	-	-	(11)
PROFIT/(LOSS) BEFORE TAX	41.741	12.671	1.239	55.651	(180.123)	(6.746)	1.554	(185.315)
Income tax	(1.355)	(7.308)	(73)	(8.736)	(13.567)	596	3.407	(9.564)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	40.386	5.363	1.166	46.915	(193.690)	(6.150)	4.961	(194.879)
Profit/(loss) for the the period from continuing operations attributable to non-controlling interests	-	994	(3.212)	(2.218)	-	(601)	883	282
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT (*)	40.386	6.357	(2.046)	44.697	(193.690)	(6.751)	5.844	(194.597)

(*) 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 2022 AND 2021

€ 000	First-half 2022				First-half 2021			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	41.741	12.671	1.239	55.651	(180.123)	(6.746)	1.554	(185.315)
Adjustment for:								
Depreciation and amortisation	24.398	19.998	(512)	43.884	33.507	18.859	(1.554)	50.812
Changes in provisions and other deferred expense (net)	(2.413)	586	-	(1.827)	(7.850)	3.381	-	(4.469)
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	1.060	36.988	(727)	37.321	189.408	277	-	189.685
Adjustments for tariff shortfall/surplus (electricity market)	14.417	12.081	-	26.498	(21)	1.181	-	1.160
Finance income and costs (net)	2.881	8.873	-	11.754	3.293	5.569	-	8.862
Grants taken to profit and loss	(254)	(71)	-	(325)	(441)	(175)	-	(616)
	40.089	78.455	(1.239)	117.305	217.896	29.092	(1.554)	245.434
Changes in working capital:								
Inventories	8.566	(1.197)	-	7.369	6.346	(6.454)	-	(108)
Trade and other receivables	(23.170)	(1.345)	-	(24.515)	(30.929)	5.399	-	(25.529)
Financial and other current assets	638	(12)	-	626	149	-	-	149
Trade payables, other payables and other liabilities	(17.276)	37.180	-	19.904	3.922	(2.263)	-	1.659
	(31.242)	34.626	-	3.384	(20.512)	(3.318)	-	(23.829)
Other cash flows used in operating activities:								
Interest paid, net (including right-of-use assets)	(3.328)	(9.767)	-	(13.095)	(3.885)	(6.314)	-	(10.199)
Dividends received	-	-	-	-	-	-	-	-
Income tax paid	(1.887)	(2.457)	-	(4.344)	-	251	-	251
Other amounts received/(paid)	-	-	-	-	-	-	-	-
	(5.215)	(12.224)	-	(17.439)	(3.885)	(6.063)	-	(9.948)
Net cash flows from operating activities	45.373	113.528	-	158.901	13.376	12.965	-	26.342
INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment and biological assets	(23.841)	(4.658)	-	(28.499)	(36.525)	(10.090)	-	(46.615)
Intangible assets	(1.595)	(149)	-	(1.744)	(850)	(63)	-	(913)
Financial assets	(28)	-	-	(28)	(31)	(98)	-	(129)
	(25.464)	(4.807)	-	(30.271)	(37.406)	(10.251)	-	(47.657)
Proceeds from disposals:								
Property, plant and equipment	3	-	-	3	409	-	-	409
Financial assets	-	380	-	380	-	-	-	-
	3	380	-	383	409	-	-	409
Net cash flows used in investing activities	(25.461)	(4.427)	-	(29.888)	(36.997)	(10.251)	-	(47.248)
FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Transactions with non-controlling interests	-	-	-	-	490	-	-	490
Buyback of own equity instruments	(26.997)	-	-	(26.997)	(35.285)	-	-	(35.285)
Disposal of own equity instruments	28.385	-	-	28.385	33.532	-	-	33.532
	1.388	-	-	1.388	(1.263)	-	-	(1.263)
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	(655)	655	-	-	-	-	-	-
Proceeds from issuance of bonds, net of arrangement fees	(39.432)	(14.000)	-	(53.432)	(4.682)	-	-	(4.682)
Increase/(decrease) in bank borrowings, net of issuance costs	(10.091)	(14.699)	-	(24.790)	(118.147)	(12.550)	-	(130.697)
Increase/(decrease) in other borrowings	(3.976)	-	-	(3.976)	(63)	-	-	(63)
Payments for right-of-use assets	(2.226)	(530)	-	(2.756)	(2.120)	(469)	-	(2.589)
Grants received, net	1.377	-	-	1.377	-	-	-	-
	(55.003)	(28.574)	-	(83.577)	(125.012)	(13.019)	-	(138.031)
Dividends and payments on other equity instruments								
Dividends paid to ENCE shareholders	(13.119)	-	-	(13.119)	-	-	-	-
	(13.119)	-	-	(13.119)	-	-	-	-
Net cash flows used in financing activities	(66.734)	(28.574)	-	(95.308)	(126.275)	(13.019)	-	(139.294)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(46.822)	80.527	-	33.705	(149.896)	(10.305)	-	(160.200)
Cash and cash equivalents - opening balance	318.496	61.468	-	379.964	448.089	84.531	-	532.620
Cash and cash equivalents - closing balance	271.674	141.995	-	413.669	298.193	74.227	-	372.420

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Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails

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

Interim Consolidated Management
Report for the six months ended 30
June 2022

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ENCE Energía y Celulosa, S.A. and subsidiaries

Interim Consolidated Management Report for the six months ended 30 June 2022

1. Introduction

This Consolidated 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 Consolidated Management Report for 2021.

An integral part of this interim Consolidated Management Report, and appended thereto, is the Group earnings report for the second quarter of 2022, 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 2022.

The reader should also note that the information provided in this interim Consolidated Management Report is complemented by the environmental disclosures provided in note 3 and the disclosures provided in note 4 with respect to the public-domain concession on which the Pontevedra biomill is located.

2. Governance 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 such 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 CEO of Magnon Green Energy, S.L., the Financial, Corporate Development & Forest Assets Officer, the Human Capital Officer, the Pulp Sales and Logistics Manager, the Financial Controller, the Communication 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 and the Sustainability Officer and the heads of the corporate Human Capital, Pulp, Independent Energy Plant Operations and Finance, Corporate Development and Forest Assets 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 Magnon Green Energy, S.L.

The Company holds a 51% ownership interest - and control - in Magnon Green Energy, S.L.

Magnon Green Energy, S.L. is governed by a board of directors to which the non-controlling shareholder appoints two members. Magnon Green Energy, S.L. 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. That 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.

At 30 June 2022, the Group had arranged a number of forward currency agreements to hedge approximately 19% and 10% of forecast pulp sales in the second half of 2022 and the first half of 2023, respectively.

c) **TRADE CREDIT RISK - PULP BUSINESS**

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

ENCE has a credit insurance policy, which has been renewed until 31 December 2024, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. That 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 earnings 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 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 2022, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it upgraded its salesforce 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, economic fallout from sector and environmental regulations and technological developments on the part of competitors. Meanwhile, the prices of timber and biomass 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 the 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. ENCE's response to the risk of an insufficient supply of biomass for use as an input at its energy plants is focused on closing supply agreements with suppliers, developing the purchase of biomass from traders and continuously searching for new fuels.

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 products from those 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 2022 was designed to reinforce the presence and positioning of the Company's products in the European market and materialised 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 areas' 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 very strongly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities in which 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 regular internal and external audits and implementing inspection, oversight and control measures, framed by a preventive approach. Note that in 2022, the Group also continued to invest to make its facilities more environmentally-friendly.

Objective: Business Continuity

The Pontevedra biomill's original concession of 1958 was extended for a term of 60 years (starting from 8 November 2013) by the then Ministry of Agriculture, Food and Environment via a resolution dated 20 January 2016 by virtue of: (i) Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act; and (ii) the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014). That resolution was challenged by the 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.

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

The National Appellate Court's Chamber for Contentious Administrative Proceedings issued three rulings, two on 15 July 2021 and the third on 21 September 2021, upholding the appeals lodged by Greenpeace Spain, the town council of Pontevedra and ADPR 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.

ENCE lodged appeals against the rulings before the Supreme Court on 28 September 2021 and 29 November 2021. The Supreme Court agreed to hear two of the appeals lodged, specifically the appeal against the sentence issued in the case brought by Greenpeace Spain and the appeal lodged against the sentence issued in the case brought by the town council of Pontevedra, on 23 February and 23 March 2022, respectively. The Supreme Court decided on 29 March 2022 to suspend the appeal lodged against the sentence issued in the case brought by APDR until after it rules on the first two appeals.

If the Supreme Court dismisses the appeals, the Appellate Court rulings would become final. 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 recognised a range of impacts totalling 200.2 million euros.

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.

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 optimal 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.

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 sector's Best Available Techniques (BAT) reference document (BREF) is more stringent in terms of production and emissions requirements 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 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 in 2022.

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

During the first half of 2022, 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. Purchase and sale of own shares

The disclosures concerning own shares and related transactions in the first half of 2022 are provided in note 18 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2022.

Appendix I – Second-Quarter 2022 Earnings Report



Second-Quarter 2022 Earnings Report

26 July 2022



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1. EXECUTIVE SUMMARY

Market figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
BHKP (USD/t) average price	1,241.3	998.7	24.3%	1,150.4	7.9%	1,199.8	880.2	36.3%
Average exchange rate (USD/€)	1.07	1.20	(11.2%)	1.12	(4.8%)	1.10	1.21	(9.0%)
BHKP (€/t) average price	1,160.6	829.0	40.0%	1,023.6	13.4%	1,092.7	729.7	49.7%
Average pool price (€/MWh)	182.8	71.8	154.5%	228.4	(20.0%)	205.6	58.3	n.s.

Source: Bloomberg & OMIE

Operating Metrics	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Pulp production (t)	266,954	269,496	(0.9%)	198,934	34.2%	465,888	493,907	(5.7%)
Pulp sales (t)	287,600	251,610	14.3%	199,459	44.2%	487,059	497,767	(2.2%)
Average sales pulp price (€/t)	723.9	525.5	37.8%	650.6	11.3%	693.9	465.3	49.1%
Cash cost (€/t)	489.5	367.7	33.1%	513.8	(4.7%)	499.7	375.9	32.9%
Operating margin per ton (€/t)	234.4	157.8	48.5%	136.9	71.3%	194.2	89.4	117.2%
Renewable Energy sales volume (MWh)	382,440	331,697	15.3%	440,684	(13.2%)	823,124	657,455	25.2%
Average sales price (€/MWh)	128.3	95.6	34.2%	149.0	(13.9%)	139.4	99.1	40.6%
Remuneration for investment (€ m)	10.2	10.2	-	10.2	-	20.5	20.5	-

P&L € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenue from Pulp business	221.5	164.1	35.0%	158.5	39.8%	380.0	287.9	32.0%
Revenue from Renewable Energy business	59.4	42.2	41.0%	76.2	(22.0%)	135.6	86.0	57.6%
Regulatory collar provision reversal	39.6	-	n.s.	-	n.s.	39.6	-	n.s.
Consolidation adjustments	(1.0)	(0.9)		(0.6)		(1.5)	(1.5)	
Total revenue	319.6	205.4	55.6%	234.1	36.5%	553.7	372.4	48.7%
Pulp business EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Renewable business EBITDA before de collar reversion	13.3	9.4	40.5%	25.6	(48.2%)	38.9	18.0	116.6%
EBITDA before de regulatory collar reversion	62.3	42.2	47.6%	46.5	34.0%	108.7	58.9	84.5%
Pulp business EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Renewable Energy business EBITDA	52.9	9.4	n.s.	25.6	106.4%	78.6	18.0	n.s.
EBITDA	101.9	42.2	141.6%	46.5	119.4%	148.4	58.9	151.8%
Depreciation, amortisation and forestry depletion	(22.9)	(25.5)	(10.4%)	(21.0)	8.9%	(43.9)	(50.8)	(13.6%)
Other gains/(losses)	(36.6)	(182.9)	(80.0%)	(0.8)	n.s.	(37.4)	(184.6)	(79.7%)
EBIT	42.4	(166.2)	n.s.	24.7	71.9%	67.1	(176.5)	n.s.
Net finance cost	(8.2)	(4.9)	66.5%	(5.5)	49.2%	(13.7)	(10.5)	30.5%
Other finance income/(cost) results	1.6	(0.1)	n.s.	0.7	134.6%	2.3	1.7	35.3%
Profit before tax	35.8	(171.3)	n.s.	19.8	80.4%	55.7	(185.3)	n.s.
Income tax	(5.1)	(12.9)	(60.5%)	(3.6)	40.5%	(8.7)	(9.6)	(8.7%)
Consolidated Net income	30.7	(184.2)	n.s.	16.2	89.3%	46.9	(194.9)	n.s.
Non-controlling interests	0.9	(1.4)	n.s.	(3.1)	n.s.	(2.2)	(0.4)	n.s.
Attributable Net Income	31.6	(185.6)	n.s.	13.1	140.2%	44.7	(195.2)	n.s.
Earnings per share (Basic EPS)	0.13	(0.76)	n.s.	0.05	140.2%	0.18	(0.80)	n.s.

Cash flow € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
EBITDA	101.9	42.2	141.6%	46.5	119.4%	148.4	58.9	151.8%
Change in working capital	4.9	7.3	(32.6%)	(1.5)	n.s.	3.4	(23.8)	n.s.
Maintenance capex	(0.3)	(3.8)	(93.1%)	(5.2)	(95.0%)	(5.5)	(7.5)	(27.5%)
Net interest Payment	(7.6)	(7.2)	5.0%	(5.5)	38.2%	(13.1)	(10.2)	28.4%
Income tax received/(paid)	(4.4)	(0.1)	n.s.	0.1	n.s.	(4.3)	0.3	n.s.
Normalised free cash flow	94.5	38.3	146.6%	34.3	175.5%	128.9	17.6	n.s.
Energy regulation adjustment (regulatory collar)	(13.8)	1.8	40.3	40.3	26.5	26.5	1.2	1.2
Other collection (payments) and non cash adjustments	3.7	0.2	n.s.	(5.7)	n.s.	(2.0)	(0.1)	n.s.
Efficiency and expansion capex	(11.3)	(8.1)	39.1%	(8.9)	27.6%	(20.2)	(29.0)	(30.5%)
Sustainability capex and other	(2.2)	(4.3)	(47.3%)	(2.4)	(4.8%)	(4.6)	(11.0)	(58.0%)
Disposals	0.0	0.2	(98.8%)	0.4	(99.2%)	0.4	0.4	(6.4%)
Free cash flow	71.0	28.2	151.4%	58.0	22.3%	129.0	(20.9)	n.s.
Dividends from the parent	(13.1)	-	n.s.	-	-	(13.1)	-	n.s.

Net debt € m	Jun-22	Dec-21	Δ%
Net financial debt Pulp business	(22.5)	(19.5)	15.3%
Net financial debt Renewable Energy business	12.4	121.2	(89.8%)
Net financial debt	(10.2)	101.7	n.s.

- ✓ Ence generated a net profit of €32m in the second quarter, lifting its first-half profit to €45m.
- ✓ Second-quarter free cash flow amounted to €71m (1H22: €129m) to leave the Group with net cash of €10m at the June close, compared to net debt of €102m at year-end 2021. The Company's financial strength gives it maximum flexibility to take advantage of any growth opportunities that may arise in either business.
- ✓ In line with the new dividend policy, the Board has agreed to pay out a second interim dividend totalling €32m, or €0.13 per share (before tax withholdings), to be paid on 12 August, in addition to the €13m already distributed in May.
- ✓ Pulp prices topped \$1,350 per tonne (gross) in July and the main producers have already announced additional increases to \$1,380. The improvement in the average sales price continued to drive growth in operating profit in the Pulp business, easily offsetting the impact of widespread commodity and logistics price inflation.
- ✓ Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 19% of 1H22 sales, compared to 14% in 1H21.
- ✓ EBITDA in the Pulp business amounted to €49m in 2Q22 and €70m in 1H22, which is 70% more than in 1H21.
- ✓ Meanwhile, like-for-life EBITDA in the Renewable Energy business amounted to €13m in 2Q22 and €39m in 1H22, before factoring in the reversal of €40m of the accumulated provision for the regulatory collar, offset by impairment losses of €36m on certain facilities, none of which had any impact on cash flow generation during the period. Factoring in those items, reported EBITDA amounted to €53m and €79m in 2Q22 and 1H22, respectively.
- ✓ These results already include the estimated impact of the change in regulatory parameters applicable to the remuneration of energy generated from renewable sources in 2022 and top the guidance provided at the Capital Markets Day, which, out of precaution, had anticipated a broadly similar scenario.
- ✓ Back in the Pulp business, Ence continues to execute the "Navia Excellence" project to boost the sales of differentiated products, diversify production into pulp for absorbent hygienic products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.
- ✓ In addition, at the end of June, Ence and the regional government of Galicia announced it has started to analyse a new project in As Pontes, Coruña for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made by Ence.
- ✓ The Supreme Court has announced it will rule on the first appeal lodged against the National Court sentences annulling the extension of the Pontevedra biomill concession until 2073 this October.
- ✓ Growth in the Renewable Energy business, through Ence's subsidiary Magnon Green Energy, continues to be articulated around development of the existing pipeline of biomass and photovoltaic projects, along with other new opportunities currently under analysis. The Ministry of Ecological Transition has called a first biomass auction of 140 MW on 25 October 2022.
- ✓ Ence remains the leading sustainability player in the global pulp market, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 91/100 in 2022.
- ✓ In view of the data on the ecological flow of the Lérez river, from which the Pontevedra biomill is supplied, last Wednesday July 20, the Company decided to begin the temporary suspension of the biomill's activity. With the information currently available, it is not possible to determine the duration of this situation and the effect it will have on the production of the biomill. However, it should be noted that the Company estimates that the situation would have to continue for more than one month before it could have a material impact on the annual results.

2. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in northeastern 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 use eucalyptus timber 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.

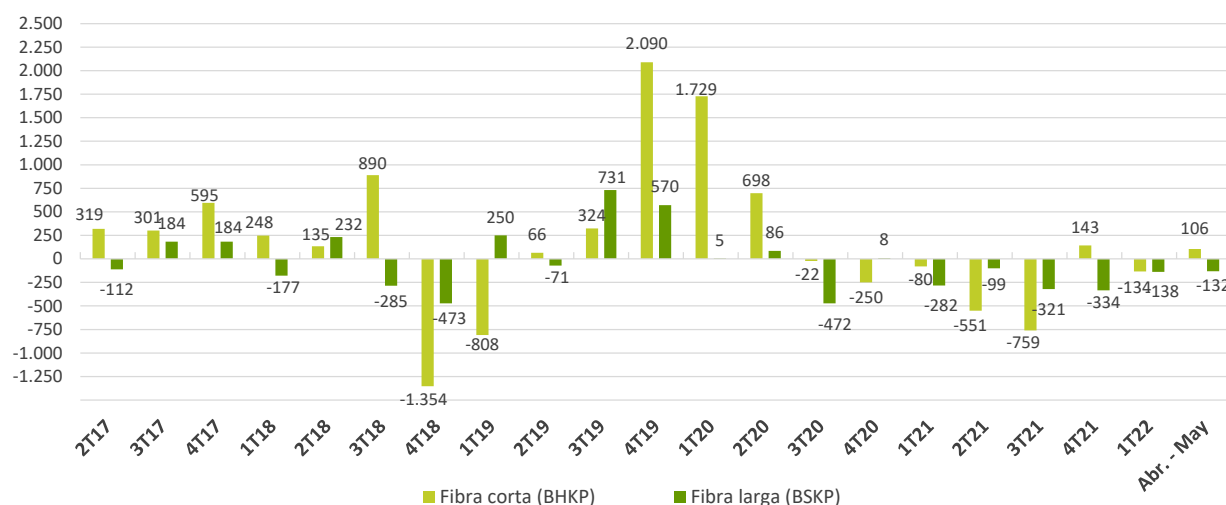
2.1. Legal status of the Pontevedra concession

Three sentences issued by Spain's National Court in July and October 2021 annulled the extension of the concession over the public-domain land on which ENCE's biomill in Pontevedra is located until 2073. Ence lodged appeals against all three sentences before the Supreme Court, which agreed to hear two of those appeals in February and March 2022 and suspended the third case until after it rules on the first two appeals which is expected to happen in October. The ruling is expected to be made public during the last quarter of 2022.

As a result of those sentences, Ence recognised net asset impairment losses and provisions for expenses of €200m in its 2021 financial statements.

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 solid in the long term and contrast with the movements observed in inventories in the paper industry, especially in China, which affected demand for pulp between 2018 and 2021.



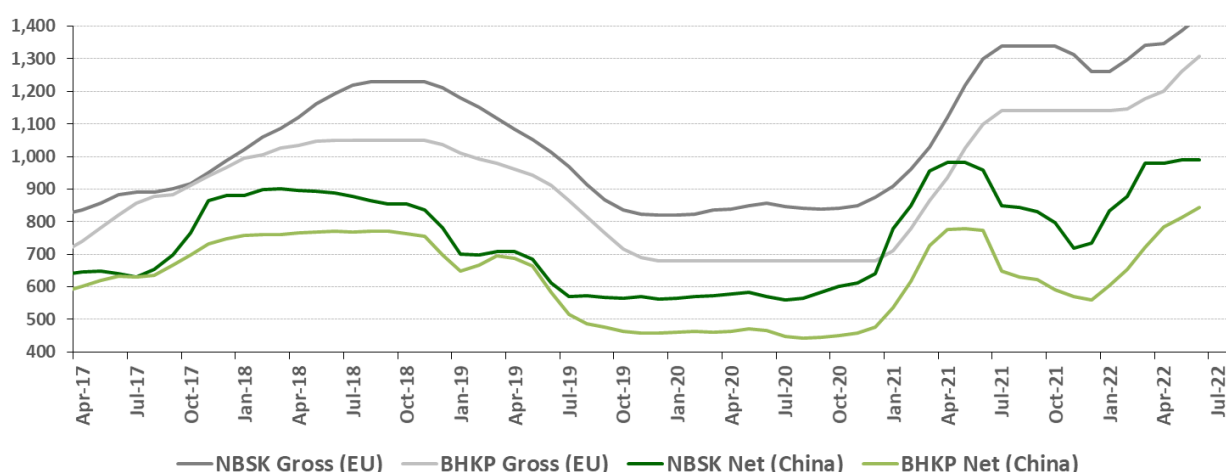
Source: FOEX

During the first five months of 2022, demand for pulp strengthened in all markets except for China, affected by logistics and COVID-related restrictions. The net result was a year-on-year reduction in global demand of 0.8%.

In parallel, pulp supply was curtailed by logistics restrictions, the interruption of wood exports from Russia to northern Europe and delays in commissioning new capacity.

Supply-side friction and widespread increases in production and transportation costs continued to drive hardwood pulp (BHKP) prices higher, to over \$1,350 per tonne (gross) Europe in July and above \$860 (net) in China.

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



Source: FOEX

Against that backdrop, the main producers have announced additional hardwood pulp price increases in Europe to \$1,380 per tonne (gross) from July.

2.3. Revenue from pulp sales

Pulp sales volumes increased by 14.3% in 2Q22 to 287,600 tonnes, making up for some of the volume not sold during the national transport strike, which lasted for 20 days in March. In the first half, therefore, pulp sales decreased by 2.2% year-on-year, on account of the strike, to 487,059 tonnes.

Average sales prices improved by 37.8% year-on-year, to €723.9 per tonne, thanks to the increase in average benchmark prices in Europe and favourable euro-dollar exchange rate trends. In 1H22, average sales prices improved by 49.1% year-on-year, to €693.9 per tonne (net).

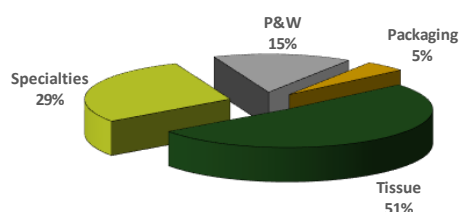
	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Pulp sales (t)	287,600	251,610	14.3%	199,459	44.2%	487,059	497,767	(2.2%)
Average sales price (€/t)	723.9	525.5	37.8%	650.6	11.3%	693.9	465.3	49.1%
Pulp sales revenue (€ m)	208.2	132.2	57.5%	129.8	60.4%	338.0	231.6	45.9%

The combination of the two factors drove year-on-year growth in revenue from pulp sales of 57.5% to €208.2m in 2Q22 and of 45.9% to €338m in 1H22.

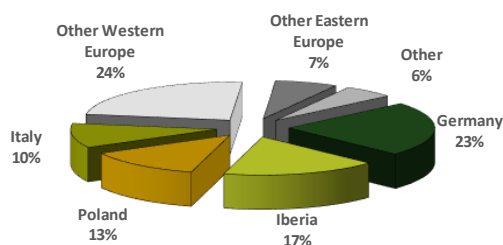
Sales of Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, continued to grow, accounting for 19% of the total in 1H22, compared to 14% in 1H21.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 51% of revenue from pulp sales in 1H22, followed by the specialty paper segment, at 29%. The printing and writing paper segment accounted for 15% of sales and packaging, the remaining 5%.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



By geography, most of the pulp produced by Ence is sold in Europe, namely 94% of revenue from pulp sales in 1H22. Germany and Iberia accounted for 23% and 17% of total revenue, respectively, followed by Poland (13%), and Italy (10%). The other western European countries accounted for 24% of the total, with the rest of Eastern Europe representing 7%.

2.4. Pulp production and cash cost

Second-quarter production amounted to 266,954 tonnes, which is virtually flat (-0.9%) compared to 2Q21. First-half production, however, decreased by 5.7% year-on-year to 465,888 tonnes as a result of the 20-day national transportation strike in March.

	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Navia pulp production	154,786	152,937	1.2%	114,715	34.9%	269,501	282,592	(4.6%)
Pontevedra pulp production	112,168	116,559	(3.8%)	84,219	33.2%	196,387	211,315	(7.1%)
Pulp production (t)	266,954	269,496	(0.9%)	198,934	34.2%	465,888	493,907	(5.7%)

The Pontevedra and Navia biomills were stopped for annual maintenance work in January and February, respectively. Both stoppages took place in the month of March in 2021.

Figures in €/t	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Total cash cost	489.5	367.7	33.1%	513.8	(4.7%)	499.7	375.9	32.9%
Operating margin	234.4	157.8	48.5%	136.9	71.3%	194.2	89.4	117.2%

The 2Q22 cash cost was €489.5/tonne, year-on-year growth of 33.1% due to widespread inflation in raw material and transportation costs, coupled with the change in renewable energy remuneration parameters applicable in 2022. Compared to 1Q22, however, the cash cost decreased by 4.7% thanks to greater economies of scale on the back of higher production and sales volumes, to leave the 1H22 cash cost at €499.7/tonne.

The change in renewable energy remuneration parameters applicable in 2022 imply an estimated increase in the cash cost for the first half of €36/tonne due to the reduction in remuneration for operations (Ro) income, largely offset at the EBITDA level by a lower provision for the regulatory collar. Note that the remuneration changes do not affect the estimates underpinning the guidance provided at the Capital Markets Day held on 17 March 2022, which were based, out of precaution, on a similar remuneration scenario.

The growth in pulp prices continued to lift operating profit in the Pulp business to €234.4/tonne in 2Q22 and to €194.2/tonne in 1H22, compared to €157.8/tonne and €89.4/tonne in the same periods of 2021, respectively, and an average of €149/tonne during the last five years.

2.5. Other income

Ence's pulp production operations are self-sufficient energy-wise. Ence uses the lignin and forest biomass derived from its manufacturing activities to generate renewable energy. 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 Navia biomill. Surplus energy production is sold to the grid.

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.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenues from energy sales linked to pulp (€ m)	10.2	26.2	(61.3%)	25.7	(60.5%)	35.8	43.2	(17.1%)
Forestry and other revenue (€ m)	3.2	5.6	(43.6%)	3.0	5.5%	6.2	13.1	(52.7%)
Other income	13.3	31.9	(58.2%)	28.7	(53.5%)	42.0	56.3	(25.4%)

Until this year, Ence sold all of the energy it produced to the grid and then bought back the power it needed for its production processes; starting this year, it only sells the surplus to the grid. As a result of that change, revenue from energy sales in the Pulp business decreased by 61.3% year-on-year in 2Q22 and by 17.1% in 1H22.

The year-on-year reduction in revenue from the sale of wood to third parties is attributable to internal consumption of some of that wood in order to mitigate temporary felling restrictions in Galicia.

2.6. Statement of profit or loss

The growth in pulp prices lifted EBITDA in the Pulp business to €49m in 2Q22 and €69.8m in 1H22m, year-on-year growth of 49.7% and 70.4%, respectively.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Pulp sales revenue	208.2	132.2	57.5%	129.8	60.4%	338.0	231.6	45.9%
Other income	13.3	31.9	(58.2%)	28.7	(53.5%)	42.0	56.3	(25.4%)
Total net revenue	221.5	164.1	35.0%	158.5	39.8%	380.0	287.9	32.0%
EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Depreciation and amortisation	(10.9)	(13.2)	(17.5%)	(9.5)	14.5%	(20.4)	(27.1)	(24.6%)
Depletion of forestry reserves	(2.3)	(3.4)	(33.4%)	(1.7)	30.9%	(4.0)	(6.4)	(38.2%)
Impairment of and gains/(losses) on fixed-asset disp	(0.3)	(189.1)	(99.8%)	(0.8)	(60.2%)	(1.1)	(189.4)	(99.4%)
Other non-recurring gains/(losses)	(0.1)	6.3	n.s.	(0.1)	12.3%	(0.1)	5.0	n.s.
EBIT	35.5	(166.7)	n.s.	8.8	n.s.	44.2	(176.9)	n.s.
Net finance cost	(3.5)	(2.8)	24.3%	(1.0)	238.1%	(4.5)	(4.7)	(3.2%)
Other financial results	1.5	0.1	n.s.	0.6	163.9%	2.0	1.4	40.4%
Profit before tax	33.5	(169.4)	n.s.	8.3	n.s.	41.7	(180.1)	n.s.
Income tax	(1.4)	(16.0)	(91.1%)	0.1	n.s.	(1.4)	(13.6)	(90.0%)
Net Income	32.0	(185.5)	n.s.	8.4	n.s.	40.4	(193.7)	n.s.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges implied a cash outflow of €7.6m in 2Q22 and of €11.3m in 1H22, compared to inflows €1.1m and €3m in the same periods of 2021, respectively. For the remainder of 2022, Ence has arranged hedges over a notional amount of \$77m with a weighted average ceiling of \$/€1.18 and a weighted average floor of \$/€1.15.

The first half of 2021 was also affected by pulp price hedges arranged exceptionally in 2020, during the pandemic, which implied cash outflows of €10.5m and €10.1m in 2Q21 and 1H21, respectively.

Lastly, EBITDA includes other income and expenses not included in the cash cost with a net negative impact of €10.8m in 2Q22 and of €13.5m in 1H22. Those other items mainly comprise the effect of the regulatory collar on revenue from energy sales and the forest depletion charge, in addition to other smaller amounts.

Below the EBITDA line, depreciation and amortisation charges declined by 24.6% year-on-year to €20.4m in 1H22, due mainly to the impairment losses recognised against assets associated with the Pontevedra biomill in 2Q21; forest reserve depletion charges decreased by 38.2% to €4.0m.

“Impairment of and gains/(losses) on fixed asset disposals”, in the amount of €189.4m in 1H21, included the impairment charges and provisions recognised in the wake of the Spanish National Court sentences annulling the extension of the Pontevedra biomill concession until 2073.

Elsewhere, the net finance cost in the Pulp business decreased by 3.2% to €4.5m in 1H22, while other financial items include the impact of exchange rate movements on working capital during the period, specifically a net gain of €2m (compared to a gain of €1.4m in 1H21).

Lastly, tax expense amounted to just €1.4m in 1H22, compared to €13.6m in 1H21, thanks to the utilisation of tax credits related with the impairment losses recognised in the Pontevedra biomill in 2021.

As a result, the Pulp business reported a net profit of €32m in 2Q22 and of €40.4m in 1H22, compared to net losses of €185.5m and €193.7m in the same periods of 2021, respectively, as a result of the impairment losses and provision recognised last year in connection with the biomill in Pontevedra.

2.7. Cash flow analysis

Operating cash flow totalled €35.3m in 2Q22 and €45.5m in 1H22, compared to €22m in 1Q21 and €13.4m in 1H21. The sharp growth in EBITDA and positive adjustment for the regulatory collar provision were partially offset by working capital movements.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
EBITDA	49.0	32.7	49.7%	20.8	135.3%	69.8	41.0	70.4%
Energy regulation adjustment (regulatory collar)	7.8	0.6	n.s.	6.6	17.6%	14.4	(0.0)	
Other adjustments	4.2	(1.1)	n.s.	(6.6)	n.s.	(2.4)	(3.2)	(23.8%)
Change in working capital	(22.7)	(8.8)	158.7%	(7.3)	210.7%	(31.2)	(20.5)	52.2%
Income tax received / (paid)	(1.9)	-	n.s.	0.0	n.s.	(1.9)	-	n.s.
Net interest received / (paid)	(1.1)	(1.5)	(29.4%)	(2.3)	(52.6%)	(3.3)	(3.9)	(14.4%)
Net cash flow from operating activities	35.3	22.0	60.5%	11.3	212.6%	45.4	13.4	239.3%

Specifically, movements in working capital implied a cash outflow of €22.7m in 2Q22 and of €31.2m in 1H22, due mainly to the increase in trade receivables as a result of higher pulp prices and sales volumes in the second quarter.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Inventories	8.3	(0.0)	n.s.	0.2	n.s.	8.6	6.3	35.0%
Trade and other receivables	(39.2)	(10.3)	n.s.	16.9	n.s.	(23.2)	(30.9)	(25.1%)
Financial and other current assets	0.6	1.8	(64.9%)	0.0	n.s.	0.6	0.1	n.s.
Trade and other payables	7.5	(0.3)	n.s.	(24.5)	n.s.	(17.3)	3.9	n.s.
Change in working capital	(22.7)	(8.8)	158.7%	(7.3)	210.7%	(31.2)	(20.5)	52.2%

At 30 June 2022, the Pulp business had drawn down €50m under its non-recourse receivable discounting facilities, down from €53.7m at year-end 2021.

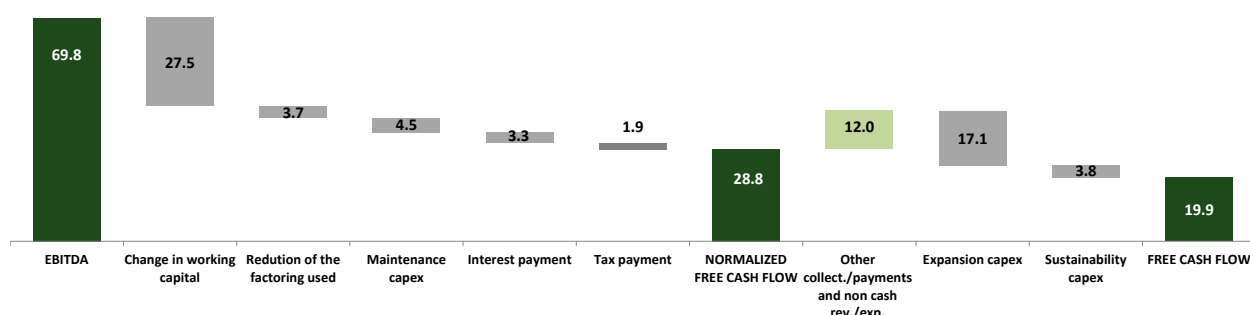
Ence has also arranged several reverse factoring facilities, which were drawn down by €78.6m at the June close, compared to €79.5m at year-end.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Maintenance capex	-	(3.1)	(100.0%)	(4.5)	(100.0%)	(4.5)	(5.3)	(13.8%)
Sustainability capex and other	(1.9)	(3.9)	(52.4%)	(2.0)	(7.0%)	(3.8)	(9.7)	(60.4%)
Efficiency and expansion capex	(9.3)	(5.6)	67.4%	(7.7)	21.2%	(17.1)	(22.4)	(23.9%)
Financial investments	(0.0)	(0.0)	114.3%	0.0	n.s.	(0.0)	(0.0)	(9.7%)
Investments	(11.2)	(12.6)	(10.7%)	(14.2)	(21.2%)	(25.5)	(37.4)	(31.9%)
Disposals	0.0	0.2	(98.8%)	-	n.s.	0.0	0.4	(99.3%)
Net cash flow used in investing activities	(11.2)	(12.3)	(8.9%)	(14.2)	(21.2%)	(25.5)	(37.0)	(31.2%)

Maintenance capex amounted to €4.5m in 1H22, while sustainability capex totalled €1.9m in 2Q22 and €3.8m in 1H22. The latter 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 €9.3m in 2Q22 and €17.1m in 1H22. Those investments are mainly related to the final payments for the capacity added in 2019 and the purchase of new equipment to increase wood-cutting capacity in Galicia.

As a result, normalised free cash flow in the Pulp business amounted to €28.8m in 1H22, while free cash flow net of efficiency, growth and sustainability capex came in at €19.9m.



2.8. Change in net debt

The Pulp business ended the first half with net cash of €22.5m, up from net cash of €19.5m at year-end, despite having paid out an interim dividend of €13.1m in May.

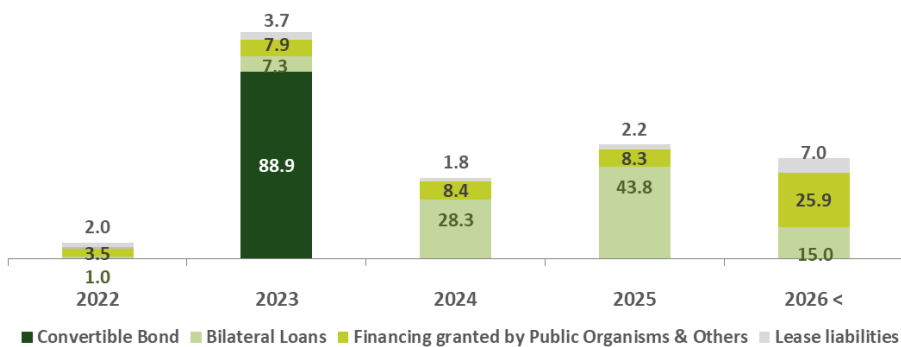
Figures in € m	Jun-22	Dec-21	Δ%
Non-current financial debt	142.7	276.5	(48.4%)
Current financial debt	95.6	12.6	n.s.
Gross financial debt	238.4	289.1	(17.6%)
Non-current lease contracts	12.8	12.8	(0.3%)
Current lease contracts	3.9	3.6	8.7%
Financial liabilities related to lease contracts	16.7	16.4	1.7%
Cash and cash equivalents	271.7	318.5	(14.7%)
Short-term financial investments	6.0	6.6	(9.8%)
Net financial debt Pulp business	(22.5)	(19.5)	15.3%

Due to the cyclical nature of the Pulp business, it is financed with covenant-free debt and ample liquidity. At the reporting date, the Pulp business had cash and cash equivalents of €277.7m.

Ence prepaid €10m of bilateral loans, bought back €39.5m of convertible bonds and reduced its use of receivable discounting lines by €3.7m during the first half.

The gross debt of €238.4m at 30 June 2022 corresponds mainly to the €88.9m of convertible bonds (adjusted for the value of the equity component and the bonds bought back) due March 2023, the outstanding balance of €95.5m on bilateral loans and a series of loans totalling €54.0m 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. Finance lease liabilities stood at €16.7m at the June close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



3. RENEWABLE ENERGY BUSINESS (MAGNON GREEN ENERGY)

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants that have no relation to the pulp production process and is carried on through its 51% ownership interest in Magnon Green Energy ("Magnon"). Magnon currently has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

In December 2021, Magnon agreed the sale of five photovoltaic solar power developments with aggregate capacity of 373 MW for up to €62m. The sale of those assets is expected to close one by one between the last quarter of 2022 and the fourth quarter of 2024.

Magnon has a pipeline of three biomass plants with aggregate capacity of 140 MW with which it will be able to participate in upcoming auctions, framed by its plans to continue to pursue new developments, in biomass, photovoltaic and other power generation technology.

3.1. Electricity market trends

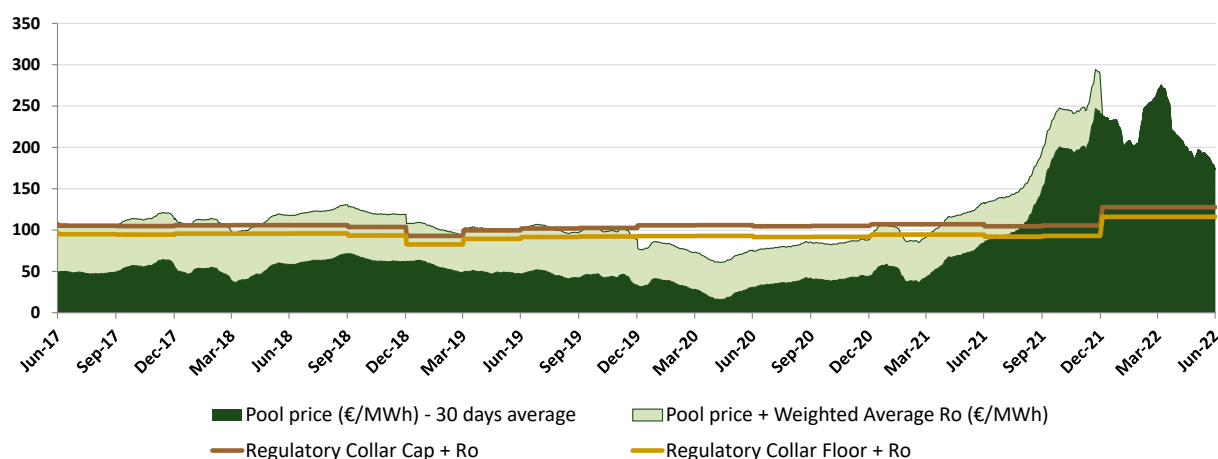
Electricity pool prices averaged €182.8/MWh in 2Q22 and €205.6/MWh in 1H22, which is 2.5 and 3.5 times the 2Q21 and 1H21 levels, respectively, due mainly to the impact of the surge in gas prices on the electricity market.

Market figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Average pool price (€/MWh)	182.8	71.8	154.5%	228.4	(20.0%)	205.6	58.3	n.s.

Source: OMIE

The price per MWh recognised by Ence in its statement of profit or loss is determined by the market price (pool price), within the ceiling and floor set by the regulator (regulatory collar), plus the remuneration for the operation of each facility (Ro), with the exception of the plants that do not avail of or have depleted their remuneration for investment and are therefore not subject to the regulatory collar.

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



Elsewhere, 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 and currently implies annual income of €40.9m.

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

3.2. Key changes derived from Royal Decree-Law 6/202

Spanish Royal Decree-Law 6/2022 (of 29 March 2022) includes measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power plants regulated in Royal Decree 413/2014, enacted in response to the prevailing electricity price climate, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

The new measures consist primarily of bringing forward to 2022 the adjustment for the deviation between actual electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022. That adjustment will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

Ence's first-half 2022 results already factor in the estimated impact of those measures, specifically management's current estimate that the pool price estimated by the regulator for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh; since that price is higher than the cost of operating a standard facility, the remuneration for operations parameter will not apply.

Note that these measures do not negatively affect the estimates underpinning the guidance provided at the Capital Markets Day held on 17 March 2022, which were based, out of precaution, on a similar remuneration scenario.

3.3. Revenue from energy sales

Energy sales volumes amounted to 382,440 MWh in 2Q22 and 823,124 MWh in 1H22, year-on-year growth of 15.3% and 25.2%, respectively, thanks to higher capacity utilisation across virtually all of the plants, coupled with a favourable comparison due to the breakdown of the 50-MW turbine in Huelva in 2021.

Operating figures	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Huelva 41 MW - Biomass	44,786	48,531	(7.7%)	52,164	(14.1%)	96,950	85,841	12.9%
Jaén 16 MW - Biomass	21,302	21,779	(2.2%)	26,152	(18.5%)	47,453	43,631	8.8%
Ciudad Real 16 MW - Biomass	23,484	24,158	(2.8%)	25,239	(7.0%)	48,723	49,483	(1.5%)
Córdoba 27 MW - Biomass	37,223	50,571	(26.4%)	48,341	(23.0%)	85,564	94,609	(9.6%)
Huelva 50 MW - Biomass	88,684	-	n.s.	95,171	(6.8%)	183,855	39,336	n.s.
Mérida 20 MW - Biomass	30,273	35,902	(15.7%)	41,546	(27.1%)	71,819	71,252	0.8%
Huelva 46 MW - Biomass	67,194	79,805	(15.8%)	75,387	(10.9%)	142,581	136,424	4.5%
Ciudad Real 50 MW - Biomass	69,494	70,951	(2.1%)	76,685	(9.4%)	146,179	136,880	6.8%
Energy sales (MWh)	382,440	331,697	15.3%	440,684	(13.2%)	823,124	657,455	25.2%
Average sales price - Pool + Collar + Ro (€/MWh)	128.3	95.6	34.2%	149.0	(13.9%)	139.4	99.1	40.6%
Remuneration for investment (€m)	10.2	10.2	-	10.2	-	20.5	20.5	-
Revenue (€ m)	59.4	42.2	41.0%	76.2	(22.0%)	135.6	86.0	57.6%

Note: The numbers shown in green include the impact of the annual maintenance stoppage

Average sales prices increased by 34.2% year-on-year to €128.3/MWh in 2Q22 and by 40.6% to €139.4/MWh in 1H22 as a result of the adjustment of the remuneration parameters applicable in 2022 and the impact of higher pool prices on the plants which are not subject to the regulatory collar ceiling.

As a result, revenue from energy sales, factoring in remuneration for investment, increased by 41% year-on-year to €59.4m in 2Q22 and by 57.6% to €135.6m in 1H22.

3.4. Statement of profit or loss

At the June close the Group tested the recoverable amount of the renewable energy plants that are either not expected to receive remuneration for investment from 1 January 2023 or are expected to receive an insignificant amount as a result of recovering most of their regulatory value via existing and estimated pool prices in 2022. As a result, the Group reversed €39.6m of the regulatory collar provided for, offset by impairment charges of €35.5m recognised against the plants' carrying amount, none of which had any impact on cash flow generation during the period. That assessment indicates that, if the Company's current electricity price estimates materialise, the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants will virtually cease to be limited by the regulatory collar going forward.

Like-for-like EBITDA in the Renewable Energy business, stripping out the impact of the reversal of the regulatory collar provision, amounted to €13.3m in 2Q22 and €38.9m in 1H22, as the increase in average sales price was partially offset by higher biomass and gas costs, as well as the fact that the annual maintenance stoppages are concentrated in the second half. The €9.4m generated in 2Q21 included a €4.4m settlement related with electricity price hedges arranged exceptionally during the pandemic, in 2020.

Adding in the effect of the reversal of the regulatory collar provision, EBITDA increases to €52.9m in 2Q22 and to €78.6m in 1H22.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Revenues from energy sales	59.4	42.2	41.0%	76.2	(22.0%)	135.6	86.0	57.6%
Reversal of the regulatory collar provision	39.6	-	n.s.	-	n.s.	39.6	-	n.s.
Total revenue	99.1	42.2	135.0%	76.2	30.1%	175.2	86.0	103.7%
EBITDA before the regulatory collar provision reversal	13.3	9.4	40.5%	25.6	(48.2%)	38.9	18.0	116.6%
EBITDA	52.9	9.4	n.s.	25.6	106.4%	78.6	18.0	n.s.
Depreciation and amortisation	(10.0)	(9.5)	5.2%	(10.0)	(0.4%)	(20.0)	(18.9)	6.0%
Impairment of and gains/(losses) on fixed-asset disposals	(37.0)	(0.1)	n.s.	0.0	n.s.	(37.0)	(0.3)	n.s.
EBIT	5.9	-0.1	n.s.	15.6	(62.0%)	21.6	(1.2)	n.s.
Net finance cost	(4.7)	(2.5)	86.3%	(4.5)	5.6%	(9.2)	(5.8)	58.5%
Other finance income/(cost)	0.2	0.2	(34.9%)	0.1	11.9%	0.3	0.2	27.1%
Profit before tax	1.4	(2.4)	n.s.	11.3	(87.9%)	12.7	(6.7)	n.s.
Income tax	(3.6)	(0.3)	n.s.	(3.7)	(1.0%)	(7.3)	0.6	n.s.
Net Income	(2.3)	(2.7)	(16.3%)	7.6	n.s.	5.4	(6.2)	n.s.
Non-controlling interests	0.2	(0.3)	n.s.	0.8		1.0	(0.6)	n.s.
Attributable Net Income	(2.1)	(3.0)	(31.4%)	8.4	n.s.	6.4	(6.8)	n.s.

Below the EBITDA line, it is worth highlighting the €37m recognised under impairment losses and gains/(losses) on the disposal of non-current assets, which includes the impairment of the renewable energy plants no longer expected to receive remuneration for investment from 1 January 2023, having recovered their regulatory value via current and estimated electricity pool prices in 2022, in light of forecast pool prices.

The 58.5% year-on-year increase in net finance costs to €9.2m is mainly attributable to the unwind of the regulatory collar provision.

Income tax of €7.3m in 1H22 includes the tax effect of the above-mentioned impairment losses.

As a result, the Renewable Energy business posted a net profit of €6.4m in 1H22, compared to a loss of €6.8m in 1H21.

3.5. Cash flow analysis

Operating cash flow totalled €49.5m in 2Q22 and €113.5m in 1H22, compared to €22.3m in 2Q21 and €13m in 1H21. In addition to the sharp growth in EBITDA, cash generation was influenced by the inflow related with the regulatory collar and a lower working capital requirement.

EBITDA	52.9	9.4	<i>n.s.</i>	25.6	<i>106.4%</i>	78.6	18.0	<i>n.s.</i>
Energy regulation adjustment (regulatory collar)	(21.6)	1.2	<i>n.s.</i>	33.6	<i>n.s.</i>	12.1	1.2	<i>n.s.</i>
Other adjustments	(0.4)	1.4	<i>n.s.</i>	0.9	<i>n.s.</i>	0.5	3.2	<i>(84.9%)</i>
Change in working capital	27.6	16.1	<i>72.1%</i>	5.8	<i>n.s.</i>	34.6	(3.3)	<i>n.s.</i>
Income tax received / (paid)	(2.5)	(0.1)	<i>n.s.</i>	0.1	<i>n.s.</i>	(2.5)	0.3	<i>n.s.</i>
Net interest received / (paid)	(6.5)	(5.7)	<i>14.5%</i>	(3.2)	<i>101.5%</i>	(9.8)	(6.3)	<i>54.7%</i>
Net cash flow from operating activities	49.5	22.3	<i>122.2%</i>	62.8	<i>(21.1%)</i>	113.5	13.0	<i>n.s.</i>

The difference between pool and regulated electricity prices (the regulatory collar), which does not impact the statement of profit or loss but does affect the statement of cash flows, had a positive impact of €12.1m in 1H22. The negative adjustment of 21.6m in 2Q22 includes the €39.6m reversal of the regulatory collar provision outlined above.

Working capital movements implied a cash inflow of €27.6m in 2Q22 and of €34.6m in 1H22, mainly related with balances pending settlement by the regulator which are included under trade payables.

Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Inventories	(2.3)	(5.7)	<i>(59.7%)</i>	1.1	<i>n.s.</i>	(1.2)	(6.5)	<i>(81.5%)</i>
Trade and other receivables	(5.8)	12.2	<i>n.s.</i>	3.5	<i>n.s.</i>	(1.3)	5.4	<i>n.s.</i>
Trade and other payables	35.7	9.6	<i>n.s.</i>	1.2	<i>n.s.</i>	37.2	(2.3)	<i>n.s.</i>
Change in working capital	27.6	16.1	<i>72.1%</i>	5.8	<i>n.s.</i>	34.6	(3.3)	<i>n.s.</i>

The Renewable Energy business decreased its use of receivable discounting lines by €13.3m so that at the June close the balance drawn stood at zero.

Ence has also arranged several non-recourse reverse factoring facilities, which were drawn down by €20.4m at the June close, compared to €18.1m at year-end 2021.

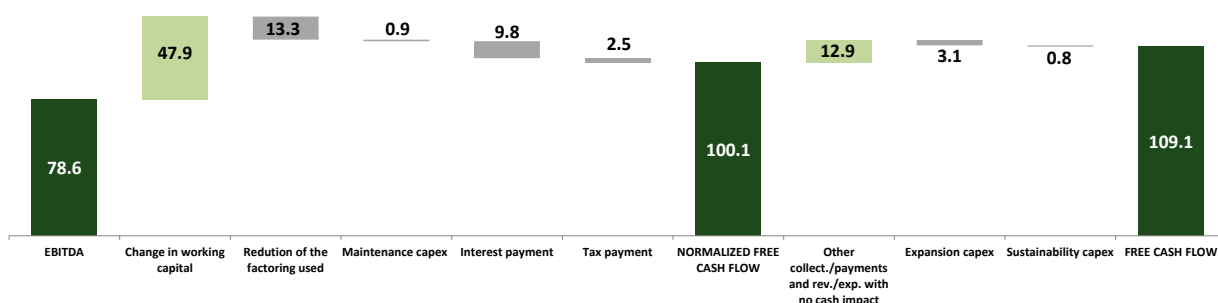
Figures in € m	2Q22	2Q21	Δ%	1Q22	Δ%	1H22	1H21	Δ%
Maintenance capex	(0.3)	(0.7)	<i>(62.7%)</i>	(0.7)	<i>(61.4%)</i>	(0.9)	(2.3)	<i>(59.2%)</i>
Sustainability capex and other	(0.4)	(0.4)	<i>5.8%</i>	(0.4)	<i>8.4%</i>	(0.8)	(1.3)	<i>(39.0%)</i>
Efficiency and expansion capex	(2.0)	(2.5)	<i>(22.9%)</i>	(1.2)	<i>70.1%</i>	(3.1)	(6.6)	<i>(53.0%)</i>
Financial investments	0.0	(0.1)	<i>n.s.</i>	(0.0)	<i>n.s.</i>	-	(0.1)	<i>(100.0%)</i>
Investments	(2.6)	(3.711)	<i>(29.5%)</i>	(2.2)	<i>19.2%</i>	(4.809)	(10.3)	<i>(53.1%)</i>
Disposals	-	-	<i>n.s.</i>	0.4	<i>(100.0%)</i>	0.4	-	<i>n.s.</i>
Net cash flow from investing activities	(2.6)	(3.7)	<i>(29.5%)</i>	(1.8)	<i>44.2%</i>	(4.4)	(10.3)	<i>(56.8%)</i>

Maintenance capex amounted to €0.3m in 2Q22 and €0.9m in 1H22, while sustainability capex was flat at €0.4m in 2Q22 and narrowed to €0.8m in 1H22.

Lastly, efficiency and growth capex - €2m in 2Q22 and €3.1m in 1H22 - was earmarked to minor investments to improve efficiency at a number of plants and to projects under development.

Proceeds from disposals in 1Q22 included the collection of €0.4m related with progress on the permitting of the photovoltaic projects under development.

As a result, normalised free cash flow in the Renewable Energy business amounted to €100.1m in 1H22, while free cash flow, after the regulatory collar and efficiency, growth and sustainability capex, came in at €109.1m.



3.6. Change in net debt

Net debt in the Renewable Energy business decreased by €108.8m from year-end 2021 to €12.4m as at 30 June 2022.

Figures in € m	Jun-22	Dec-21	Δ%
Non-current financial debt	133.9	162.2	(17.4%)
Current financial debt	29.4	29.4	(0.0%)
Gross financial debt	163.3	191.6	(14.8%)
Non-current lease contracts	0.6	0.7	(22.4%)
Current lease contracts	0.5	0.4	39.6%
Financial liabilities related to lease contracts	1.1	1.1	(1.4%)
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	142.0	61.5	131.0%
Net financial debt Renewable Energy business	12.4	121.2	(89.8%)

Gross - long-term - debt stood at €163.3m at the June close, while cash amounted to €152m.

Energy debt maturity profile (€Mn)



4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

Figures in € m	1H22				1H21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	380.0	175.2	(1.5)	553.7	287.9	86.0	(1.5)	372.4
Other income	8.2	3.8	(0.5)	11.4	5.9	6.4	(0.9)	11.3
Foreign exchange hedging operations results	(11.3)	-		(11.3)	(11.0)	-		(11.0)
Cost of sales and change in inventories of finished produ	(178.8)	(55.3)	1.5	(232.5)	(138.8)	(32.6)	1.5	(169.8)
Personnel expenses	(36.7)	(8.6)		(45.3)	(34.2)	(6.4)		(40.6)
Other operating expenses	(91.6)	(36.6)	0.5	(127.6)	(68.9)	(35.4)	0.9	(103.4)
EBITDA	69.8	78.6		148.4	41.0	18.0		58.9
Depreciation and amortisation	(20.4)	(20.0)	0.5	(39.9)	(27.1)	(18.7)	1.6	(44.3)
Depletion of forestry reserves	(4.0)	(0.0)		(4.0)	(6.4)	(0.1)		(6.5)
Impairment of and gains/(losses) on fixed-asset disposal	(1.1)	(37.0)		(37.3)	(189.4)	(0.3)		(189.7)
Other non-ordinary operating gains/(losses)	(0.1)	-		(0.1)	5.0	-		5.0
EBIT	44.2	21.6	1.2	67.1	(176.9)	(1.2)	1.6	(176.5)
Net finance cost	(4.5)	(9.2)		(13.7)	(4.7)	(5.8)		(10.5)
Other finance income/(costs)	2.1	0.3		2.4	1.4	0.2		1.7
Profit before tax	41.7	12.7	1.2	55.7	(180.1)	(6.7)	1.6	(185.3)
Income tax	(1.4)	(7.3)		(8.7)	(13.6)	0.6	3.4	(9.6)
Net Income	40.4	5.4	1.2	46.9	(193.7)	(6.2)	5.0	(194.9)
Non-controlling interests	-	1.0	-3.2	(2.2)	-	(0.6)	0.2	(0.4)
Attributable Net Income	40.4	6.4	(2.0)	44.7	(193.7)	(6.8)	5.2	(195.2)
Earnings per Share (EPS)	0.17	0.03	(0.01)	0.18	(0.80)	(0.03)	0.02	(0.80)

4.2. Statement of financial position

Figures in € m	Jun - 22				Dec - 21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	13.4	35.8	(13.0)	36.1	13.2	38.1	(13.3)	37.9
Property, plant and equipment	434.3	406.9	(8.6)	832.6	436.9	456.3	(9.6)	883.6
Biological assets	58.3	0.2		58.5	59.6	0.1		59.7
Non-current investments in Group companies	112.5	0.0	(112.5)	-	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	38.3	-	(38.3)	-	38.3	-	(38.3)	-
Non-current financial assets	15.0	4.0		19.0	14.6	1.9		16.5
Deferred tax assets	19.7	23.8	3.3	46.8	20.1	22.1	3.3	45.6
Cash reserve for debt service	-	10.0		10.0	-	10.0		10.0
Total non-current assets	691.6	480.6	(169.3)	1,003.0	695.2	528.5	(170.4)	1,053.3
Inventories	47.0	12.6		59.6	53.6	12.1		65.7
Trade and other accounts receivable	98.5	32.5	(12.1)	118.9	70.2	42.2	(17.5)	94.9
Income tax	1.5	0.2		1.8	1.5	0.3		1.8
Other current assets	19.1	1.8		20.9	10.7	(0.0)		10.7
Current financial investments in Group companies	0.7	0.0	(0.7)	0.0	-	0.0		0.0
Current financial investments	6.0	0.0		6.0	6.6	0.0		6.6
Cash and cash equivalents	271.7	142.0		413.7	318.5	61.5		380.0
Total current assets	444.5	189.1	(12.7)	620.9	461.1	116.1	(17.5)	559.7
TOTAL ASSETS	1,136.1	669.8	(182.0)	1,623.9	1,156.2	644.6	(187.9)	1,613.0
Equity	564.6	228.2	(130.9)	661.9	539.0	218.6	(132.1)	625.5
Non-current borrowings	155.5	134.5		290.0	289.4	162.9		452.3
Non-current loans with Group companies and associates	-	75.2	(38.3)	36.8	-	75.2	(38.3)	36.8
Non-current derivatives	-	-		-	-	2.2		2.2
Deferred tax liabilities	0.1	0.3		0.4	-	-		-
Non-current provisions	51.3	0.1		51.4	51.1	0.1		51.2
Other non-current liabilities	41.7	73.8		115.5	23.7	68.0		91.8
Total non-current liabilities	248.6	283.9	(38.3)	494.2	364.2	308.4	(38.3)	634.2
Current borrowings	99.6	29.9		129.5	16.2	29.8		46.0
Current derivatives	8.2	0.5		8.7	7.0	2.6		9.6
Trade and other account payable	198.7	114.0	(12.0)	300.6	213.7	81.3	(17.5)	277.5
Short-term debts with group companies	0.0	1.3	(0.7)	0.6	0.0	1.3		1.3
Income tax	1.1	10.2		11.3	0.0	0.1		0.1
Current provisions	15.3	1.8		17.1	16.1	2.7		18.8
Total current liabilities	322.8	157.7	(12.7)	467.8	253.0	117.7	(17.5)	353.2
TOTAL EQUITY AND LIABILITIES	1,136.1	669.8	(182.0)	1,623.9	1,156.2	644.6	(187.9)	1,613.0

4.3. Statement of cash flows

Figures in € m	1H22				1H21			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	41.7	12.7	1.2	55.7	(180.1)	(6.7)	1.6	(185.3)
Depreciation and amortisation	24.4	20.0	(0.5)	43.9	33.5	18.9	(1.6)	50.8
Changes in provisions and other deferred expense	(2.4)	0.6		(1.8)	(7.9)	3.4		(4.5)
Impairment of gains/(losses) on disposals intangible asset	1.1	37.0	(0.7)	37.3	189.4	0.3		189.7
Net finance result	2.9	8.9		11.7	3.3	5.6		8.9
Energy regulation adjustment (regulatory collar)	14.4	12.1		26.5	(0.0)	1.2		1.2
Government grants taken to income	(0.3)	(0.1)		(0.3)	(0.4)	(0.2)		(0.6)
Adjustments to profit	40.1	78.5	(1.2)	117.3	217.9	29.1	(1.6)	245.4
Inventories	8.6	(1.2)		7.4	6.3	(6.5)		(0.1)
Trade and other receivables	(23.2)	(1.3)		(24.5)	(30.9)	5.4		(25.5)
Current financial and other assets	0.6	(0.0)		0.6	0.1	-		0.1
Trade and other payables	(17.3)	37.2		19.9	3.9	(2.3)		1.7
Changes in working capital	(31.2)	34.6		3.4	(20.5)	(3.3)		(23.8)
Interest paid	(3.3)	(9.8)		(13.1)	(3.9)	(6.3)		(10.2)
Dividends received	-	-		-	0.0	-		0.0
Income tax received/(paid)	(1.9)	(2.5)		(4.3)	-	0.3		0.3
Other cash flows from operating activities	(5.2)	(12.2)		(17.4)	(3.9)	(6.1)		(9.9)
Net cash flow from operating activities	45.4	113.5		158.9	13.4	13.0		26.3
Property, plant and equipment	(23.8)	(4.7)		(28.5)	(36.5)	(10.1)		(46.6)
Intangible assets	(1.6)	(0.1)		(1.7)	(0.9)	(0.1)		(0.9)
Other financial assets	(0.0)	-		(0.0)	(0.0)	(0.1)		(0.1)
Disposals	0.0	0.4		0.4	0.4	-		0.4
Net cash flow used in investing activities	(25.5)	(4.4)		(29.9)	(37.0)	(10.3)		(47.2)
Free cash flow	19.9	109.1		129.0	(23.6)	2.7		(20.9)
Buyback/(disposal) of own equity instruments	1.4	-		1.4	(1.3)	-		(1.3)
Proceeds from and repayments of financial liabilities	(55.0)	(28.6)		(83.6)	(125.0)	(13.0)		(138.0)
Dividends payments	(13.1)	-		(13.1)	-	-		-
Net cash flow from/ (used in) financing activities	(66.7)	(28.6)		(95.3)	(126.3)	(13.0)		(139.3)
Net increase/(decrease) in cash and cash equivalents	(46.8)	80.5		33.7	(149.9)	(10.3)		(160.2)

5. KEY DEVELOPMENTS

Spain's Supreme Court to rule on the first appeal lodged against the National Court rulings annulling the extension of the concession in Pontevedra until 2073 on 4 October 2022

On 23 February and 23 March 2022, the Supreme Court agreed to hear two of the appeals lodged by the Company and other entities against the National Court rulings annulling the extension of the concession over the use of the public-domain coastal land on which the Pontevedra biomill sits, in the wake of proceedings brought by Greenpeace Spain and the town council of Pontevedra, respectively.

On 30 March 2022, the Supreme Court decided to delay its decision on whether to hear the third appeal filed by the Company and other entities against the National Court ruling on the case brought by a local Pontevedra association, the ADPR, until it issues its ruling on the first two appeals.

On 12 July 2022, the Supreme Court notified the various parties that it plans to vote and rule on the first appeal on 4 October 2022. That ruling is expected to be made public during the last quarter of 2022.

Second interim dividend against 2022 profit

On 26 April, the Board agreed to pay out a second interim dividend from 2022 profits totalling €32m, or €0.13 per share (before tax withholdings), on 12 August 2022, in addition to the €13m (equivalent to €0.054 per share) already distributed in May.

The Company's dividend policy contemplates a third interim policy to be determined after the third-quarter close, in October.

Temporary suspension of Pontevedra's biomill activity

In view of the data on the ecological flow of the Lérez river, from where Pontevedra's biomill sources its water, last Wednesday July 20, the Company decided to begin the temporary suspension of the biomill's activity.

With the information currently available, it is not possible to determine the duration of this situation and the effect it will have on the production of the biomill.

However, it should be noted that the Company estimates that the situation would have to continue for more than one month before it could have a material impact on the results for the year. A total suspension of Pontevedra's activity during 30 days would have an estimated impact of €10m in 2022 EBITDA. Each additional month of total suspension of the biomill activity, would have an impact of 12 Mn€ in the annual EBITDA. These figures would be partially mitigated in 2023 through a lower consumption of imported wood.

First biomass tender called for 25 October 2022

The Spanish Ministry of Ecological Transition has called a first biomass auction of 140 MW on 25 October 2022.

Project for the production of recycled fibre in As Pontes

At the end of June, Ence announced it was analysing a new project in the town of As Pontes, Coruña, for the production of recycled fibre and biomaterials from recovered paper and board and the pulp made in Pontevedra.

The project embodies the fair transition and circular bioeconomy thrusts as it would transform land that used to be part of a fossil fuel power plant into an innovative facility that would recover and reuse natural resources, all of which framed by an ecoefficient and environmentally-friendly carbon-free process that would be self-sufficient for energy purposes.

The project consists of a bleached recycled fiber line with annual capacity of 100,000 tonnes, a certified biomass co-generation facility that would cover the factory's heat and electricity requirements and a line for the manufacture of 30,000 tonnes of paper products. The idea would be to build the three components in phases. The project would entail total investment of €355m.

Capital Markets Day 2022

On 17 March 2022, Ence presented the market with its growth, diversification and cash generation guidance for the next five years.

In the Pulp business, Ence's strategy entails executing the "Navia Excellence" plan, while continuing to defend the extension of its concession in Pontevedra in the courts. That project contemplates the investment of €105m in the next two years to boost the sale of differentiated products, diversify production in Navia into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by slashing its annual GHG emissions by 50,000 tonnes.

In the Renewable Energy business, carried on through Ence's subsidiary Magnon Green Energy, the Group will continue to develop its pipeline of biomass and photovoltaic projects, while pursuing new and related growth opportunities

Key changes derived from Royal Decree-Law 6/2022

Spanish Royal Decree-Law 6/2022 (of 29 March 2022) includes measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power plants regulated in Royal Decree 413/2014, enacted in response to the prevailing electricity price climate, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

The new measures consist primarily of bringing forward to 2022 the adjustment for the deviation between market electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and remuneration for operation (Ro) parameter applicable in 2022. That update will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

It is now estimated that the regulated price for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operations parameter will not apply.

It is important to stress that the first-half results already include the estimated impact of these measures, which, moreover, do not have a negative impact on the forecasts provided at the Capital Markets Day held on 17 March 2022, which, out of precaution, had factored in a similar scenario, specifically assuming electricity prices of €48/MWh from April and no cash inflow as a result of tariff adjustments for deviations in the pool price (the regulatory collar).

2022 Annual General Meeting

Ence held its Annual General Meeting on 31 March 2022. It was attended - in-person and remotely - by shareholders representing 57% of its share capital, who ratified all of the agenda items. The motions were carried with over 89% of votes in favour on average. The items ratified included:

- ✓ Approval of the 2021 financial statements, management report and sustainability report and of the motion for the appropriation of profit for 2021
- ✓ Approval of the Board of Directors' performance and the Director Remuneration Policy for 2022, 2023 and 2024
- ✓ Re-election of Irene Hernández Álvarez as independent director

- ✓ Re-election of Fernando Abril-Martorell as external director
- ✓ Re-election of José Guillermo Zubía Guinea as external director
- ✓ Appointment of Ángel Agudo Valenciano as proprietary director, in representation of Asua Inversiones S.L.
- ✓ Appointment of Carmen Aquerreta Ferraz as independent director
- ✓ Appointment of Rosalía Gil- Albarells Marcos as independent director
- ✓ Amendment of the Bylaws and General Meeting Regulations
- ✓ Authorisation of the Board of Directors to buy back own shares and debt instruments

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 2022, Sustainalytics reiterated Ence's overall ESG score of 91 points out of 100, which ranks it as a global leader in the pulp and paper sector for the second year running. 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

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

In terms of the generation of **quality work**, note that as of June 2022, 92.2% of Ence employees had indefinite employment contracts and 98.3% 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, in 2021 the Company secured Great Place to Work certification for the second year in a row.

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. In 1H22, it promoted 35 professionals, 12 of whom are women.

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:

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

In the first half of 2022, the Company imparted 9,517.5 hours of training, adapting the formats to make them compatible with remote working arrangements. Against the backdrop of the Group's digitalisation thrust, it is worth highlighting the 500 hours of training sessions provided on the subject of Machine Learning.

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 over 3% in 2021 to account for 25%. In the first half of 2022, 50% of the new university graduate hires under the age of 30 were women, while female representation in the overall headcount increased a further 5.7%.

Framed by 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.

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. During the first half of 2022 it negotiated and executed the new collective bargaining agreement for office workers in Navia and in Pontevedra and initiated negotiations for the new collective bargaining agreements at the Navia biomill and for the office workers based in Madrid.

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 2021, the Company implemented the measures established in those plans, beginning with the replacement of fossil fuel (coke) with biomass at the Pontevedra biomill and consolidation of operation of the photovoltaic facilities put in place to enable self-generation at the Merida and Huelva plants. As a result, the Group managed to lower its scope 1 GHG emissions by 9% year-on-year in 2021. In the first half of 2022, Ence continued to work on the established roadmap, advancing on the engineering work for the plans to decarbonise the Navia biomill.

Ence updates its inventory of greenhouse gas emissions annually, most recently including, for the first time, an 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 2021 the forests managed by Ence sequestered over 92,000 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 pronounced, rather than a scenario that contemplates global warming of less than 1.5°C, 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.

On the **health and safety** front, in 1H22 the different businesses registered contrasting performances: the Pulp and Forest Asset businesses have recorded no accidents so far this year, so that their metrics stand at zero. However, the metrics in the independent energy plants and the biomass supply unit deteriorated slightly year-on-year and initiatives have been rolled out to revert that trend. As a result, in the first half of 2022, Ence's overall injury frequency rate deteriorated slightly by comparison with 2021; however, the injury severity rate improved by 43% from year-end to a level that is in line with the Group's long-run record. Those trends reflect the fact that there was a small increase in lost-time injuries but that they were less serious on average.

The Pulp business unit therefore ended June nearly a year free from accidents (11 months in Pontevedra and 15 months in Navia), during which time the number of hours worked was nearly 2 million and there were two maintenance stoppages at Navia (2021 and 2022) and one in Pontevedra (2022). That performance makes Ence a benchmark player among the companies comprising the European Pulp Industry Sector (EPIS) Association in the first half of 2022.

At the June close, the rest of the Company's businesses units also ranked below the key benchmark accident indicators in Spain (general industry and the pulp and paper and wood industries). Nevertheless, the Company plans to continue to work to further improve its safety performance, which is a top priority for Ence.

As for its **environmental performance**, it is worth highlighting the trend in the key performance indicators in Navia, which reduced its odour emissions by 55% year-on-year in 1H22, which is remarkable considering the fact that 2021 was already a record year for the Pulp business in this respect. It is also worth highlighting the fact that both biomills manages to lower their water consumption ratios year-on-year and successfully completed part three of their ISO 14001 and EMAS audits.

In the Renewable Energy business, this year the Group has continued to execute and monitor its plans for delivering the unit water consumption targets across its plants.

As for its **circular economy** transition, Ence continues to present high waste recovery and recycling readings - above 90% of all waste -, enabling it to expand the scope of its AENOR Zero Waste management certification (a seal only given to facilities that send less than 10% of their waste to landfill). By the end of the first half, six of the Group's eight industrial facilities had obtained that certificate and the idea is for all facilities to be Zero Waste certified by the end of 2022. Also within the circular economy thrust, the Company has set up a specific waste recovery unit focused on recovering flying ash and the ash that settles at the bottom of the furnace to make fertilisers and repair degraded soil.

As for the implementation of environmental management systems in the Renewable Energy business, progress is being made on the planned roadmap, with implementation completed at the La Loma, Enemansa and Lucena plants, with a view to achieving certification over the course of 2022.

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 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. As of June 2022, over 83% of its forest assets were certified under one or other of those standards and nearly 72% of the wood that entered its biomills during the period from its proprietary forests, suppliers and forest owners came with one or both certifications.

Ence's sustainable forest management effort extends to the promotion of **biodiversity conservation** in its forests. In 2021, Ence conducted biodiversity analyses encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. So far in 2022, the Group has continued that effort, completing new fauna and flora biodiversity studies. Twenty-three areas of owned forest last were monitored in 1H22.

As for the **generation of value for forest owners and suppliers**, Ence goes to lengths to support smaller-sized firms: in 1H22, 93% of wood suppliers and 81% of forest owners were small players. In 1H22, the Company purchased almost €11 million worth of wood from nearly 500 forest owners. As for biomass, Ence mobilised over 870,000 million tonnes through its plants in 1H22, generating over €39m of value for its biomass supply chain.

Ence also strives to **contribute to development** in the areas in which it operates. To that end it encourages the purchase of local raw materials; in 1H22, most of the wood and biomass bought came from Galicia, Asturias, Cantabria, Andalusia, Extremadura, Castile La Mancha and Portugal. Local wood and biomass purchasing 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.

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).

Over 77% of the agricultural biomass used in 1H22 was compliant with the 10-Point Plan criteria, close to the target of 80% for all of 2022.

As for implementation of the SURE certification scheme in order to comply with its requirements under Directive (EU) 2018/2001 (RED II), having successfully renewed certification at the independent plants and biomills during the first half of 2022, work has begun on the certification of the Group's suppliers: 14 suppliers are already SURE certified and a further 85 are in the process of obtaining certification.

Elsewhere, Ence continued to apply its supply chain supervision procedures, an effort that extends to the **certification** of wood and agricultural biomass producers, with certification levels of over 98% as of June 2022.

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.

Within that effort, it is worth flagging the Company's unbleached pulp, Naturcell, which is not only more environmentally-friendly to make, the GHG emissions derived from its life cycle are offset with credits purchased on the voluntary market to make some of its production a Zero Carbon product.

In order to transparently demonstrate the sustainability attributes of its products, Ence has developed, together with Environdec, the Product Category Rule (PCR) for pulp, which is was posted on its website⁽¹⁾ at the end of March 2022, and Environmental Product Declarations (EDP), framed by the International EDP System. The PCR establishes the rules for performing like-for-like analysis so as to yield comparable results, while the EPD contains verified information about a product's environmental performance. The EDPs for Ence's unbleached pulp, Naturcell, and for the standard bleached pulp made in Pontevedra were published on Environdec's website in 2021, making these Ence products the first pulp products in the market to obtain an **Environmental Product Declaration**. The audit to verify that the EDPs, revised and adapted in line with the PCR, comply with all the new requirements is scheduled to take place shortly.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set sales targets for Naturcell, Powercell and Naturcell Zero for 2022. In 1H22, sales of these products accounted for 18.5% of total pulp sales, extending the recent upward trend.

Elsewhere, Ence has set itself the target of carrying out the pre-assessment required to obtain biodegradability certification for its pulp in 2022 in order to shine the spotlight on this product sustainability attribute.

Another sustainability target for 2022 - the study analysing the viability of blending recycled pulp and Naturcell - was the embryo for a project presented to the regional government of Galicia and other vested parties during the last week of June. That project consists of a bioplant for the production of recycled fibre and biomaterials with which Ence aspires to enter the paper recovery segment, framed by its strategic commitment to the circular bioeconomy.

- (1) <https://www.environdec.com/product-category-rules-pcr/get-involved-in-pcr-development#recentlypublishedpcrs>.

6. Community commitment

As part of its community engagement effort, Ence has continued to **invest** in its business communities, framed by the agreements in place with local councils in the towns where it has its main facilities. Ence supports projects of a social, environmental and sporting nature, including work to prevent social exclusion, and fosters entrepreneurship. In early 2022 it signed a new agreement with the town council of Puertollano, adding to the agreements already in place with the local authorities in Navia and San Juan del Puerto.

In addition to the above community investments, in 2022 Ence has continued to roll out **specific relations plans** for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted a total of 800 visits to the facilities in Navia, Pontevedra and Huelva in the first quarter of 2022. In parallel with those facility tours, the Company, with the help of its employees, carries out a number of training, education and volunteering projects and meets with representatives for its various stakeholders in order to foster open communication with all of them.

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 Asturias, Galicia, Andalusia and its other business communities. The Group's activities generate an estimated 19,000 jobs between direct, indirect and induced jobs. Ence's positive impact is particularly important in the agricultural (owners, harvesting firms and carriers) and forestry sectors (forest owners, forest service providers, wood harvesting firms and carriers, etc.), both of which with deep roots in the rural economy. As a result, Ence not only generates wealth for those stakeholders but also constitutes an important economic engine in those regions, contributing to the effort to stem depopulation and deindustrialisation in rural Spain.

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 unwavering commitment to meeting its objectives, notably including those related with the diversity and independence of its Board and Board committees. Here it is worth highlighting the fact that female boardroom representation at Ence has increased from 7% in 2017 to 38.5% in 2022. Moreover, one of the female directors has been acting as lead independent director since 2019. Ence's commitment to shaping a diverse and markedly independent boardroom is likewise evident in the make-up of its Board committees: independent directors are in the majority on all of those committees, with the exception of the executive committee. Moreover, on all of those committees, again with the exception of the executive committee, female directors are in the majority (female representation stands at 60%). The committee compositions approved by the Board of Directors implies full compliance with Code of Good Governance recommendations #52 and #53, with which Ence was only partially compliant in 2021.

During the first half of 2002, Ence imparted its Welcome Programme to the new directors named at the General Meeting. That programme includes a detailed explanation of the Company's governance system, the delivery of the internal rules and policies articulating the latter and initial training; it also includes individual briefing sessions with the secretary and vice-secretary and the company's top executives in order to give them greater insight into the main lines of business and strategic priorities.

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

Facility	Type of facility	MW	Original Remuneration for investment in P&L (Ri; €/MW) *	Annual Remuneration for investment in FCF (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	-	-	2032
			55,314	36,363	Agroforestry biomass	-	-	
Navia	Biomass co-generation	40.3	-	-	Lignin	-	-	2034
			230,629	160,824	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	246,292	124,762	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	261,033	149,173	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,033	149,173	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	229,601	149,173	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	-	Natural Gas	72.3	-	2030
Huelva 50MW	Biomass generation	50.0	266,467	203,307	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	293,594	232,189	Agroforestry biomass	-	7,500	2039
Huelva 46 MW	Biomass generation	46.0	-	-	Agroforestry biomass	-	7,500	2044
Ciudad Real 50 MW	Biomass generation	50.0	-	-	Agroforestry biomass	-	7,500	2044

* Original Ri does not include subsequent adjustments by regulatory collar, which Ence adjusts monthly on its revenue figure. Difference between original and FCF Ri corresponds to the effect of the regulatory collar.

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 on the estimated cost of building a 'standard' plant. That return was set at 7.4% for the regulatory period elapsing between 2020 and 2031 by Royal Decree-Law 17/2019 and currently implies annual income of €10.2m for the Pulp business and €40.9m for the Renewable Energy business.

At present, 40% of installed capacity in the Pulp business, specifically the lignin co-generation plants, and 41% of installed capacity in the Renewable Energy business, namely that corresponding to the 46-MW Huelva, 50-MW Ciudad Real and 13-MW Cordoba plants, are not entitled to the remuneration for investment parameter.

1. 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, within the ceiling and floor set by the regulator (regulatory collar), plus the supplementary remuneration for operation (Ro) earned by each plant.

The pool prices estimated by the regulator for the purpose of determining the 'Ro' supplement are reviewed every three years and 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) via the collection of the remuneration for investment parameter over the remaining regulatory useful lives of the plants, except for the plants not entitled to that remuneration, which are therefore not bound by those limits.

Regulated 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 (there is no cap in the case of CHP generation).

Spanish **Royal Decree-Law 6/2022** (of 29 March 2022) includes measures that affect the remuneration regime applicable to the renewable energy, CHP and waste-fuelled power generation plants regulated in Royal Decree 413/2014, in response to the prevailing electricity market price climate, while guaranteeing that those facilities obtain the reasonable return initially contemplated.

The new measures consist primarily of bringing forward to 2022 the adjustment for the deviation between actual electricity prices and the prices estimated by the regulator (the regulatory collar) in 2020 and 2021 by means of the annual collection of the remuneration for investment (Ri) parameter and adjustment of the regulatory price estimate and supplementary remuneration for operation (Ro) parameter applicable in

2022. That update will be implemented by means of a ministerial order and will be applicable with effect from 1 January 2022.

It is now estimated that the regulated pool price for 2022 will be around €122/MWh, compared to the previous estimate of €48/MWh. Since that price is higher than the cost of operating a standard facility, the remuneration for operation (Ro) parameter will not apply.

Below are the pool prices estimated by the regulator for 2020-2022, along with the corresponding ceilings and floors and the expected update for 2022 in the wake of Royal Decree-Law 6/2022 and the draft ministerial order:

Eur / MWh	2020	2021	2022 initial	Act. 2022 est.
LS2	63.1	60.5	56.6	129.7
LS1	58.8	56.3	52.7	125.8
Estimated price pool	54.4	52.1	48.8	121.9
LI1	50.1	48.0	44.9	118.0
LI2	45.7	43.8	41.0	114.1

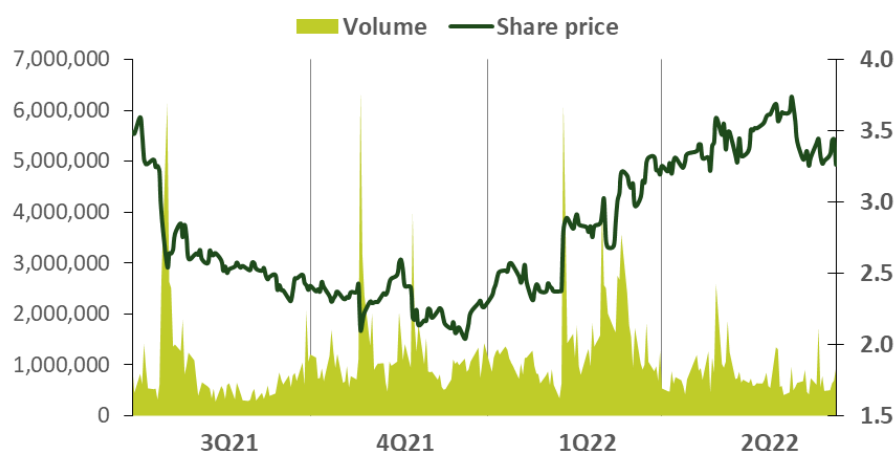
It is important to stress that these measures do not have a negative impact on the forecasts provided at the Capital Markets Day held on 17 March 2022, which, out of precaution, had factored in a similar scenario, specifically assuming electricity prices of €48/MWh from April and no cash inflow as a result of the regulatory collar.

- Both the remuneration for investment and the regulated sale price are subject to a levy on the value of electric energy produced of 7%. That tax has been suspended temporarily since July 2021 and the Company has accordingly reduced its plants' remuneration for operation income.

APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence's share price ended June at €3.26, a gain of 44.1% from year-end 2021. Over the same timeframe, the Company's peers' share prices gained 2.0% on average.



Source: Bloomberg

SHARES	3Q21	4Q21	1Q22	2Q22
Share price at the end of the period	2.38	2.26	3.19	3.26
Market capitalization at the end of the period	587.1	557.6	786.6	803.3
Ence quarterly evolution	(30.4%)	(5.0%)	41.1%	2.1%
Daily average volume (shares)	862,883	1,220,887	1,457,945	793,780
Peers quarterly evolution *	(8.5%)	4.1%	3.3%	(1.0%)

(*) 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 €8.0901 per share (adjusted on 1 July 2022). The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	3Q21	4Q21	1Q22	2Q22
Bond price at the end of the period (ask)	97.96	99.15	100.28	100.20
Yield to worst at the end of the period*	2.208%	1.515%	0.945%	0.947%

*Yield to maturity

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

EBITDA

EBITDA is a metric used in the statements of profit or loss presented in this report, in sections 2.6, 2.7, 3.4 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 other non-operating items that undermine the comparability of the numbers.

EBITDA is an indicator used by management to track the Group'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.

Below is a reconciliation between EBITDA and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
	Unit									
OPERATING PROFIT/(LOSS)	€ m	P&L	44.2	21.6	1.2	67.1	(176.9)	(1.2)	1.6	(176.5)
Depreciation and amortisation charges	€ m	P&L	20.4	20.0	(0.5)	39.9	27.1	18.7	(1.6)	44.3
Depletion of forest reserve	€ m	P&L	4.0	0.0	-	4.0	6.4	0.1	-	6.5
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	1.1	37.0	(0.7)	37.3	189.4	0.3	-	189.7
Other non-recurring items	€ m		0.1	-	-	0.1	(5.0)	-	-	(5.0)
EBITDA	€ m		69.8	78.6	0.0	148.4	41.0	18.0	-	58.9

(*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

OTHER NON-OPERATING ITEMS

Other non-operating items, a metric included in the statements of profit or loss presented in this report, specifically in sections 2.6, 2.7, 3.4 and 4.1, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable.

In the first half of 2022, this heading includes legal expenses related to the Company's defence of its concession in Pontevedra in the amount of €0.1m. In the first half of 2021, it included changes in the provisions derived from the National Court rulings annulling the concession in Pontevedra. More specifically, it included the reversal of the provision accumulated as of the June close to cover the Company's commitments under the Pontevedra Environmental Pact in the amount of €14m; 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.

CASH COST

The production cost per tonne of pulp, or cash cost, is the key measure used by management to measure and benchmark its efficiency as a pulp maker. Cash costs are analysed in section 2.4 of this report.

The cash cost includes all of the costs directly related with the production of pulp. It does not include asset depreciation and amortisation charges, impairment losses on non-current assets and gains or losses on their disposal, other non-operating items, finance income and costs or income tax.

It can be measured as the difference between revenue from the sale of pulp and EBITDA in the Pulp business, adjusted for the settlement of hedges, the effect of the regulatory collar on energy sales and the forest depletion charge. The cash cost is also adjusted for other smaller items of income and expenses which mainly comprise the income from the sale of wood to third parties, provisions for the impairment of receivables, banking charges, long-term staff remuneration and termination benefits and advisory service costs that are not attributable to the biomills.

Below is a reconciliation between the cash cost and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
	Unit									
CASH COST										
Revenue from pulp sales		P&L		338.0				231.6		
EBITDA	€ m	APM		(69.8)				(41.0)		
Total costs (Revenue - EBITDA)				268.1				190.6		
Gains/(losses) on hedging transactions	€ m	P&L		(11.3)				(11.0)		
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF		(14.4)				0.0		
Depletion of forest reserve	€ m	P&L		4.0				6.4		
Other income and expenses	€ m			(3.0)				1.0		
				243.4				187.1		
No. of tonnes sold	Unit			487,059				497,767.0		
TOTAL CASH COST	€/tonne			499.7				375.9		

(*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.4 of this report is a yardstick for the operating profit generated by the Pulp business without taking into account asset depreciation and amortisation charges, impairment losses on non-current assets and gains or losses on their disposal and other non-operating items, adjusted for the settlement of hedges, the effect of the regulatory collar on energy sales and forest depletion charges.

It provides a comparable measure of the business's profitability and is measured as the difference between the average sales price per tonne, calculated by dividing revenue from the sale of pulp by the number of tonnes sold, and the cash cost.

Below is a reconciliation between operating profit per tonne of pulp and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

			First-half 2022				First-half 2021				
		Source Financial Statement (*)	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	
	Unit										
OPERATING PROFIT PER TONNE OF PULP											
Revenue from pulp sales	€ m	P&L	338.0	-	-	338.0	231.6	-	-	231.6	
No. of tonnes sold	Unit		487,059	-	-	487,059	497,767	-	-	497,767	
Average sales price per tonne (Revenue / # tonnes)	€/tonne		693.9	-	-	693.9	465.3	-	-	465.3	
Cash cost (€)	€/tonne	APM	499.7	-	-	499.7	375.9	-	-	375.9	
TOTAL OPERATING PROFIT PER TONNE OF PULP			€/tonne	194.2	-	-	194.2	89.4	-	-	89.4

(*) FP refers to the statement of financial position; P&L refers to the statement of profit or loss; CF refers to the statement of cash flows; and APM refers to other defined alternative performance measures

NET FINANCE COST AND OTHER FINANCIAL ITEMS

Net finance cost and other financial items are included in the statement of profit or loss analysis presented in this report in sections 2.6, 2.7, 3.4 and 4.1. They aggregate the statement of profit or loss headings included in the interim and annual financial statements in order to facilitate their comparison.

Net finance cost encompasses the various items of finance income and finance costs, while other financial items encompasses exchange differences, the change in the fair value of financial instruments and impairment losses on financial instruments and gains or losses on their disposal.

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine these APMs were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Finance income	€ m	P&L	2.2	0.1	(0.7)	1.6	2.7	1.1	(0.6)	3.3
Finance costs	€ m	P&L	(6.7)	(9.3)	0.7	(15.3)	(7.4)	(6.9)	0.6	(13.8)
NET FINANCE COST	€ m		(4.5)	(9.2)	-	(13.7)	(4.7)	(5.8)	-	(10.5)
Change in fair value of financial instruments	€ m	P&L	-	0.3	-	0.3	-	0.2	-	0.2
Exchange differences	€ m	P&L	2.1	(0.1)	-	2.0	1.5	-	-	1.5
Impairment of and gains/(losses) on disposal of financial instruments	€ m	P&L	-	-	-	-	-	-	-	-
OTHER FINANCIAL ITEMS	€ m		2.1	0.2	-	2.3	1.5	0.2	-	1.7
TOTAL NET FINANCE INCOME/(COST)	€ m	P&L	(2.5)	(9.0)	-	(11.4)	(3.2)	(5.6)	-	(8.8)

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

ENCE provides the breakdown of the capital expenditure included in its statement of cash flows for each of its business units in sections 1, 2.7 and 3.5, classifying its investments into the following categories: maintenance capex, efficiency and growth capex, sustainability capex and financial investments.

Ence's technical experts classify its capital expenditure using the following criteria: 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. Financial investments correspond to payments for investments in financial assets.

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.

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Maintenance capex	€ m		(4.5)	(0.9)	-	(5.4)	(5.3)	(2.3)	-	(7.6)
Efficiency and growth capex	€ m		(17.1)	(3.1)	-	(20.2)	(22.4)	(6.6)	-	(29.0)
Sustainability capex	€ m		(3.8)	(0.8)	-	(4.6)	(9.7)	(1.3)	-	(11.0)
Financial assets	€ m	CF	(0.0)	-	-	(0.0)	(0.0)	(0.1)	-	(0.1)
TOTAL PAYMENTS FOR INVESTMENTS	€ m	CF	(25.4)	(4.8)	-	(30.2)	(37.4)	(10.3)	-	(47.7)

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.7 and 3.5 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.3 and also presented in the interim and annual financial statements. However, operating cash flow is arrived at by starting from EBITDA, whereas net cash from operating activities is arrived at by starting from profit before tax. As a result, the adjustments to profit do not coincide in the two calculations. This APM is provided to reconcile EBITDA and operating cash flow.

Below is a reconciliation between operating cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
	Unit									
EBITDA	€ m	APM	69.8	78.6	0.0	148.4	41.0	18.0	-	58.9
Other non-recurring items	€ m		(0.1)	-	-	(0.1)	5.0	-	-	5.0
Adjustments to reconcile profit before tax to net cash flows:										
Changes in provisions and other deferred expense (net)	€ m	CF	(2.4)	0.6	-	(1.8)	(7.9)	3.4	-	(4.5)
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	14.4	12.1	-	26.5	(0.0)	1.2	-	1.2
Grants taken to profit and loss	€ m	CF	(0.3)	(0.1)	-	(0.3)	(0.4)	(0.2)	-	(0.6)
Exchange differences with an impact on cash	€ m		0.4	-	-	0.4	0.1	-	-	0.1
Change in working capital	€ m	CF	(31.2)	34.6	-	3.4	(20.5)	(3.3)	-	(23.8)
Interest paid, net (including right-of-use assets)	€ m	CF	(3.3)	(9.8)	-	(13.1)	(3.9)	(6.3)	-	(10.2)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	(1.9)	(2.5)	-	(4.3)	-	0.3	-	0.3
OPERATING CASH FLOW			45.4	113.6	0.0	158.9	13.4	13.0	-	26.3

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, 3.5 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.

Below is a reconciliation between free cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
	Unit									
Net cash flows from operating activities	€ m	CF	45.4	113.5	-	158.9	13.4	13.0	-	26.3
Net cash flows used in investing activities	€ m	CF	(25.5)	(4.4)	-	(29.9)	(37.0)	(10.3)	-	(47.2)
FREE CASH FLOW	€ m		19.9	109.1	-	129.0	(23.6)	2.7	-	(20.9)

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 3.5 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capex, 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.

Below is a reconciliation between normalised free cash flow and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

		Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
	Unit									
EBITDA	€ m	APM	69.8	78.6	0.0	148.4	41.0	18.0	-	58.9
Changes in working capital:										
Inventories	€ m	CF	8.6	(1.2)	-	7.4	6.3	(6.5)	-	(0.1)
Trade and other receivables	€ m	CF	(23.2)	(1.3)	-	(24.5)	(30.9)	5.4	-	(25.5)
Short-term investments	€ m	CF	0.6	(0.0)	-	0.6	0.1	-	-	0.1
Trade payables, other payables and other liabilities	€ m	CF	(17.3)	37.2	-	19.9	3.9	(2.3)	-	1.7
Maintenance capex	€ m		(4.5)	(0.9)	-	(5.4)	(5.3)	(2.3)	-	(7.6)
Interest paid, net (including right-of-use assets)	€ m	CF	(3.3)	(9.8)	-	(13.1)	(3.9)	(6.3)	-	(10.2)
Income tax paid	€ m	CF	(1.9)	(2.5)	-	(4.3)	-	0.3	-	0.3
NORMALISED FREE CASH FLOW	€ m		28.9	100.1	0.0	129.0	11.3	6.3	-	17.6

NET DEBT/(CASH)

The borrowings recognised on the statement of financial position, 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/(cash) is calculated as the difference between current and non-current borrowings on the liability side of the statement of financial position and the sum of cash and cash equivalents, the debt service cash reserve (included with non-current financial assets) and other financial investments within current assets, as outlined in sections 2.8 and 3.6 of this report.

Net debt/(cash) provides a proxy for the Group's net indebtedness or liquidity and is a metric that is widely used in the capital markets to compare the financial position of different companies.

Below is a reconciliation between net debt/(cash) and the amounts presented in the financial statements for the first half of 2022 and the comparison with the 1H21 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement (*)	First-half 2022				First-half 2021			
			Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
			30 June 2022				31 December 2021			
NET DEBT/(CASH)										
Non-current borrowings:										
Notes and other marketable securities	€ m	FP	-	78.3	-	78.3	125.6	92.1	-	217.7
Bank borrowings	€ m	FP	95.0	55.6	-	150.6	99.3	70.0	-	169.4
Other financial liabilities	€ m	FP	60.5	0.6	-	61.1	64.5	0.7	-	65.2
Current borrowings:										
Notes and other marketable securities	€ m	FP	88.8	-	-	88.8	-	-	-	-
Bank borrowings	€ m	FP	0.5	29.4	-	29.9	6.2	29.4	-	35.6
Other financial liabilities	€ m	FP	10.2	0.5	-	10.7	10.0	0.4	-	10.4
Cash and cash equivalents	€ m	FP	271.7	142.0	-	413.7	318.5	61.5	-	380.0
Current financial assets - Other financial assets	€ m		6.0	-	-	6.0	6.6	-	-	6.6
Debt cash reserve	€ m		-	10.0	-	10.0	-	10.0	-	10.0
NET DEBT/(CASH)	€ m		(22.6)	12.4	-	(10.2)	(19.5)	121.2	-	101.7

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