ENCE Energía y Celulosa, S.A. and subsidiaries

Condensed consolidated interim financial statements for the first half of 2023 prepared under the International Financial Reporting Standards adopted by the European Union and the corresponding Interim Management Report

Interim condensed consolidated financial statements for the first half of 2023

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2023

€ 000	Note	30 June 2023 (*)	31 Dec. 2022 (**)
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	11	-	-
Other intangible assets	11	38.470	37.906
Property, plant and equipment	12	971.348	983.876
Biological assets	14	60.337	60.531
Investments accounted for using the equity method	19	48	40
Non-current financial assets			
Hedging derivatives	19 & 25	2.133	3.331
Other financial assets	19 & 22.2	41.528	32.816
Deferred tax assets	27	57.401	52.989
		1.171.265	**1.171.489**
CURRENT ASSETS:			
Inventories	16	104.848	102.346
Trade and other receivables	19 & 20	50.146	49.623
Other taxes receivable	27	24.543	21.010
Income tax receivable	27	22.473	8.028
Current financial assets			
Loans to group companies and related parties	19 & 29	36	36
Hedging derivatives	19 & 25	4.886	2.579
Other financial assets	19 & 22.2	3.447	9.898
Cash and cash equivalents	19 & 22.1	364.399	412.913
Other current assets	24	8.984	2.282
		583.762	**608.715**
TOTAL ASSETS		**1.755.027**	**1.780.204**
EQUITY:			
Share capital	17.1	221.645	221.645
Share premium		170.776	170.776
Reserves	17.2	137.401	93.918
Interim dividend	18	-	(66.553)
Translation differences		(33)	1
Own shares - parent company shares	17.3	(12.924)	(12.958)
Valuation adjustments	17.4	44.052	42.998
Other equity instruments	17.5	1.358	3.753
Profit/(loss) for the year attributable to owners of the parent		(4.169)	247.220
Equity attributable to owners of the parent		**558.106**	**700.800**
Non-controlling interests	17.6	**118.478**	**117.236**
TOTAL EQUITY		**676.584**	**818.036**
NON-CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	19 & 23	78.568	78.436
Bank borrowings	19 & 23	324.190	130.414
Other financial liabilities	19 & 23	76.261	77.257
Derivative financial instruments	19 & 25	50	-
Grants		10.034	6.408
Non-current provisions	26	28.997	27.983
Non-current accruals and deferred income		2.738	3.241
Other non-current liabilities	24	100.370	104.342
Non-current borrowings from group companies and related parties	19 & 29	17.843	17.843
		639.051	**445.924**
CURRENT LIABILITIES:			
Borrowings			
Notes and other marketable securities	19 & 23	-	63.300
Bank borrowings	19 & 23	96.049	35.776
Other financial liabilities	19 & 23	12.419	12.016
Derivative financial instruments	19 & 25	3	358
Current borrowings from group companies and related parties	19 & 29	254	363
Trade and other payables	19 & 21	274.692	345.942
Income tax payable	27	942	13
Other taxes payable	27	9.195	8.784
Other current liabilities	24	7.147	6.892
Current provisions	27	38.691	42.800
		439.392	**516.244**
TOTAL EQUITY AND LIABILITIES		**1.755.027**	**1.780.204**

The accompanying notes 1 to 31 and the Appendix are an integral part of the condensed consolidated statement of financial position at 30 June 2023.

(*) Unaudited figures

(**) The consolidated statement of financial position at 31 December 2022 is presented exclusively for comparative purposes.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2023

€ 000	Note	First-half 2023 (*)	First-half 2022 (**)
Continuing operations:			
Revenue	5	458.813	553.686
Gains/(losses) on hedging transactions	25	(730)	(11.313)
Changes in inventories of finished goods and work in progress	16	(2.441)	(8.964)
Self-constructed assets	12 & 14	6.613	4.153
Other operating income		5.503	2.031
Grants taken to profit and loss		5.361	5.217
Operating income		473.119	544.810
Cost of goods sold	6	(222.150)	(223.520)
Employee benefits expense	7	(53.325)	(45.296)
Depreciation and amortisation charges	11 & 12	(42.950)	(39.906)
Depletion of forest reserve	14	(5.033)	(3.978)
Impairment of and gains/(losses) on disposal of fixed assets	15	(251)	(37.321)
Impairment of financial assets		(681)	(43)
Other operating expenses	8	(138.119)	(127.696)
Operating expenses		(462.509)	(477.760)
OPERATING PROFIT		**10.610**	**67.050**
Finance income	9	1.981	1.632
Finance costs	9	(14.938)	(15.345)
Change in fair value of financial instruments	25.2	-	317
Exchange gains/(losses)		(457)	2.041
NET FINANCE COST		**(13.414)**	**(11.355)**
Share of profit/(loss) of entities accounted for using the equity method		2	(44)
PROFIT/(LOSS) BEFORE TAX		**(2.802)**	**55.651**
Income tax	27	4.025	(8.736)
PROFIT/(LOSS) FOR PERIOD FROM CONTINUING OPERATIONS		**1.223**	**46.915**
CONSOLIDATED PROFIT FOR THE PERIOD		**1.223**	**46.915**
Profit/(loss) for the period from continuing operations attributable to non-controlling i	17.6	(5.392)	(2.218)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (***)		**(4.169)**	**44.697**
Profit/(loss) per share attributable to equity holders of the parent		**€/share**	
Basic	10	**(0,02)**	**0,18**
Diluted	10	**(0,02)**	**0,18**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of profit or loss for the six months ended 30 June 2023

(*) Unaudited figures
(**) Unaudited figures. The condensed consolidated statement of profit or loss for the six months ended 30 June 2022 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 2023

€ 000	Note	First-half 2023 (*)	First-half 2022 (**)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (****)		**1.223**	**46.915**
Profit/(loss) recognised directly in consolidated equity			
- Cash flow hedges (***)		2.081	(7.523)
- Translation differences (***)		(34)	(12)
- Tax effect		(520)	1.881
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY	17	**1.527**	**(5.654)**
Expense / (income) reclassified to profit or loss			
- Cash flow hedges (***)		(805)	12.349
- Tax effect		201	(3.088)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS	17	**(604)**	**9.261**
TOTAL COMPREHENSIVE INCOME		**2.146**	**50.522**
Attributable to:			
Equity holders of the parent		**(3.246)**	**48.304**
Non-controlling interests		**5.392**	**2.218**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2023

(*) Unaudited figures

(**) Unaudited figures. The condensed consolidated statement of comprehensive income for the six months ended 30 June 2022 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 2023

€ 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 equity holders of the parent**	Non-controlling interests	**Total equity**
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**
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**
Balance at 31 December 2022	221.645	(12.958)	170.776	93.918	(66.553)	247.220	1	42.998	3.753	**700.800**	117.236	**818.036**
Total recognised income/(expense)	-	-	-	-	-	(4.169)	(34)	957	-	**(3.246)**	5.392	**2.146**
Appropriation of prior-year profit/(loss)	-	-	-	40.058	136.857	(176.915)	-	-	-	**-**	-	**-**
Dividends distributed	-	-	-	-	(70.304)	(70.305)	-	-	-	**(140.609)**	(4.054)	**(144.663)**
Trading in own shares	-	34	-	278	-	-	-	-	-	**312**	-	**312**
Non-controlling interests, transfers and other movemer	-	-	-	3.147	-	-	-	97	(2.395)	**849**	(96)	**753**
Balance at 30 June 2023 (*)	**221.645**	**(12.924)**	**170.776**	**137.401**	**-**	**(4.169)**	**(33)**	**44.052**	**1.358**	**558.106**	**118.478**	**676.584**

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2023

(*) Unaudited figures

(**) Unaudited figures. The condensed consolidated statement of changes in equity for the six months ended 30 June 2022 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 2023

€ 000	Note	First-half 2023 (*)	First-half 2022 (**)
OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		(2.802)	55.651
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	11 & 12	42.950	39.906
Depletion of forest reserve	14	5.033	3.978
Changes in provisions and other deferred expense (net)		16.231	5.171
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial assets	15	306	37.321
Adjustments for tariff shortfall/surplus and sector regulations	5	(10.557)	26.498
Finance income and costs (net)	9	12.900	11.754
Accrual of fixed costs		(1.563)	(6.998)
Grants taken to profit and loss		(463)	(325)
		64.837	**117.305**
Change in working capital			
Inventories	16	(15.661)	7.369
Trade and other receivables	20	(14.299)	(24.515)
Financial and other current assets	22	821	626
Trade payables, other payables and other liabilities	21	(76.663)	19.904
		(105.802)	**3.384**
Other cash flows used in operating activities			
Interest paid, net (including right-of-use assets)		(10.896)	(13.095)
Income tax received/(paid)	27	(14.081)	(4.344)
		(24.977)	**(17.439)**
Net cash flows (used in)/from operating activities		**(68.744)**	**158.901**
INVESTING ACTIVITIES:			
Payments for investments:			
Property, plant and equipment and biological assets	12 & 14	(27.169)	(28.499)
Intangible assets	11	(2.768)	(1.744)
Financial assets		579	(28)
		(29.358)	**(30.271)**
Proceeds from disposals:			
Property, plant and equipment	12	(79)	3
Financial assets		-	380
		(79)	**383**
Net cash flows used in investing activities		**(29.437)**	**(29.888)**
FINANCING ACTIVITIES:			
Proceeds from/(payments for) equity instruments:			
Transactions with non-controlling interests		5.630	-
Buyback of own equity instruments	17.3	(34.068)	(26.997)
Disposal of own equity instruments	17.3	34.380	28.385
		5.942	**1.388**
Proceeds from/(repayments of) financial liabilities:			
Notes (net of arrangement fees)	23	(63.301)	(53.432)
Increase/(decrease) in bank borrowings, net of issuance costs	23	252.575	(24.790)
Increase/(decrease) in other borrowings	23	(2.259)	(3.976)
Payments for right-of-use assets	13	(3.318)	(2.756)
Grants received, net		636	1.377
		184.333	**(83.577)**
Dividend payments			
Dividends paid to ENCE shareholders	18	(140.608)	(13.119)
		(140.608)	**(13.119)**
Net cash flows from/(used in) financing activities		**49.667**	**(95.308)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(48.514)**	**33.705**
Cash and cash equivalents - opening balance	22.1	412.913	379.964
Cash and cash equivalents - closing balance	22.1	364.399	413.669

The accompanying notes 1 to 31 and Appendix are an integral part of the condensed consolidated statement of cash flows for the six months ended 30 June 2023

(*) Unaudited figures

(**) Unaudited figures. The condensed consolidated statement of cash flows for the six months ended 30 June 2022 is presented exclusively for comparison purposes

Notes to the interim condensed consolidated financial statements for the first half of 2023

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the interim condensed consolidated financial statements for the first half of 2023

1. Group business activity, basis of preparation and scope of consolidation of the interim condensed consolidated 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 60,871 hectares of forest in Spain, 43,207 hectares of which it owns.

RENEWABLES BUSINESS

Biomass

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 2023. ENCE also plans to continue to develop new photovoltaic solar power projects in order to increase its diversification in renewable energy technologies.

Photovoltaic solar power

The Magnon Group is developing a pipeline of 373 MW of photovoltaic facilities in Jaen, Huelva, Seville and Granada.

In December 2021, Magnon Green Energy, S.L. agreed to sell that pipeline to a third party for approximately €62 million.

The sale of one of the developments, with capacity of 100 MW, closed in the first half of 2023 for €30.2 million. The proceeds have been recognised under "Revenue" in the consolidated statement of profit or loss; the sale generated a gain of €23.1 million. In addition, in July 2023, the sale of the Lepe 40 MW project was completed for a price €7.4 million, generating a capital gain of €4 million. The sale of the other two assets is expected to close between the second half of 2023 and 2024. Elsewhere, the buyer has decided not to buy one of the assets, located in Huelva, with capacity of 10 MW.

Biogas

In 2022, the Group began to develop the business of producing renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network, by arranging permits for a range of projects. During the first half of 2023, Ence Biogás, S.L., an ENCE Group subsidiary, awarded the mandate for the conceptual engineering work for six biomethane plants in Spain, which are expected to be commissioned between the end of 2025 and 2026.

Ence Biogas is planning to develop 20 biomethane plants in the next five years with the capacity to supply over 1TWh of biomethane a year, and already has a portfolio of 15 under development in Spain, including the six mentioned above.

Industrial heat

In 2023, ENCE began to operate biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities, which can in turn reduce the cost of their GHG emissions.

Other:

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 interim condensed consolidated financial statements under the IFRS adopted by the European Union

The accompanying interim condensed consolidated 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 2023 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 annual consolidated financial statements under IFRS. Accordingly, for adequate reader comprehension, the information included in these interim condensed consolidated financial statements should be read in conjunction with the Group's 2022 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 5 May 2023 and are available for consultation at www.ence.es.

The accompanying interim condensed consolidated financial statements were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 27 July 2023.

1.3. Accounting policies applied and basis of consolidation

In drawing up the accompanying interim condensed consolidated financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2022 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 interim condensed consolidated financial statements in respect of the first half of 2022 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2023. In the case of the consolidated statement of financial position, the comparative data correspond to 31 December 2022.

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 2023 and 2022.

1.5. Key IFRS-related decisions

In determining the information to be disclosed in the explanatory notes for the various headings of the interim condensed consolidated 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 2023, Ence Energía y Celulosa, S.A. incorporated two wholly-owned subsidiaries: Ence Renovables, S.L.U., as the holding company for the Group's renewable energy business; and Biofibras de Galicia, S.L.U., to produce cellulose pulp from recovered paper and board.

Elsewhere, Ence Servicios Corporativos, S.L.U. changed its name to Ence CO2, S.L.U. (and is currently dormant), and Ancen Solar VI, S.L.U. changed its name to Magnon Servicios Energéticos, S.L.U. (this is the company that will operate biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities).

In the first half of 2023, the Parent also incorporated Ence Biomasa, S.L.U., Ence PV, S.L.U. and Ence Servicios Energéticos, S.L.U., all of which are currently inactive.

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 2022, 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 2023:

Standard	Contents
New standards – *Applicable from 1 January 2023:*	
IFRS 17 - Insurance contracts	This replaces IFRS 4 and sets out the recognition, measurement, presentation and disclosure rules for insurance contracts to ensure that an entity provides relevant and reliable financial information on the effect of insurance contracts on the financial statements.
Amendments and/or interpretations: *Applicable from 1 January 2023:*	
Amendments to IAS 1 *Disclosure of accounting policies.*	Amendments designed to provide guidance on the application of materiality judgements to accounting policy disclosures.
Amendments to IAS 8 *Definition of an accounting estimate.*	Modification and clarifications as to what constitutes a change in accounting estimate.
Amendments to IAS 12 *Deferred tax related to assets and liabilities arising from a single transaction*	Clarification as to when entities should recognise the deferred tax related to assets and liabilities on transactions such as leases and decommissioning obligations.
Amendments to IFRS 17 Insurance contracts - Initial application of IFRS 17 and IFRS 9. Comparative information	Changes to the transition requirements under IFRS 17 for insurers applying IFRS 17 and IFRS 9 for the first time at the same time.

The amendments to IAS 12 regarding the recognition of deferred tax on assets and liabilities arising from a single transaction implied the recognition of a deferred tax asset and a deferred tax liability related to the recognition at the commencement of the lease of a finance lease liability and a right-of-use asset under IFRS 16. The first-time application of these amendments at the start of the comparative period, i.e., 1 January 2022, implied the recognition of a deferred tax asset in the amount of €7,693 thousand and a deferred tax liability in the amount of €7,795 thousand (note 27). The cumulative impact of the first-time application of these amendments to IAS 12 are recognised in the Group's consolidated reserves.

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:	
Amendments to IAS 12 - International Tax Reform - Pillar Two Model Rules	These amendments introduce a mandatory temporary exception to the accounting for deferred taxes under IAS 12 arising from the jurisdictional implementation of the Pillar Two model rules. They also introduce additional disclosure requirements.
Amendments and/or interpretations applicable from 1 January 2024:	
Amendments to IAS 1 - Non-current liabilities with covenants	These amendments clarify aspects of how entities classify liabilities as current or non-current; in particular, how an entity makes that distinction when settlement is subject to compliance with covenants.
Amendments to IFRS 16 - Lease liability in a sale and leaseback	These amendments clarify the subsequent measurement of lease liabilities arising from sale and leaseback transactions.
Amendments to IAS 7 and IFRS 7 - Supplier finance agreements	These amendments introduce specific disclosure requirements for supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

Application of these amendments is not expected to have a significant impact on the Group as they will be applied prospectively, modify presentation or disclosure requirements only and/or address matters that are not applicable or not material to the Group's operations.

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 2022.

The accounting policies and transactions entailing assumptions and estimates that have a material impact on these condensed consolidated financial statements are the following (for further information, refer to note 4 of ENCE's annual consolidated financial statements for 2022):

- Control over the Renewables 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 assets.
- Revenue from energy sales Regulated activity settlement.
- Provisions for liabilities and charges.
- Calculation of income tax and recognition of deferred tax assets.
- Climate change.

These assumptions and estimates are made considering historical experience, the information provided by expert consultants, forecasts and other circumstances and expectations as at 30 June 2023. It is possible, however, that events or circumstances arising after issuance of this financial report could oblige the Group to revise its assumptions and estimates (in either direction). The effect of any change in estimates would be recognised prospectively in the statement of profit or loss for the year in which they are changed.

4. 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.

Renewables:

This business line encompasses the following reportable segments:

- Biomass: includes the plants that generate and sell electric power from renewable sources, specifically agricultural and forestry biomass; they are developed and operated independently. Operational renewable power-generating capacity currently stands at 266 MW.
- Biogas: the production of renewable gas, specifically biomethane, made from farming and breeding by-products, for injection into the natural gas network.

- Industrial heat: the operation of biomass furnaces to replace equipment fuelled by fossil fuels in industrial facilities, which can in turn reduce the cost of their GHG emissions.

The biogas and industrial heat activities are currently under development and their financial metrics are scantly material so that they are included as a single operating segment together with biomass for reporting purposes.

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 2023 and 31 December 2022 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 Renewables businesses.

4.1 Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2023 and 2022, based on the management information reviewed regularly by senior management:

	€ 000						
	PULP business						
First-half 2023	Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	Renewables business	Adjustments & Eliminations	Total
Revenue:							
Third parties	332.359	769	-	333.128	125.685	-	458.813
Inter-segment revenue	1.408	9.268	(8.687)	1.989	-	(1.989)	-
Total revenue	**333.767**	**10.037**	**(8.687)**	**335.117**	**125.685**	**(1.989)**	**458.813**
Earnings:							
EBITDA (*)	**27.601**	**6.203**	**-**	**33.804**	**31.614**	**2**	**65.420**
Operating profit/(loss)	**(4.729)**	**203**	**-**	**(4.526)**	**14.326**	**810**	**10.610**
Finance income	1.939	5	(85)	1.859	456	(334)	1.981
Finance costs	(8.382)	(83)	85	(8.380)	(6.892)	334	(14.938)
Hedging derivatives	-	-	-	-	-	-	-
Exchange gains/(losses)	(453)	(4)	-	(457)	-	-	(457)
Impairment of financial instruments	-	-	-	-	-	-	-
Share of profit/(loss) of investees accounting for using equity method	-	2	-	2	-	-	2
Income tax	2.928	(31)	-	2.897	1.200	(72)	4.025
Profit/(loss) for the period	**(8.697)**	**92**	**-**	**(8.605)**	**9.090**	**738**	**1.223**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	(1.195)	(4.197)	(5.392)
Profit/(loss) attributable to equity holders of the parent	**(8.697)**	**92**	**-**	**(8.605)**	**7.895**	**(3.459)**	**(4.169)**
Capital expenditure (**)	26.248	5.725	-	31.973	2.705	-	34.678
Accumulated depreciation and depletion of forest reserves (**)	(920.026)	(72.633)	-	(992.659)	(327.632)	(14.295)	(1.334.586)
Impairment (**)	(7.153)	(3.891)	-	(11.044)	(38.418)	(84)	(49.546)

(*) 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 2023 EARNINGS REPORT" appended to the Interim Consolidated Management Report for the six months ended 30 June 2023.

(**) Acquisitions during the first half of 2023, accumulated depreciation and depletion of forest reserves and impairment of the assets included under "Property, plant and equipment", "Intangible assets" and "Biological assets". Does not include the balances corresponding to "Right-of-use assets" (note 13) or "Goodwill" (note 11).

30 June 2023	€ 000 PULP business Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	Renewables business & segment	Adjustments & Eliminations	Total
Assets							
Non-current	776.657	167.923	(110.889)	833.691	432.519	(152.346)	1.113.864
Current	478.035	7.455	(4.991)	480.499	106.015	(2.752)	583.762
Total assets (a)	**1.254.692**	**175.378**	**(115.880)**	**1.314.190**	**538.534**	**(155.098)**	**1.697.626**
Liabilities							
Non-current	431.080	17.666	(11.399)	437.347	221.104	(19.400)	639.051
Current	334.049	8.139	(4.805)	337.383	104.750	(2.741)	439.392
Total liabilities (a)	**765.129**	**25.805**	**(16.204)**	**774.730**	**325.854**	**(22.141)**	**1.078.443**

(a) Does not include either equity or deferred tax assets/liabilities.

First-half 2022	€ 000 PULP business Pulp	Forest Assets & Other	Adjustments & Eliminations	Total PULP	RENEWABLES Business & Segment	Adjustments & Eliminations	Total
Revenue:							
Third parties	1.150	5.439	(5.162)	1.427	111	(1.538)	-
Inter-segment revenue	378.850	6.310	(5.162)	379.998	175.226	(1.538)	553.686
Total revenue	**380.000**	**11.749**	**(10.324)**	**381.425**	**175.337**	**(3.076)**	**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 gains/(losses)	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 equity holders of the parent	**41.216**	**(830)**	**-**	**40.386**	**6.357**	**(2.046)**	**44.697**
Capital expenditure (**)	16.780	3.277	-	20.057	5.170	-	25.227
Accumulated depreciation and depletion of forest reserves (**)	(870.536)	(69.480)	-	(940.016)	(291.502)	(29.219)	(1.260.737)
Impairment (**)	(193.132)	(5.645)	-	(198.777)	(36.215)	(2.957)	(237.949)

(*) 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.

(**) Acquisitions during the first half of 2022, accumulated depreciation and depletion of forest reserves and impairment of the assets included under "Property, plant and equipment", "Intangible assets" and "Biological assets". Does not include the balances corresponding to "Right-of-use assets" (note 13) or "Goodwill" (note 11).

30 June 2022	€ 000 PULP business Pulp	Forest Assets & Other	Adjustments & Eliminations	Total Pulp	RENEWABLES Business & Segment	Adjustments & Eliminations	Total
Assets							
Non-current	619.314	164.254	(111.675)	671.893	456.828	(172.529)	956.192
Current	441.596	5.808	(2.948)	444.456	189.127	(12.722)	620.861
Total assets (a)	**1.060.910**	**170.062**	**(114.623)**	**1.116.349**	**645.955**	**(185.251)**	**1.577.053**
Liabilities							
Non-current	242.379	16.363	(10.249)	248.493	283.622	(38.362)	493.753
Current	320.223	5.420	(2.791)	322.852	157.699	(12.722)	467.829
Total liabilities (a)	**562.602**	**21.783**	**(13.040)**	**571.345**	**441.321**	**(51.084)**	**961.582**

(a) Does not include either equity or deferred tax assets/liabilities.

5. 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 2023 and 2022 is as follows:

€ 000	First half 2023 Pulp	Renewables	Consol. Group	First half 2022 Pulp	Renewables	Consol. Group
Business metrics						
Pulp sales volume (tonnes)	461.493	-	461.493	487.059	-	487.059
Energy sales volume (MWh) (**)	108.390	555.753	664.143	222.494	823.125	1.045.619
Revenue						
Pulp	306.621	-	306.621	337.961	-	337.961
Electric energy	16.192	95.706	111.898	35.836	174.841	210.677
Timber and forestry services	10.954	29.979	40.294	4.663	385	5.048
Inter-segment sales	1.350	-	-	1.538	0	-
	335.117	**125.685**	**458.813**	**379.998**	**175.226**	**553.686**

(*) The difference between the figures presented under “Consolidated Group” for the first halves of 2023 and 2022 and the addition of the figures corresponding to the “Pulp” and “Renewables” businesses corresponds to the elimination of transactions performed between these business segments in the two interim reporting periods in the amounts of €1,989 thousand and €1,538 thousand, respectively.

The accounting treatment of the adjustment for tariff shortfalls/surpluses (“Tariff Adjustment”) in the first half of 2023 implied an increase in revenue from the sale of renewable energy of €7,111 thousand (1H22: a reduction of €31,080 thousand) with a balancing entry under “Other non-current assets” in the consolidated statement of financial position (note 24).

The criteria used to recognise the Tariff Adjustment were the same in both reporting periods. The Group continues to believe that removing the facilities that are included under the renewable remuneration regime from that regime would be more adverse that remaining under its scope.

5.1 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 2023 and 2022 is as follows:

Percentage of pulp sales	1H23	1H22
Germany	21,8	23,2
Spain	14,0	16,0
Poland	15,3	12,8
Italy	6,3	10,4
Greece	5,7	3,6
UK	5,5	6,2
Turkey	4,6	3,4
France	4,0	4,8
Sweden	3,7	4,0
Netherlands	3,5	3,2
Austria	3,2	2,4
Romania	2,6	1,8
Other	9,8	8,3
	100,0	**100,0**

(*) Breakdown considering place of delivery

During the first six months of 2023, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €80 million (1H22: €102 million).

5.2 Energy sector regulations

The first half of 2023 was marked by intense regulatory activity, with some of the new regulations published in draft or bill form. The draft of the Royal Decree implementing the so-called renewable energy communities and citizen energy communities was published on 20 April 2023 and the draft Ministerial Order establishing the methodology for updating the remuneration for operations parameter for facilities whose operating costs depend essentially on the price of their fuel was published on 25 April 2023.

Royal Decree-Law 5/2023 was published on 28 June 2023, adopting and extending certain measures (i) in response to the economic and social consequences of the war in Ukraine and in support of the reconstruction of La Palma and other situations of vulnerability; (ii) to transpose the European Union directives relating to certain aspects of company law and work-life balance for parents and carers into Spanish law; and (iii) to execute and comply with European Union Law (“RDL 5/2023”).

In addition, the Ministerial Order updating the standard facility remuneration parameters applicable to certain electricity-producing facilities that use renewable energy sources, co-generation or waste with effect for the regulatory stub period which began on 1 January 2023, was published on 30 June 2023 (the “2023 Parameters Order").

RDL 5/2023 adopts a range of measures applicable to the facilities included in the specific remuneration regime regulated in Royal Decree 413/2014, notably including:

- Establishment of the regulatory pool price for 2023-2025 at €109.31/MWh in 2023, €108.86/MWh in 2024 and €89.37/MWh in 2025.
- For the calculation of the Tariff Adjustment for 2023, applicable in the update of the remuneration parameters for the regulatory stub period beginning on 1 January 2026, the use of the weighted average of the basket of electricity market prices for 2023, which will be the lower of the latter, as defined in article 22 of RD 413/2014, and the annual average daily and intraday prices for 2023.

- The inclusion of provisions for the update of the remuneration for operations parameter for standard facilities whose operating costs depend essentially on their fuel price for the first and second halves of 2023.

Meanwhile, the 2023 Parameters Order updated the remuneration parameters for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025, revising the estimates for standard revenue from the sale of electricity in the market and the remuneration parameters directly related with the latter, and, for standard facilities whose operating costs depend essentially on the price of their fuel, revising the trend in the related fuel costs, notably yielding:

- regulatory pool prices of €109.31/MWh in 2023, €108.86/MWh in 2024 and €89.37/MWh in 2025.
- Biomass prices and operating costs have been updated by 1%.
- The Order also itemises the net asset value at 1 January 2023 and future remuneration for investment for each facility.
- It publishes the remuneration for operations amounts for the first half of 2023, which are zero in the case of all of the Group's facilities except for the gas co-generation plant in Cordoba, which has been awarded remuneration for operation of €286.08/MWh.

The draft Order establishing the remuneration for operations values corresponding to the second six months of 2023 applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste was published on 30 June 2023. It publishes the remuneration for operations amounts for the second half of 2023, which are zero in the case of all of the Group's facilities except for the gas co-generation plant in Cordoba, which has been awarded remuneration for operation of €84.39/MWh.

The table below itemises the net asset values and remuneration for investment and remuneration for operations values applicable to the facilities managed by ENCE in 2023 as per the latest parameters approved in the 2023 Parameters Order:

			2023		
Instalación	**IT**	**Vida Regulatoria**	**Ro (€/MWh)**	**Rinv (Miles €)**	**VNA (Miles €)**
Negocio Energía-					
Huelva - 50 MW	IT-00841	2037	-	7.739	73.799
Huelva - 41 MW	IT-00829 / IT-00832	2025	-	597	3.771
Mérida - 20 MW	IT-00843	2039	-	3.683	37.504
Jaén - 16 MW	IT-00831 / IT-00855	2027	-	918	4.382
Ciudad Real - 16 MW	IT-00831 / IT-00855	2027	-	918	4.382
Córdoba - 14 MW - Biomasa	IT-00859	2031	-	1.251	8.921
Córdoba - 13 MW - Gas		2030	286	-	-
Puertollano biomasa- 50 MW	IT-04005	2044	-	-	-
Huelva 46 MW	IT-04005	2044	-	-	-
Negocio Celulosa-					
Navia - 37 MW	IT-00838	2034	-	3.980	33.711
Navia - 40 MW	IT-01035	2034	-	-	-
Pontevedra - 35 MW	IT-00836-7 / IT-01035	2033	-	757	6.182

The surplus between the regulatory pool price and standard operating costs triggers a negative adjustment to a facility's NAV and, by extension, to its future remuneration for investment parameters. Under prevailing accounting rules, and in contrast to the criteria applicable to the Tariff Adjustment, that adjustment does not trigger the recognition of a liability.

6. Cost of sales

Cost of sales in the first six months of 2023 and 2022 breaks down as follows:

€ 000	First half 2023			First half 2022		
	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
Purchases	166.722	34.191	200.094	143.107	40.869	184.292
Change in raw materials and other inventories	(5.356)	(6.200)	(11.556)	4.267	2.058	6.325
Other external expenses	22.182	12.601	33.612	22.433	12.324	32.903
	183.548	**40.592**	**222.150**	**169.807**	**55.251**	**223.520**

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in the two interim reporting periods in the amounts of €1,990 thousand and €1,538 thousand, respectively.

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

7. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in the first six months of 2023 and 2022 is provided below:

€ 000	First half 2023			First half 2022		
	Pulp	Renewables	Consolidated Group	Pulp	Renewables	Consolidated Group
Wages and salaries	31.908	7.480	39.388	26.745	6.680	33.425
Social security	8.209	1.942	10.151	7.149	1.631	8.780
Contributions to pension plans	1.085	183	1.268	990	155	1.145
Other benefit expense	671	91	762	541	82	623
	41.873	9.696	51.569	35.425	8.548	43.973
Long-term remuneration plans	1.228	20	1.248	177	53	230
Termination benefits	163	345	508	1.091	2	1.093
	43.264	**10.061**	**53.325**	**36.693**	**8.603**	**45.296**

7.1 Headcount

The average Group headcount during the first six months of 2023 and 2022:

	Average headcount during the period					
	First half 2023			First half 2022		
Job category	Men	Women	Total	Men	Women	Total
Officers	57	16	73	50	14	64
Managers	67	26	93	58	23	81
Team leaders	68	5	73	68	5	73
Skilled professionals	211	139	350	192	117	309
Clerical staff	14	37	51	16	39	55
Operators	286	42	328	287	31	318
Support and upgrade staff	46	44	90	47	49	96
Maintenance staff	131	3	134	129	2	131
	880	**312**	**1.192**	**847**	**280**	**1.127**

The Board of Directors was made up of 13 directors at 30 June 2023, eight men and five women.

7.2 Long-term remuneration plans

2023-2027 long-term incentive plan

At the Annual General Meeting held on 5 May 2023, the Parent's directors approved the "2023-2027 long-term incentive plan" for executive, including the Company's Chairman & CEO, and other Group employees (the "LTIP"). The LTIP entitles the beneficiaries to receive, following the passage of a specific period of time, an incentive payable in a combination of ENCE shares and cash, insofar as certain multi-year targets are met, along with the other requirements contemplated in the LTIP Rules.

The LTIP's initial potential beneficiaries include the Company's top executives and other key management personnel who, either on account of their duties or background, have the ability to directly influence the outcome of the Group's business plans. The LTIP will run for five years, from 1 January 2023 to 31 December 2027 divided into three overlapping, independent three-year cycles to be settled within the 90 days following the last year of each cycle. The specific number of ENCE shares, within the established ceiling, to be delivered to the LTIP beneficiaries at the end of each cycle, will depend on the degree of delivery of a series of financial, non-financial and shareholder value creation targets.

Cycle I of the LTIP represents 60% of the total incentive and cycles II and III each represent 20% of the total incentive.

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

The bonus payment contemplated consists of a percentage of average annual fixed remuneration during each cycle depending on the professional category of the beneficiary and will vest depending on delivery of a series of targets established for each cycle.

In the case of the members of the Management Committee, including the Chairman & CEO, 100% of the incentive will be settled in ENCE shares. For all other beneficiaries, 70% of the incentive will be settled in ENCE shares and the remaining 30% will be settled in cash. The number of shares to be delivered will be determined using a benchmark share price calculated as the average share price during the 20 days before and after 31 December in the first year of each cycle. The benchmark price for cycle I is €2.92 per share.

At 30 June 2023, the LTIP covered a total of 87 professionals from the Pulp business and the maximum expected cost of cycle I, assuming delivery levels of 100%, amounted to €11,455 thousand.

The expense / (income) accrued in this respect in the first six months of 2023, broken down by counterbalancing entry, is shown in the table below:

€ 000	30/06/2023
Other equity instruments (note 17.5)	888
Current and non-current provisions (note 26)	176
	1.064

2019-2023 long-term incentive plan

At 30 June 2023, this LTIP covered a total of 75 professionals from the Pulp business and the maximum expected cost, assuming delivery levels of 100%, amounted to €9,595 thousand.

The expense / (income) accrued in this respect in the first six months of 2023, broken down by counterbalancing entry, is shown in the table below:

€ 000	30/06/2023
Other equity instruments (note 17.5)	115
Current and non-current provisions (note 26)	49
	164

2021-2025 long-term incentive plan

At 30 June 2023, the Renewables' LTIP covered a total of 30 professionals from that business, and the maximum expected cost, assuming delivery levels of 100%, amounted to €3,276 thousand.

The Group accrued €20 thousand of expense in respect of this plan in the first half of 2023 (€53 thousand in 1H22); that expense has been recognised under "Non-current provisions" in the accompanying consolidated statement of financial position (note 26).

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.

8. Other operating expenses

The breakdown of this heading of the condensed consolidated statement of profit or loss for the six months ended 30 June 2023 and 2022 by ENCE's business lines:

€ 000	First half 2023 Pulp	First half 2023 Renewables	First half 2023 Consolidated Group	First half 2022 Pulp	First half 2022 Renewables	First half 2022 Consolidated Group
External services	86.333	36.202	121.909	85.855	33.187	118.501
Use of emission allowances	3.994	2.541	6.535	4.026	1.797	5.823
Taxes other than income tax	1.552	1.100	2.652	1.448	1.524	2.972
Electricity generation levy	-	-	-	-	-	-
Change in trade and other provisions	378	69	447	236	43	279
Other non-recurring operating expenses (note 15)	6.576	-	6.576	121	-	121
	98.833	**39.912**	**138.119**	**91.686**	**36.551**	**127.696**

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in the two interim reporting periods in the amounts of €626 thousand and €541 thousand, respectively.

8.1 External services

The breakdown of "External services" in the first six months of 2023 and 2022 is as follows:

€ 000	First half 2023 Pulp	First half 2023 Renewables	First half 2023 Consolidated Group	First half 2022 Pulp	First half 2022 Renewables	First half 2022 Consolidated Group
Transport, freight and business expenses	33.645	2.163	35.808	32.275	594	32.869
Utilities	9.097	2.597	11.598	31.202	3.974	35.132
Repairs and upkeep	9.864	9.751	19.615	10.785	10.273	21.058
Independent professional services	3.516	700	4.216	2.045	697	2.742
Insurance premiums	2.566	1.763	4.329	2.283	1.778	4.061
Banking and similar services	660	183	843	732	384	1.116
Rent and fees	337	107	444	246	69	315
Advertising, publicity and public relations	1.697	4	1.701	501	17	518
Research and development costs	63	-	63	49	-	49
Other services	24.888	18.934	43.292	5.737	15.401	20.641
	86.333	**36.202**	**121.909**	**85.855**	**33.187**	**118.501**

(*) The difference between the figures presented under "Consolidated Group" for the first halves of 2023 and 2022 and the addition of the figures corresponding to the "Pulp" and "Renewables" businesses corresponds to the elimination of transactions performed between these business segments in the two interim reporting periods in the amounts of €626 thousand and €541 thousand, respectively.

In 2023, the biomills comprising the Pulp business signed up for the electricity self-consumption and surplus sale mechanism which had the effect of reducing the sale and purchase of energy with respect to prior years.

ENCE has arranged civil 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 2023.

8.2 Services provided by the auditor

The only non-audit services provided by the statutory auditor during the first half of 2023 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".

9. Finance income and costs

The breakdown of these headings of the consolidated statement of profit or loss in the first six months of 2023 and 2022 was as follows:

€ 000	First half 2023			First half 2022		
	Pulp	Renewables	Total	Pulp	Renewables	Total
Finance costs:						
Convertible bonds	193	-	193	2.031	-	2.031
Notes	-	2.467	2.467	-	1.374	1.374
Loans, credit facilities & other	5.384	1.739	7.123	1.616	1.304	2.920
Unwind of discount - Tariff Adjustment - and other	1.684	2.799	4.483	956	3.107	4.063
Fees and other charges	477	511	988	2.029	1.140	3.169
Capitalised borrowing costs (note 13)	(151)	(4)	(155)	(123)	(4)	(127)
Inter-segment finance income/cost (note 29)	(333)	609	276	(655)	1.301	646
Right-of-use assets (note 13)	1.056	35	1.091	213	20	233
	8.310	8.156	16.466	6.067	8.242	14.309
Finance income:						
Contingent consideration	(589)	(78)	(667)	(526)	(72)	(598)
Other finance income	(954)	(360)	(1.314)	(1.018)	(16)	(1.034)
	(1.543)	(438)	(1.981)	(1.544)	(88)	(1.632)
Hedging derivatives:						
Settlement of IR swap (note 25)	(246)	(1.282)	(1.528)	-	1.036	1.036
	(246)	(1.282)	(1.528)	-	1.036	1.036
	6.521	**6.436**	**12.957**	**4.523**	**9.190**	**13.713**

10. Earnings per share

The basic and diluted earnings per share calculations for the six months ended 30 June 2023 and 2022 are shown below:

Earnings per share	Unit	First half 2023	First half 2022
Consolidated profit/(loss) for the period attributable to equity holders of the parent	€ 000	(4.169)	44.697
Weighted average ordinary shares outstanding (*)	Millions	242,5	242,6
Weighted average diluted shares	Millions	242,4	263,5
Basic earnings per share	**€**	**(0,02)**	**0,18**
Diluted earnings per share	**€**	**(0,02)**	**0,18**

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

The diluted earnings per share figures for the first six months of 2023 and 2022 do not include the potential ordinary shares associated with the Group's long-term incentive plans for 2019-2023 (1.2 million shares at 30 June 2023 and 1.1 million at 30 June 2022) and 2023-2027 (2.9 million shares at 30 June 2023) - as their inclusion has an anti-dilutive effect.

Nor did the diluted earnings per share figure for the first six months of 2022 include the potential ordinary shares originating from the Group's convertible securities - 19.8 million shares - as their inclusion likewise had an anti-dilutive effect.

11. 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 six months of 2023 and 2022 is as follows:

	€ 000			
First-half 2023	Balance at 1 January 2023	Additions/ (charges)	Transfers	Balance at 30 June 2023
Goodwill	2.737	-	-	2.737
Software	34.767	139	979	35.885
Development costs	18.452	-	-	18.452
Prepayments	1.757	2.628	(979)	3.406
Electric power generation rights	21.002	-	-	21.002
Other intangible assets	10.763	-	-	10.763
Total cost	**89.478**	**2.767**	**-**	**92.245**
Software	(26.986)	(1.331)	-	(28.317)
Development costs	(13.867)	(238)	-	(14.105)
Electric power generation rights	(2.615)	28	-	(2.587)
Other intangible assets	(1.767)	(637)	-	(2.404)
Total amortisation	**(45.235)**	**(2.178)**	**-**	**(47.413)**
Impairment (note 15)	**(6.337)**	**(25)**	**-**	**(6.362)**
Total	**37.906**			**38.470**

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 2023 (note 15).

12. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 1H23 and 1H22 is as follows:

	€ 000					
First-half 2023	Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 30 June 2023
Forest land	83.794	15	-	-	-	83.809
Other land	15.262	-	-	-	(2)	15.260
Buildings	160.827	39	-	3.137	-	164.003
Plant and machinery	1.835.754	2.173	(1.140)	8.155	(1)	1.844.941
Other PP&E	56.700	5	-	842	-	57.547
Prepayments and PP&E in progress	25.169	24.228	-	(11.703)	-	37.694
Right-of-use assets - Land (note 13)	12.737	1.158	(425)	16.794	-	30.264
Right-of-use assets - Other assets (note 13)	34.608	2.411	(994)	(17.225)	-	18.800
Total cost	**2.224.851**	**30.029**	**(2.559)**	**-**	**(3)**	**2.252.318**
Buildings	(73.370)	(2.596)	-	-	-	(75.966)
Plant and machinery	(1.081.064)	(36.126)	26	-	1	(1.117.163)
Other PP&E	(34.248)	(100)	-	-	-	(34.348)
Right-of-use assets - Land (note 13)	(2.778)	(543)	212	-	-	(3.109)
Right-of-use assets - Other assets (note 13)	(6.399)	(1.755)	587	-	-	(7.567)
Total depreciation	**(1.197.859)**	**(41.120)**	**825**	**-**	**1**	**(1.238.153)**
Impairment (note 15)	**(43.116)**	**-**	**299**	**-**	**-**	**(42.817)**
Carrying amount	**983.876**					**971.348**

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

12.1 Additions

The Group invested in its productive facilities in both the Pulp and Renewables businesses in the first half of 2023 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
	30/06/2023
Pulp business:	
Pontevedra	10.923
Navia	10.740
Other	270
Renewables business:	
46-MW Huelva	479
50-MW Huelva	754
50-MW Puertollano	796
Other	2.498
Subtotal	**26.460**
Rights of use (note 13)	3.569
	30.029

A portion of that figure, specifically €1,651 thousand, corresponds to costs capitalised during the first half of 2023, which have been recognised under “Self-constructed assets” in the accompanying consolidated statement of profit or loss.

Capital commitments

The Group was contractually committed to capital expenditure totalling approximately €35 million at the June 2023 close.

12.2 Insurance cover

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

13. Right-of-use assets

13.1 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 2023:

		€ 000				
First-half 2023	Note	Balance at 1 January 2023	Additions /(charges)	Derecognitions	Transfers	Balance at 30 June 2023
Cost:						
Pontevedra biomill land	12	19.898	-	-	-	19.898
Forest leases	12	9.633	1.158	(425)	-	10.366
Other (*)	12	17.383	2.411	(994)	-	18.800
Cost		**46.914**	**3.569**	**(1.419)**	**-**	**49.064**
Depreciation:						
Pontevedra biomill land	12	384	196	-	-	580
Forest leases	12	2.394	347	(212)	-	2.529
Other (*)	12	6.399	1.755	(587)	-	7.567
Depreciation		**9.177**	**2.298**	**(799)**	**-**	**10.676**
Carrying amount		**37.737**				**38.388**

(*) Mainly includes offices and vehicles.

13.2 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 2023 is as follows:

		€ 000						
First-half 2023	Note	Balance at 1 January 2023	Additions	Installments paid	Derecognitions	Transfers	Interest	Balance at 30 June 2023
Current debt	23.2	3.676	109	(3.318)	(83)	2.520	1.091	3.995
Deuda largo plazo	23.2	35.624	4.391	-	(528)	(2.520)	-	36.967
		39.300	**4.500**	**(3.318)**	**(611)**	**-**	**1.091**	**40.962**

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

13.3 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 2023:

		€ 000		
First-half 2023	Note	Depreciation	Finance costs	Lease payments
Depreciation of right-of-use assets:				
Pontevedra biomill land	9 & 12	196	769	785
Other land	9 & 12	347	155	488
Other assets	9 & 12	1.755	167	2.045
		2.298	**1.091**	**3.318**

(*) In the first half of 2023, the Group capitalised €155 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 €444 thousand in 1H23.

14. 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 2023:

	€ 000			
First-half 2023	Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Balance at 30 June 2023
Pulp business:				
Forest cover	116.700	5.427	(1.016)	121.111
Depletion of forest reserve	(53.815)	(5.033)	904	(57.944)
Impairment (note 15)	(2.508)	(500)	-	(3.008)
	60.377	**(106)**	**(112)**	**60.159**
Renewables business:				
Forest cover	2.002	24	-	2.026
Depletion of forest reserve	(1.752)	-	-	(1.752)
Impairment (note 15)	(96)	-	-	(96)
	154	**24**	**-**	**178**
	60.531			**60.337**

In the first half of 2023, the Group planted 549 hectares of land and carried out forest preservation and protection work on 12,782 hectares, work which entailed investments totalling €5,451 thousand. A portion of the amount capitalised - €4,963 thousand - has been recognised within "Self-constructed assets" in the consolidated statement of profit or loss.

In the first half of 2023, the Group capitalised €488 thousand corresponding to payments for the right to use land earmarked for the development of biological assets and associated borrowing costs.

15. Impairment of non-financial assets

The impairment losses recognised by the Group against non-financial assets at 30 June 2023 are shown in the table below:

		€ 000					
	Note	01/01/2023		Additions/ (charges)	Amounts used	Amounts reversed	30/06/2023
Goodwill	11	2.737		-	-	-	2.737
Other intangible assets	11	3.600		25	-	-	3.625
Property, plant and equipment	12	43.116		-	-	(299)	42.817
Biological assets	14	2.604		500	-	-	3.104
Inventories							
Spare parts	16	11.898		447	(73)	-	12.272
Net realisable amount & other	16	1.841		6.576	(335)	-	8.082
		65.796	**-**	**7.548**	**(408)**	**(299)**	**72.637**

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 2023 is shown below:

		30/06/2023		
€ 000	Note	Impairment losses (*)	Gains/(losses) on derecognition/ sale	Total
Other intangible assets	11	25	-	25
Property, plant and equipment	3 & 12	(299)	(29)	(328)
Biological assets	3 & 14	500	109	609
		226	**80**	**306**

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

In the first six months of 2023, ENCE recognised €6,576 thousand of net impairment losses against pulp inventories and raw materials for use in the production of pulp based on the conclusion that in certain transactions the resulting pulp sales prices, net of discounts and costs to sell, mainly logistics costs, will be below the cost at which they were being carried.

ENCE checks for indications of impairment annually and calculates the recoverable amount of its assets in the event any such indications are detected. With respect to impaired CGUs, the Group analyses the trend in the profitability of their main assets, checking for delivery of, or deviation from, as the case may be, the main assumptions and estimates underpinning the impairment tests carried out in prior years and the existence of relevant regulatory, economic or technological developments or changes in the discount rates in the markets where those assets are operated in order to update the existing impairment losses as required.

Following the publication at the end of the first half of 2023 of regulatory changes applicable to the Renewables business (note 5), ENCE updated its impairment tests for the facilities that generate power from biomass.

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.

More specifically, ENCE used the methodology and main assumptions laid out in notes 3.5 and 20 of the Group's annual consolidated financial statements for 2022, albeit updating the outlook for future energy prices to reflect the latest information available and modelling the fact that the facilities whose operating costs depend essentially on the price of the fuel they use, the movement in those prices will determine the scale of the movement in regulated income (pool + remuneration for operations).

This exercise yielded an aggregate recoverable amount for the facilities in question of €405 million, which is higher than the amount at which they are expected to be carried at year-end 2023, namely €348 million.

In addition, an independent sensitivity analysis was conducted to test the assumptions that have the biggest impact on the value-in-use estimation. A decrease of 2% in the market pool price over the remaining regulatory useful life of each facility would not have a significant impact on the amount of the impairment loss recognised at 30 June 2023. Elsewhere, a 2% increase in fuel costs over the projection period would increase the impairment loss by €4.8 million.

16. Inventories

The breakdown of the Group's inventories at 30 June 2023 and 31 December 2022 is as follows:

€ 000	30/06/2023	31/12/2022
Timber and biomass	44.061	34.214
Other raw materials	3.977	5.250
High-turnover spare parts (*)	13.422	13.321
Greenhouse gas emission allowances	10.556	11.076
Finished goods and work in progress	34.628	30.253
Prepayments to suppliers	313	363
Projects under development	5.975	9.710
Impairment (note 15)	(8.084)	(1.841)
	104.848	**102.346**

(*) Presented net of impairment allowances of €12,270 thousand and €11,898 thousand at 30 June 2023 and 31 December 2022, respectively.

On 28 March 2023, Magnon Green Energy S.L. closed the sale of one of its photovoltaic solar facilities under construction in the town of Andújar (Jaen), with capacity of 100 MW, generating proceeds of €27.7m (note 1).

There are no restrictions on title to inventories.

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

16.1 Emission allowances

The reconciliation of the opening and closing Group-owned greenhouse gas (GHG) emission allowance balances for the first half of 2023 is provided in the next table:

	First half 2023	
	Number of allowances	€ 000
Opening balance	222.102	11.076
Allocations	100.411	8.352
Delivered (*)	(170.751)	(10.645)
Purchased	20.000	1.773
Closing balance	**171.762**	**10.556**

(*) 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 2023 the Group received allowances equivalent to 100,411 tonnes of carbon emissions, valued at €8,352 thousand.

“Current provisions” on the liability side of the consolidated statement of financial position includes €6,889 thousand in this respect at 30 June 2023, corresponding to the liability derived from the consumption of 102,711 allowances in the first half of the year (note 26).

17. Equity

17.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2023 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 2023 and 31 December 2022 as reported by the holders of those securities to the official registers of Spain's securities market regulator, the CNMV for its acronym in Spanish, or to the Company itself, in keeping with Spanish Royal Decree 1362/2007:

	%	
Shareholder	30/06/2023	31/12/2022
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
Own shares	1,55	1,56
Directors with ownership interest of < 3%	0,62	0,62
Free float	54,72	54,71
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.

17.2 Reserves

Below is the reconciliation of the opening and closing reserve balances for the first six months of 2023 and 2022:

€ 000	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)			
Balance at 31 December 2021	45.049	10.566	19.701	150.280	-	53.646	(79)	279.163
Appropriation of prior-year profit/(loss)	-	-	-		(181.378)	(9.031)	-	(190.409)
Trading in own shares	-	-	-	1.271	-	-	-	1.271
Other movements	-	-	-	984	-	-	-	984
Balance at 30 June 2022	**45.049**	**10.566**	**19.701**	**152.535**	**(181.378)**	**44.615**	**(79)**	**91.009**
Balance at 31 December 2022	45.049	10.566	19.701	155.533	(181.378)	44.553	(106)	93.918
Total recognised income/(expense)	-	-	-	-	-	-	-	-
Appropriation of prior-year profit/(loss)	-	-	-	-	21.494	18.564	-	40.058
Dividends distributed	-	-	-	-	-	-	-	-
Trading in own shares	-	-	-	278	-	-	-	278
Non-controlling interests and other movements	-	-	(9.584)	(147.153)	159.884	-	-	3.147
Balance at 30 June 2023	**45.049**	**10.566**	**10.117**	**8.658**	**-**	**63.117**	**(106)**	**137.401**

17.3 Own shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of the six-month period ended 30 June 2023 is as follows:

	Fist half 2023	
	No. of shares	€ 000
Opening balance	3.843.111	12.958
Purchases	10.191.609	34.034
2019-2023 LTIP		
Sales	(10.223.609)	(34.068)
Closing balance	**3.811.111**	**12.924**

The own shares held by the Company at 30 June 2023 represent 1.6% of its share capital and were carried at €3,430 thousand. Those shares were acquired at an average price of €3.39 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the 2019-2023 and 2023-2027 long-term incentive plans (note 7).

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.

17.4 Valuation adjustments

The breakdown of "Valuation adjustments" at 30 June 2023 is provided below:

€ 000	30/06/2022			31/12/2022		
	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation	54.102	13.509	40.593	54.102	13.510	40.592
Hedging transactions (note 25)						
IR swap	3.911	978	2.933	3.562	890	2.672
Exchange rate	702	176	526	(358)	(90)	(266)
	58.715	**14.663**	**44.052**	**57.306**	**14.310**	**42.998**

17.5 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 2023 is as follows:

€ 000	Balance at 1 January 2023	Bonds bought back	Reclassified to profit or loss	Tax effect	Balance at 30 June 2023
Convertible bonds (note 23)	3.147	(3.147)	-	-	-
Long-term bonus plan (note 7.2)	606	-	1.003	(251)	1.358
	3.753	**(3.147)**	**1.003**	**(251)**	**1.358**

17.6 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 2023 is as follows:

30 June 2023	€ 000				
Company	Balance at 1 January 2023	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 30 June 2023
Energía de la Loma, S.A.	5.568	(308)	(1.961)	-	3.299
Energías de la Mancha Eneman, S.A.	5.490	(1.003)	(2.093)	-	2.394
Bioenergía Santamaría, S.A.	(2.729)	4.044	-	-	1.315
Ence Energía, S.L. and subsidiaries	108.506	2.700	-	(96)	111.110
BioCH4 Developments, S.L.	400	(41)	-	-	359
Total	**117.236**	**5.392**	**(4.054)**	**(96)**	**118.478**

18. 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.

At the Annual General Meeting held on 5 May 2023, the Parent’s shareholders ratified the motion for the payment of a final cash dividend from 2022 profit of €0.29 per share (before withholding tax). That dividend implied an outlay of €70.3 million euros on 18 May 2023.

At a meeting held on 28 February 2023, the Parent's Board of Directors resolved to pay a fourth interim cash dividend from 2022 profits of €0.29 per share (before withholding tax). That dividend implied an outlay of €70.3 million euros on 13 March 2023.

19. 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 2023:

30 June 2023 € 000	Note	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total a 30/06/2023
Investments accounted for using the equity method		-	-	48	48
Derivative financial instruments	25	-	7.019	-	7.019
Trade and other receivables	20	47.630	-	-	47.630
Trade receivables and other financial assets - Group companies and related parties	20 & 29	2.552	-	-	2.552
Other financial assets	22.2	26.177	-	18.798	44.975
Cash and cash equivalents	22.1	364.399	-	-	364.399
Total financial assets		**440.758**	**7.019**	**18.846**	**466.623**
Derivative financial instruments	25	-	53	-	53
Trade and other payables	21	273.312	-	-	273.312
Other non-current and current liabilities	24	107.517	-	-	107.517
Trade payables and other financial liabilities - Group companies and related parties	21 & 29	19.477	-	-	19.477
Notes and other marketable securities	23.1	78.568	-	-	78.568
Bank borrowings	23.1	420.239	-	-	420.239
Other financial liabilities	23.1	88.680	-	-	88.680
Total financial liabilities		**987.793**	**53**	**-**	**987.846**

The fair value of the financial assets and liabilities carried at amortised cost, which include financing arranged at fixed rates of interest (note 23), is not significantly different from the amounts at which they are carried.

20. Trade and other receivables

The breakdown at 30 June 2023 and 31 December 2022 of "Trade and other receivables" in the consolidated statement of financial position is as follows:

€ 000	30/06/2023	31/12/2022
Trade receivables:		
Pulp	30.943	32.255
Renewables	14.966	13.163
Other items	2.843	3.551
Trade receivables, group companies and related parties (note 29)	2.516	455
Other receivables	3.088	4.501
Provision for impairment	(4.210)	(4.302)
	50.146	**49.623**

The credit period on pulp sales averages between 51 and 55 days. 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, while balances due from the regulator are collected at approximately 60 days. The fair values of these balances do not differ significantly from their carrying amounts.

20.1 Discounting facilities

The Group had drawn down €89,117 thousand under non-recourse discounting facilities with an aggregate limit of €119,000 thousand at 30 June 2023. The balance drawn corresponds entirely to Pulp business receivables.

The trade receivables not discounted under those facilities at 30 June 2023 are expected to be collected from the corresponding debtors, rather than via sale.

21. Trade and other payables

The breakdown at 30 June 2023 and 31 December 2022 of "Trade and other payables" in the consolidated statement of financial position is as follows:

€ 000	30/06/2023	31/12/2022
Trade and other payables	241.942	311.132
Trade payables, group companies and related parties	1.380	1.457
Payable to fixed-asset suppliers	25.544	22.465
Employee benefits payable	5.826	10.888
	274.692	**345.942**

At 31 December 2022, the Group recognised €85.4 million within "Trade and other payables" corresponding to surplus amounts collected from the electricity sector watchdog in 2022 in light of new regulations applicable to the generation of electricity from renewable sources that were passed in 2022. That balance was reimbursed in full in the first half of 2023.

The Group had drawn down €112,210 thousand under non-recourse reverse factoring facilities with an aggregate limit of €183,500 thousand at 30 June 2023. In the Pulp business, the limit and balance drawn amounted to €135,500 thousand and €90,271 thousand, respectively. In the Renewables business, the limit and balance drawn amounted to €48,000 thousand and €21,939 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.

22. Financial assets

22.1 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 €364,399 thousand of cash and cash equivalents at 30 June 2023 (€323,278 thousand of which corresponding to the Pulp business and €41,121 thousand, to the Renewables business).

At 30 June 2023, the Group had €3,957 thousand of cash in dollars.

22.2 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:

	30/06/2023		31/12/2022	
€ 000	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 24)	-	7.111	-	-
ENCE's share liquidity agreement (note 17.3)	1.127	-	2.058	-
Contingent consideration (note 29)	-	18.798	5.630	18.149
Receivable under asset sub-leases	-	3.835	-	2.557
Debt cash reserve	-	10.000	-	10.000
Security deposits and other accounts receivable	2.320	1.784	2.210	2.110
	3.447	**41.528**	**9.898**	**32.816**

The “Debt cash reserve” includes €10 million of cash held to cover the obligation, stipulated in the financing taken on by the Renewables 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 23), which was fully undrawn at 30 June 2023.

On 20 December 2020, Ence Energía y Celulosa, S.A. completed the sale to Woodpecker Acquisitions S.a.r.l, an entity controlled by Ancala Partners LLP, of a minority interest of 49% in its subsidiary, Magnon Green Energy, S.L., the holding company for ENCE's Renewables business. A portion of the sale price - €134 million - is variable and depends on successful development of the pipeline of biomass renewable energy projects over the next eight years. At 30 June 2023, ENCE recognised a balance receivable of €17,011 thousand, which is the present value, discounted using the business’s cost of capital of 8.4%, of the amount of the contingent consideration it expects to collect between 2021 and 2028.

23. Borrowings

23.1 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 30 June 2023 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

30 June 2023 - € 000	Limit	Drawn down	Maturity 2023	2024	2025	2026	2027	Beyond
Borrowings - Pulp business								
Revolving credit facility	130.000	-	-	-	-	-	-	-
Bank loans	363.000	363.000	7.500	82.254	74.436	77.599	66.014	55.197
Arrangement fees	-	(1.053)	(177)	(280)	(255)	(178)	(100)	(63)
Interest and coupons payable and other	-	2.293	2.293	-	-	-	-	-
	493.000	**364.240**	**9.616**	**81.974**	**74.181**	**77.421**	**65.914**	**55.134**
Borrowings - Renewables business								
Notes issued	79.000	79.000	-	-	79.000	-	-	-
Revolving credit facility	20.000	-	-	-	-	-	-	-
Bank loans	56.350	56.350	12.367	33.733	10.250	-	-	-
Arrangement fees	-	(783)	(269)	(369)	(145)	-	-	-
Interest and coupons payable and other	-	-	-	-	-	-	-	-
	155.350	**134.567**	**12.098**	**33.364**	**89.105**	**-**	**-**	**-**
	648.350	**498.807**	**21.714**	**115.338**	**163.286**	**77.421**	**65.914**	**55.134**

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

ENCE’s average borrowing cost was 4.45% in the first half of 2023. The average borrowing cost in the Pulp business was 4.44%, compared to 4.46% in the Renewables business.

At 30 June 2023, 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. In March 2023, ENCE redeemed those bonds in full at maturity.

ENCE has a €130 million revolving credit facility with a syndicate of Spanish and international banks which is due in 2026. This revolving credit facility accrues interest at a rate of interest benchmarked to Euribor. The interest rate may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which has assessed that debt as "green" financing. The revolving credit facility was fully drawn down at 30 June 2023.

Loans

During the first half of 2023, ENCE arranged several loans in a total amount of €268 million. As a result, at 30 June 2023, ENCE had loans in a combined amount of €363 million that fall due between 2023 and 2030. A portion of those loans, with a face value of €37 million, accrues interest at fixed rates ranging between 1.80% and 1.95%. The remainder mainly accrue interest at Euribor plus a spread of between 1.45% and 2.0%. The interest rate on 73% of the loans arranged may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE, which has assessed that debt as "green" financing.

In order to hedge the risk associated with these floating-rate borrowings, ENCE has arranged interest-rate swaps over 62.88% of the balance drawn down, locking in a fixed rate of 3.32% (note 25).

Borrowings - Renewables business

Recourse borrowings

On 24 November 2017, Magnon Green Energy, S.L. (hereinafter, “Magnon”), the holding company for ENCE's Renewables 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			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	36.000	36.000	Dec. 2025 (ii)	3,45%
Tranche 1	14.000	14.000	Dec. 2024	1.75% - 3.25%
Tranche 2	6.000	6.000	Dec. 2025 (ii)	3,45%
Tranche 3 (iii)	27.000	27.000	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)	9.350	9.350	Dec. 2024	1.75% - 3.25%
	155.350	**135.350**		

(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 Renewables 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.

23.2 Other financial liabilities

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

30 June 2023 - € 000	Drawn down	Maturity 2023	2024	2025	2026	2027	Beyond
Other financial liabilities - Pulp business							
Financing granted by public organisms	47.718	5.143	8.294	8.139	8.139	6.245	11.758
Liabilities in respect of right-of-use assets	38.477	1.591	2.923	3.296	2.131	1.750	26.786
	86.195	**6.734**	**11.217**	**11.435**	**10.270**	**7.995**	**38.544**
Other financial liabilities - Renewables business							
Liabilities in respect of right-of-use assets	2.485	574	688	510	410	181	122
	2.485	**574**	**688**	**510**	**410**	**181**	**122**
	88.680	**7.308**	**11.905**	**11.945**	**10.680**	**8.176**	**38.666**

24. 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	30/06/2023 Current	30/06/2023 Non-current	31/12/2022 Current	31/12/2022 Non-current
Assets:				
Tariff Adjustment - reg. stub period: 2023-2025	-	7.111	-	-
	-	**7.111**	**-**	**-**
Liabilities:				
Tariff Adjustment - prior reg. stub periods	7.147	99.399	6.892	103.099
Other	-	971	-	1.243
	7.147	**100.370**	**6.892**	**104.342**

The "Adjustment for tariff shortfall/surplus" account 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 Adjustment concept (note 5).

The breakdown of the liability in respect of the “Adjustment for tariff shortfall/surplus” at 30 June 2023, classified by the year in which the balances are due settlement (which happens when a facility enters its last regulatory stub period) and/or reclassification to profit or loss, is provided below:

30 June 2023 - € 000	Total	Maturity 2023	2024	2025	2026	2027	Beyond
Balances payable:							
Pulp business:	33.357	1.001	2.038	2.226	2.391	2.568	23.133
Renewables business:	73.189	2.573	5.238	5.723	5.549	5.959	48.148
	106.546	**3.574**	**7.276**	**7.949**	**7.940**	**8.527**	**71.281**
Net position	**106.546**	**3.574**	**7.276**	**7.949**	**7.940**	**8.527**	**71.281**

25. Derivative financial instruments

The breakdown of this consolidated statement of financial position heading at 30 June 2023 and 31 December 2022, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
€ 000	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Cash flow hedges:								
IR swap	2.074	3.224	4.184	2.579	50	-	-	-
IR swap arrangement fee	59	107	-	-	-	-	-	-
Currency hedges	-	-	702	-	-	-	3	358
Total	**2.133**	**3.331**	**4.886**	**2.579**	**50**	**-**	**3**	**358**

The changes in the fair value of the derivative financial instruments that were reclassified to profit or loss in the first half of 2023 are shown below:

€ 000 - Gain/(loss)	1H23	1H22
Impact on operating profit:		
Currency hedges	(730)	(11.386)
Pulp price hedges	-	73
Subtotal	(730)	(11.313)
Impact on net finance costs:		
IR swap (note 9)	1.528	(1.036)
Total	**798**	**(12.349)**

All of the derivatives arranged by ENCE at 30 June 2023 qualify for hedge accounting.

25.1 Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 30 June 2023:

Underlying	Maturity	Stricke price Call	Stricke price Put	Notional amount (USD m)
EUR/USD	3º Trimestre 2023	1,033	1,084	30,0
EUR/USD	4º Trimestre 2023	1,060	1,087	30,0
EUR/USD	1º Trimestre 2024	1,081	1,130	12,0
EUR/USD	2º Trimestre 2024	1,083	1,120	8,0
				80,0

The contracts outstanding at 30 June 2023 cover approximately 22% and 9% of forecast pulp sales in the second half of 2023 and the first half of 2024, respectively.

Those instruments presented a positive market value of €702 thousand at 30 June 2023 (a negative market value of €358 thousand at year-end 2022).

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 2023 is shown below:

€ 000	Change in USD/EUR exchange rate	Operating profit (-)/+	Impact on equity (-)/+
	5% depreciation	2.845	2.134
	5% appreciation	(2.677)	(2.008)

25.2 Interest rate swaps:

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

€ 000	Fair value (*)	Notional amount at reporting date: 2023	2024	2025	2026
Renewables business	5.725	111.371	3.188	-	-
Pulp business	483	110.000	151.250	115.401	68.114

(*) Balance receivable

There were no hedge inefficiencies in respect of these derivatives in the first half of 2023.

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 2023 is shown below:

€ 000	Change in interest rates	Impact on finance cost (-)/+	Impact on equity (-)/+
	50bp increase	(3.194)	(2.396)
	50bp decrease	3.242	2.432

26. Provisions, guarantees and contingent liabilities

26.1 Provisions

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

First-half 2023	€ 000			
	Balance at 1 January 2023	Additions/ (charges)	Derecognitions or decreases	Balance at 30 June 2023
Non-current:				
Long-term incentive plan (note 7.2)	423	245	(1)	667
Dismantling provision	24.598	414	-	25.012
Other	2.962	388	(32)	3.318
	27.983	**1.047**	**(33)**	**28.997**
Current				
Emission allowances (notes 8 & 16.1)	11.100	6.889	(10.998)	6.991
Pontevedra Environmental Pact	21.000	-	-	21.000
Other provisions	10.700	-	-	10.700
	42.800	**6.889**	**(10.998)**	**38.691**

26.2 Guarantees extended to third parties

At 30 June 2023, several financial institutions had extended the various Group companies the following guarantees:

	€ 000
Government permitting of renewable energy power generation plants	37.398
Subsidised loans (note 23.2)	9.004
Grid access - Pre-allocations	15.764
Receivable discounting lines	7.500
Estate leases	9
Execution of forest projects	5.769
Pontevedra concession	3.050
Electricity market	5.500
Environment related	1.605
Payments to suppliers	1.734
Other	1.313
	88.646

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

26.3 Contingent assets and liabilities

At 30 June 2023, the Group was party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below:

Energy crops:

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. Those new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged 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, the Parent and certain Group companies (hereinafter, "ENCE") presented a claim for damages from the Spanish state (the "Claim") 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 concluding that its claim for damages is not admissible.

Given the lack of response to its Claim submission, on 10 February 2023, ENCE lodged an appeal (subsequently presenting the statement of claim on 21 June 2023) seeking damages for the financial loss caused directly by the undue retroactive application of the remuneration regime introduced for facilities generating power from biomass sourced from energy crops by Ministerial Order IET/1045/2014 (16 June 2014), enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, so implementing Royal Decree 413/2014 (6 June 2014), both of which emanated from implementation and application of the Electricity Sector Act (Law 24/2013, of 26 December 2013) and Royal Decree-Law 9/2013, adopting urgent measures towards guaranteeing the financial stability of the electricity system. The lodging of that appeal could imply, under the scope of Royal Decree-Law 17/2019 (22 November 2019), application of a reasonable return of 7.09% from 1 January 2020.

Electricity market regulations:

On 20 December 2022, the Group companies whose business activities are in any way subject to the electricity sector regulatory framework lodged appeals before the Supreme Court's Chamber for Contentious Administrative Proceedings against the following ministerial orders: Order TED/1232/2022 and Order TED/1295/2022 (Appendix III).

The arguments underpinning the challenges include: breach of the remuneration regime timeframes stipulated in the Electricity Sector Act; infraction of the rules regulating the remuneration methodology; violation of the prohibition against public powers acting arbitrarily in light of the lack of substantiation for the underlying parameters; a lack of methodology in determining the remuneration due to biomass; and the failure to include transport costs in the remuneration calculations. In addition to arguments of a legal character, the challenges will be based on an expert analysis determining the existence of a significant economic impact, insofar as the ministerial orders being challenged set remuneration for operations parameters that are removed from current real operating costs.

The appeals, which are specific to each type of standard facility, have been presented before the Supreme Court's Chamber for Contentious Administrative Proceedings.

Public-domain concession – ENCE's biomill in Pontevedra

The resolution of 20 January 2016 granting an extension of the public-domain concession over the land on which ENCE's biomill in Pontevedra is located 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 three consecutive court proceedings before the National Appellate Court's Chamber for Contentious Administrative Proceedings, which issued its rulings on 15 July 2021 and 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 had 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 those Appellate Court rulings before the Supreme Court on 28 September 2021 and 29 November 2021, receiving rulings in its interests on 6 March 2023, when the Supreme Court upheld the appeals lodged by the Company against the two National Appellate Court rulings of 15 July 2021 in response to cases brought by Greenpeace Spain and the town council of Pontevedra.

The two Supreme Court rulings annul the above-mentioned National Appellate Court rulings uphold the legality of the concession extension and, thereby, its 60-year term, which runs from the day on which the extension was originally applied for. The Supreme Court rulings are not subject to ordinary appeal.

The state attorney and the town council of Pontevedra did however lodge annulment proceedings seeking to have the Supreme Court ruling on the appeal related with the case brought by the town council against the concession extension annulled on technicalities. Likewise, the state attorney attempted to have the Supreme Court sentence related with the case brought by Greenpeace annulled. On 21 June 2023, the Supreme Court dismissed their annulment proceedings, reaffirming the validity of its original rulings.

The Group is expecting an imminent and identical Supreme Court ruling on the appeal brought by ENCE against the National Appellate Court ruling on the case filed by the APDR, likewise related with the extension of the concession, that case having been suspended at the behest of the Supreme Court until it ruled on the other two suits, since ruled on in favour of ENCE's interests.

27. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2023 and 31 December 2022 are shown below:

	30/06/2023		31/12/2022	
€ 000	Assets	Liabilities	Assets	Liabilities
Non-current:				
Deferred tax assets	85.711	-	80.707	-
Deferred tax liabilities	(28.310)	-	(27.718)	-
Total	**57.401**	-	**52.989**	**-**
Current:				
VAT	24.175	3.952	20.555	4.101
Current tax on profits for the year	14.459	942	8.028	13
Tax in respect of prior years	8.014	-	-	-
Sundry other taxes	368	5.243	455	4.683
Total	**47.016**	**10.137**	**29.038**	**8.797**

Since 2002, 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 in which it has a direct or indirect shareholding of over 75%.

Magnon Green Energy, S.L. has been filing its 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 in which it has a direct or indirect 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%.

27.1 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:

	Deferred tax assets				
€ 000	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	Total	Deferred tax liabilities
Opening balance	54.459	89	26.159	80.707	27.718
2023 corporate income tax	5.607	-	(675)	4.932	(1.758)
Change in fair value of hedging instruments	-	(89)	-	(89)	231
Other	-	-	161	161	2.119
	60.066	**-**	**25.645**	**85.711**	**28.310**

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. The balance of unused tax credits and unused tax losses certified but not recognised in the statement of financial position at 30 June 2023 amounts to €17.8 million.

27.2 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 the 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).

In July 2022, the Spanish tax authorities initiated a review of the corporate income tax of Ence Energía y Celulosa, S.A. (parent of the consolidated tax group), Celulosas de Asturias, S.A. and Magnon Green Energy, S.L. in respect of 2018, 2019 and 2020 and of its value added tax and personal income tax withholding returns for 2019 and 2020.

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. Given the different ways in which existing tax law and regulations can be interpreted, however, the outcome of the tax inspections underway or any initiated in the future could give rise to tax liabilities that it are not currently possible to quantify objectively; nevertheless, any such liabilities are not expected to have a significant impact on the Group’s equity.

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.

28. Director and key management personnel pay and other benefits

Note 34 of the Group’s annual consolidated financial statements for 2022 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 2023.

At the Annual General Meeting held on 5 May 2023, the Company's shareholders approved the Director Remuneration Policy of Ence Energía y Celulosa, S.A. for 2023-2026 (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 2023 and 2022:

	€ 000	
	30/06/2023	30/06/2022
Board of Directors:		
Remuneration for Board membership:		
Fixed remuneration	334	334
Per diems & other	324	392
	658	**726**
Remuneration for performance of executive duties (*)	**508**	**358**
Key management personnel:		
Total remuneration (*)	**1.073**	**1.012**

(*) These amounts do not include any variable remuneration in respect of 2023 as those bonuses will be determined, subsequent to year-end, as a function of the degree of delivery of the established targets.

28.1 Remuneration of the members of the Board of Directors

Remuneration for membership of the Board of Directors

The non-executive directors only receive a fixed stipend consisting of fixed remuneration and fees for attending the meetings of the Board of Directors and its committees; 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 in the first half of 2023.

Remuneration for the performance of executive duties

Ence Energía y Celulosa, S.A.'s Director Remuneration Policy stipulates fixed remuneration for the CEO in 2023 of €750 thousand with effect from 5 May 2023 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, including certain back payments, of €478 thousand in the first half of 2023.

In addition to the above-mentioned remuneration, ENCE’s CEO is the beneficiary of a mixed savings, life and accident insurance policy and a retirement insurance policy (the benefit payable under the plan is one year's fixed and variable remuneration, to be received upon termination of his contract, so long as this happens at the age of 62 or over and does not derive from a change of control). The contribution made in that respect amounts to €221 thousand, half of which accrued in the first half of the year.

The CEO is also a beneficiary under cycle II of the 2019-2023 long-term incentive plan (note 7). Assuming full delivery of the targets to which that incentive scheme is tied, he stands to receive €308 thousand and 244,404 ENCE shares in 2024.

The CEO is also a beneficiary under cycle I of the 2023-2027 long-term incentive plan (note 7). Assuming full delivery of the targets to which that incentive scheme is tied, he would receive 694,444 ENCE shares in 2026.

Other considerations

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 2023.

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

There were no changes to the composition of the Board of Directors in 2023.

28.2 Key management personnel remuneration

Key management personnel (KMP) comprise the executives who report directly to the Chairman & CEO or the Board of Directors, 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 2023:

Name	Position
D. Ignacio de Colmenares y Brunet	Chairman & Chief Executive Officer
D. Alfredo Avello de la Peña	Finance, Corporate Development and Forest Assets Officer
D. Jordi Aguiló Jubierre	Pulp Business Officer
D. Guillermo Negro Maguregui	Managing Director of Magnon Green Energy, S.L.
Dª Reyes Cerezo Rodríguez-Sedano	General Secretary | Sustainability Officer
Dª Isabel Vallejo de la Fuente (i)	Human Capital Officer
D. Modesto Saiz Suárez	Pulp Sales and Logistics Manager
D. Fernando González-Palacios Carbajo	Planning and Control Manager
D. Ángel J. Mosquera López-Leyton	Internal Audit Manager

(i) On 15 May 2023, Isabel Vallejo de la Fuente joined the key management personnel team as Chief Human Capital Officer, replacing María José Zueras Saludas.

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.

The key management personnel are also beneficiaries under cycle II of the 2019-2023 long-term incentive plan (note 7). Assuming full delivery of the targets to which that incentive scheme is tied, they stand to receive €865 thousand and 347,940 ENCE shares in 2024.

The members of that team are also beneficiaries under cycle I of the 2023-2027 long-term incentive plan (note 7). Assuming full delivery of the targets to which that incentive scheme is tied, they stand to receive €42 thousand and 921,961 ENCE shares in 2026.

Elsewhere, the key management personnel in the Renewables business are beneficiaries under the Magnon Group's 2021-2025 long-term incentive plan (note 7). Assuming full delivery of the targets to which that incentive scheme is tied, they stand to receive €649 thousand in 2026.

Lastly, Magnon's key management personnel are beneficiaries under the so-called Extraordinary Long-Term Incentive for 2028. Assuming full delivery of the targets to which that scheme is tied, they stand to receive €2,450 thousand.

29. Transactions with Group companies and related parties

29.1 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:

30 June 2023	Current loans	Current receivables (note 20)	Current payables (note 21)
Oleoenergía de Puertollano, S.L.	36	-	-
Capacitación de Servicios Forestales, S.L.	-	670	1.366
	36	**670**	**1.366**

The transactions performed with investees accounted for using the equity method of consolidation in the first half of 2023 were as follows:

First-half 2023	€ 000 Services rendered	Operating expenses
Oleoenergía de Puertollano, S.L.	-	-
Capacitación de Servicios Forestales, S.L.	551	1.984
	551	**1.984**

29.2 Balances and transactions with related parties

The balances outstanding with non-controlling interests at 30 June 2023 are as follows:

	€ 000				
30 June 2023	Non-current financial assets (note 22.2)	Current receivables (note 20)	Non-current borrowings	Current borrowings	Current payables (note 21)
Woodpecker Acquisitions S.á r.l.	16.861	-	17.843	254	-
San Miguel Arcángel, S.A.	-	729	-	-	-
Aceites y Energía Santamaría, S.A.	-	1.117	-	-	14
	16.861	**1.846**	**17.843**	**254**	**14**

The transactions carried out with non-controlling shareholders in the first half of 2023:

	€ 000			
First-half 2023	Sales	Purchases	Operating expenses	Finance costs (note 9)
Woodpecker Acquisitions S.á r.l.	-	-	-	276
San Miguel Arcángel, S.A.	-	1.475	-	-
Aceites y Energía Santamaría, S.A.	197	1.389	159	-
	197	**2.864**	**159**	**276**

29.3 Transactions with directors

ENCE had no balances outstanding with its directors at 30 June 2023. Moreover, ENCE did not perform any transactions with its directors in the first half of 2023.

30. 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. 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 use 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.

The amount of capital expenditure incurred in each line of business during the first half of 2023 is shown below:

	Miles de Euros
Pulp business	8.766
Renewable Energy business	918
	9.684

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).

All of ENCE’s industrial facilities have integrated environmental or sector permits, which establish facility operating requirements from an environmental standpoint. Those permits also 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 model and system

ENCE’s environmental management principles are set down in its Management Policy and are based on going beyond compliance with prevailing legislation, prioritising prevention, taking a precautionary stance and upholding continuous improvement principles. ENCE implemented its total quality management (TQM) programme over 10 years ago as its standard for cultural and management transformation, addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Under the scope of that model it has a dedicated Environmental Policy, which defines the Group's general environmental objectives and a series of key improvement targets focused on a range of environmental thrusts, two of the most important being the reduction of odour levels and water consumption. In 2023, ENCE set targets for each of these thrusts for its various plants, which are being monitored and reported on to its governing bodies for oversight and control.

ENCE also has an integrated management system to ensure all of its business activities are aligned with its Management Policy. That system complies with the following international standards:

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

It is certified by an accredited organism that carries out the corresponding audits. Elsewhere, the Pontevedra and Navia biomills were pioneers in their respective regions in obtaining certification under Regulation (EC) No. 1221/2009 on the Community eco-management and audit scheme (EMAS). To be included in that register, facilities have to have their environmental statements audited by a certified independent verifier every year; those statements provide an account of their key performance indicators, annual targets and delivery thereof.

Other environmental excellence certifications

The biomills' excellent environmental credentials mean that, since 2014, the pulp they produce also boasts the Nordic Swan Ecolabel, certifying compliance with the most stringent environmental standards. The pulp made at ENCE's 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. Both biomills renewed their certifications in the first half of 2023.

In 2021, ENCE implemented a management system to demonstrate the sustainability criteria of its biomass under the SURE scheme. That certification system is one of the tools developed to ensure compliance with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001), the European rules stipulating stringent sustainability criteria for biomass used to generate power. In the first half of 2023, ENCE also renewed that certification and continued to work to encourage its suppliers to likewise certify their biomass.

Transitioning to a circular economy

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. Thanks to its healthy performance in this area, ENCE holds AENOR Zero Waste certification. That seal distinguishes companies that stand out for their waste management and recovery efforts, recouping at least 90% of their waste. In the first half of 2023, all of ENCE's facilities renewed their Zero Waste certifications.

Climate change: adaptation and 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. 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 early 2023, ENCE calculated its carbon footprint for 2022: the Group's total emissions decreased by 11% from 2021. ENCE continues to work on the roadmap devised for decarbonising its biomills, specifically the engineering details for the projects for replacing fossil fuels with renewable sources, with execution due to begin in Navia in 2023.

As for its climate adaptation strategy, ENCE is analysing its climate change risks and opportunities following the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD). During the first half of 2023, ENCE made further progress on managing these risks, performing an initial analysis of the financial impacts of each risk identified and the defined mitigation measures.

Sustainable forestry management

ENCE is the leading private forest manager and a key player in the timber-based product market in Spain. It applies identical stringent management and sustainability requirements to both the forests it manages and the timber it purchases from third parties, framed by an integrated forest management system. This system is 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).

In sum, ENCE is strongly committed to the use of timber sourced from sustainably managed forests, as endorsed by these internationally recognised programmes, whether that timber comes from the forests it owns or is purchased from third parties. In the first half of 2023, 71.5% of the timber used in the Group's biomills was certified, while over 85% of the forest land under ENCE's management is certified under one or other scheme.

In addition to fostering certified sustainable forestry management, in 2023, ENCE extended its 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.

Sustainable management of biomass procurement

In the first half of 2023, 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 commitments.

In relation to its own voluntary standard, in 2023, ENCE continued to work on the framework for implementing the 10-Point Declaration on the Sustainability of Biomass it launched in 2017; it is already systematically monitoring and assessing the key indicators for which there is a staggered implementation schedule, framed by the Company's Master Sustainability Plan. Compliance with the 10-Point Declaration in respect of agricultural biomass was over 90% in the first half of 2023.

During the reporting period, ENCE also renewed SURE certification at all its facilities (biomills and independent energy plants), so complying with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001). The latter stipulates 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. In 2023, in addition to renewing SURE certification at its own facilities, ENCE continued to work to bring about supply chain certification.

Pulp business

Navia biomill

ENCE's Master Sustainability Plan prioritises management and improvement of the Company's water footprint in terms of both its water consumption and the quality of its discharges. The biomills have been working towards specific unit consumption reduction targets (m^3 per tonne of pulp produced) for several years already. In 2023, the Navia biomill launched an ambitious plan for reducing its water consumption by means of the following process improvement initiatives: reuse of clean condensates; reuse of water from clay filters for timber washing purposes; recovery of water from backwashing; more efficient washing of primary sludge in presses, among others. As a result, the biomill reduced its unit water consumption by 4.7% in the first half of 2023.

In terms of wastewater quality, improvements were introduced at the treatment plant in order to better filter the waters by enhancing the existing biological and refrigeration systems, while also improving the aeration and refrigeration systems. Navia consolidated operation of the new primary effluent treatment system comprising a new dissolved air flotation (DAF) unit, which has replaced the existing decanter. However, despite substantial improvements in the treatment facility, the results of the tests tracking solids in wastewater for the first half of 2023 were impacted by the reduced consumption of water, which implies greater concentration of those materials, impacting quality.

Another top environmental management priority, one that is key to maintaining ENCE's social licence to operate, is odour reduction at its biomills. In the first half of 2023, ENCE continued to make progress on that effort. At the Navia biomill, it implemented a project for controlling diffuse odour sources including the following measures: odour abatement in the vicinity of the DAF unit by means of an anti-odour additive, enhanced operational control at the discharge treatment facility, installation of new SH2 meters and development of a mathematical odour prediction model. The engineering work is underway for canopying the DAF in order to better abate the condensation at the mixing sump and neutralise incoming discharges to the treatment facility, two of the locations identified as key diffuse odour desorption points. Thanks to improved process operation and controls, in the first half of 2023, odour at the Navia biomill, measured in minutes, decreased by 70.5% from year-end 2022 levels.

In June 2023, the Navia biomill renewed certification of its management system in accordance with the Zero Waste Regulation requirements stipulated by AENOR, Spain's certification body, having been one of the first companies in Spain to obtain this certificate, with recovery ratios of close to 97%. In May and June 2023, 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 2022 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 parallel with the above mentioned audits for the renewal of the facility's ISO 14001:2015 and EMAS certifications, the biomill also had its energy management system audited for renewal of its ISO 50001:2018 certification, again without incident. 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.

In 2021, the Navia biomill also implemented a management system to demonstrate the sustainability criteria of its biomass under the SURE scheme. That certification system is one of the tools developed to ensure compliance with its requirements under the Renewable Energy Directive (Directive (EU) 2018/2001) (RED II), the European rules stipulating stringent sustainability criteria for biomass used to generate power. The Navia biomill's SURE certification was renewed in the first half of 2023.

In the first six months of the year, ENCE also continued to work to implement the applicable BATs, focusing on the implementation of different types of emission filtering systems, depending on each plant's needs. More specifically, in the first half of 2023, the Navia biomill embarked on a project that will allow it to abate HCI emissions in its biomass furnace, bringing them below the levels proposed in the BREF for Large Combustion Plants, thanks to the use of wet lime, a process which is currently being fine-tuned.

With the aim of achieving tangible circular economy-driven environmental benefits at the biomill, trials are underway for the addition of biosludge to the biomass furnace with satisfactory results that indicate scope for sustained recovery of the related energy. This reduces the volume of waste material that has to be sent outside for management, while reducing the carbon footprint derived from the manufacture of pulp.

Lastly, with respect to fuel usage in the lime furnaces, note that as a result of the exceptional circumstances in the energy market derived from the war in Ukraine (surge in natural gas prices and risk of supply cuts), the Navia biomill had switched fuel source in order to guarantee the facility's operational viability. Now that market conditions have normalised, however, the Navia biomill is once again using natural gas to fuel its lime furnaces.

Another priority worth highlighting is the reduction of noise levels in order to ensure respectful co-habitation with the neighbouring communities. To that end, ENCE executed and completed each of the actions defined in phase one of its 2022-2026 noise impact mitigation plan over the course of the first six months of 2023.

Pontevedra biomill

The Pontevedra biomill strategically prioritises harmonious coexistence with and respect for the communities surrounding its facilities to ensure its social licence to operate. That is why its priority environmental targets include aspects that could affect the neighbouring communities, such as noise impact, air quality and odour impacts.

It therefore continues to execute Zero Odour Plan initiatives, an effort that delivered a 56.2% reduction in odour measured in minutes by comparison in the first six months of the year. 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 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, the biomill's water consumption per tonne of pulp declined by 7.2% during the first half of 2023, a new milestone.

In terms of its wastewater, the Pontevedra biomill defended the quality levels achieved in the past in the first half of 2023. 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 53%, coming in at 3.3 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 84% better than the upper end of the reference range set for this parameter in the pulp sector BREF.

ENCE's production model is an example of circularity as it based on the use of renewable raw materials (timber and biomass) and closed-cycle productive processes in which most of the materials used are recovered. That enabled the Pontevedra biomill to renew its AENOR's Zero Waste certification once again in the first half of 2023. This certification distinguishes organisations that reuse the various waste fractions they generate, avoiding the use of landfills. The Pontevedra biomill was the first ENCE facility to earn Zero Waste certification. Its waste recovery rate stands at 99%.

ENCE's commitment to environmental sustainability is also evident in the fact that the Pontevedra biomill is certified under ISO 50001. That certification attests to the fact that ENCE as an organisation takes a systematic approach to the performance, acquisition and consumption of energy during its production process and endorses the biomill's environmental excellence.

Renewable Energy business

In the first half of 2023, the Renewable Energy business worked on a number of key environmental improvement targets, leveraging its TQM methodology. The targets set for 2023 include reducing water consumption and noise emissions, enhancing waste management and reviewing the environmental risks faced by the various operations centres.

Throughout the first half, work continued on important business-wide projects such as the Reliability of Environmental Indicator Measurements initiative and analysis and quantification of climate change risks.

Circular economy

In the first half of 2023, the taskforce set up to study and drive sustainable alternatives for managing the waste generated during energy plant operation continued its work. Its aim is to optimise waste management and search for new ways of reusing it in different processes both within and beyond ENCE's facilities.

The principles guiding this taskforce include waste generation prevention and reuse, synergistic mechanisms and circular material loops. All of which is designed to reduce the use of natural resources, cut the emissions associated with the various processes and, in short, reduce the footprint of the industrial process in general.

This effort is complemented by ENCE's ongoing partnerships with specialist entities, such as CSIC (Upper Council of Scientific Research), in order to explore the scope for using the waste produced in the combustion of biomass in other processes, such as the production of artificial and/or technical flooring, construction material reinforcement and resin additives, among others.

Huelva operations centre

The Huelva operations centre is a prime example of the production of power from biomass as it is home to three of the most important plants: HU41, HU50 and 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 in the first half of 2023. ENCE continues to execute and monitor its plans for delivering on its unit water consumption targets.

Projects to improve its air quality and noise levels also remained ongoing in the first half of the year, specifically, the design and execution of action plans for reducing particle emissions from diffuse sources.

A new project for the biological drying of wet, fatty olive pomace was launched in the first half in order to reduce moisture levels in incoming pomace thanks to a pioneering system based on accelerated and emission-free drying via forced tipping and suction as an alternative for combating the environmental impact of the conventional drying process.

Another notable development was the presentation of an application in December 2022 to have the ash produced in Huelva classified as a subproduct in order to substitute some of the cement in the paste fill used in underground mining operations. That application is currently being studied by the authorities. This a good example of how ENCE is partnering with other entities on the circular economy front. The results include the recovery of a source of waste, a reduction in management costs and the replacement of a raw material to avoid the use of natural resources.

Merida operations centre

In the first half of 2023, Merida continued to comply with its wastewater and emissions requirements.

The Merida plant continues to work to achieve its water consumption reduction target for 2023 through a number of enhancements. In fact, its unit water consumption (m^3/MWh) decreased by 12.5% in the first half of 2022.

Approval was obtained for the research, development and experimentation phases of the production test for the reuse of wood crate waste; this project is currently at the test phase.

This plant also continues to participate in the restoration of a nearby mine using ash taken from the bottom of its furnace, a project that has been warmly welcomed by the regional authorities. Also during the first half of 2023, flying ash was used to make compost in partnership with Abosur.

In relation to the management of the fine materials generated by biomass sorting at the Merida plant, in the first half of 2023, all of those materials were returned to agricultural soil. This initiative returns a natural material of value in combatting desertification and soil degradation, as well as reducing the plant's waste management costs.

Enemansa operations centre

In 2023, the Enemansa plant has been idle, outside of the production regime on account of the situation prevailing in the electricity market since October 2022.

However, all of the plant's measurement systems remain fully operational, including its auto controls and wastewater reading registers for the purpose of *ad-hoc* releases (e.g. after rain).

La Loma operations centre

Execution of the work to modify the discharge point and better separate the discharges finalised in the first half of 2023; the only steps remaining are certification of the completion of the works and the presentation of the request for final inspection and approval.

As for emissions, aware of the air quality situation in the nearby town, Villanueva del Arzobispo, the plant continues to perform external and internal controls over the particle emissions from the biomass furnace and the plant as a whole.

Lucena Operations Centre

All the atmospheric emissions and wastewater readings at the Lucena plant remained within the limits established in the environmental permit in the first half of 2023.

Progress was also made during the year on the plans for changing the location of the discharge point requested by the authorities. Lastly, all the steps related with GHG emissions were performed during the first six months of the year.

Biollano operations centre (Puertollano)

During the first half of 2023, the Biollano plant concentrated on consolidating the improvement in its emissions readings. A new photovoltaic solar plant was also built to reduce consumption at the biogas treatment plant and improve the facility's overall energy efficiency while reducing its carbon footprint.

In July 2023, a filter was introduced to clean the floats where the cooling towers are located in order to reduce the presence of solids in that area, so boosting the plant's performance, reducing water consumption and preventing breaches of any of the wastewater limits for the presence of solids, chlorine or COD.

Another sustainability target Biollano has set itself for 2023 is to reduce the generation of urban waste that goes to landfill. To do that it has stepped up education and awareness drives among ENCE and subcontracted staff.

Approval was obtained for the research, development and experimentation phases of the production test for the reuse of wood crate waste; the wood combustion test is scheduled to take place in August. The results of the test will be presented to the regional environmental department for assessment and possible approval for use as a fuel.

31. Events after the reporting date

No significant events have taken place since 30 June 2023, other than those already disclosed in these interim condensed consolidated financial statements, that would imply having to modify them.

Appendix I – Condensed Consolidated Financial Information for the PULP and RENEWABLES Businesses

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2023 AND 31 DECEMBER 2022

	30 June 2023				31 Dec. 2022			
€ 000	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets:								
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	16.530	34.363	(12.423)	38.470	15.617	35.000	(12.711)	37.906
Property, plant and equipment	601.403	377.937	(7.992)	971.348	603.372	389.020	(8.516)	983.876
Biological assets	60.158	179	-	60.337	60.375	156	-	60.531
Non-current financial assets:								
Securities portfolio	112.531	-	(112.531)	-	112.528	-	(112.528)	-
Investments accounted for using the equity method	48	-	-	48	39	1	-	40
Loans to group companies and associates	19.400		(19.400)	-	18.575	-	(18.575)	-
Hedging derivatives	-	2.133	-	2.133	-	3.331	-	3.331
Other financial assets	23.621	17.907	-	41.528	20.753	12.063	-	32.816
Deferred tax assets	32.810	21.473	3.118	57.401	30.432	19.367	3.190	52.989
	866.501	**453.992**	**(149.228)**	**1.171.265**	**861.691**	**458.938**	**(149.140)**	**1.171.489**
CURRENT ASSETS:								
Inventories	82.334	22.514	-	104.848	80.486	21.860	-	102.346
Trade and other receivables	36.157	16.374	(2.385)	50.146	39.650	39.187	(29.214)	49.623
Other taxes receivable	16.397	8.146	-	24.543	19.722	1.288	-	21.010
Income tax receivable	10.949	11.524	-	22.473	6.761	1.267	-	8.028
Current financial assets:								
Loans to group companies and associates	263	140	(367)	36	389	45	(398)	36
Hedging derivatives	1.235	3.651	-	4.886	-	2.579	-	2.579
Other financial assets	3.419	28	-	3.447	9.870	28	-	9.898
Cash and cash equivalents	323.278	41.121	-	364.399	278.376	134.537	-	412.913
Other current assets	6.467	2.517	-	8.984	1.874	408	-	2.282
	480.499	**106.015**	**(2.752)**	**583.762**	**437.128**	**201.199**	**(29.612)**	**608.715**
TOTAL ASSETS	**1.347.000**	**560.007**	**(151.980)**	**1.755.027**	**1.298.819**	**660.137**	**(178.752)**	**1.780.204**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2023 AND 31 DECEMBER 2022

	30 June 2023				31 Dec. 2022			
€ 000	Pulp	Renewables	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share capital	221.645	22.607	(22.607)	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
Reserves	158.571	(27.237)	6.067	137.401	118.812	(31.766)	6.872	93.918
Interim dividend	-	-	-	-	(66.553)	-	-	(66.553)
Translation differences	(33)	-	-	(33)	1	-	-	1
Own shares - parent company shares	(12.924)	-	-	(12.924)	(12.958)	-	-	(12.958)
Valuation adjustments	41.482	5.040	(2.470)	44.052	40.327	5.237	(2.566)	42.998
Other equity instruments	1.358	-	-	1.358	3.753	-	-	3.753
Other shareholder contributions	-	170.517	(170.517)	-	-	170.517	(170.517)	-
Consolidated profit/(loss) for the period	(8.605)	7.895	(3.459)	(4.169)	243.496	4.542	(818)	247.220
Equity attributable to equity holders of the parent	**572.270**	**227.777**	**(241.941)**	**558.106**	**719.299**	**220.089**	**(238.588)**	**700.800**
Non-controlling interests	**-**	**6.376**	**112.102**	**118.478**	**400**	**8.818**	**108.018**	**117.236**
TOTAL EQUITY	**572.270**	**234.153**	**(129.839)**	**676.584**	**719.699**	**228.907**	**(130.570)**	**818.036**
NON-CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	-	78.568	-	78.568	-	78.436	-	78.436
Bank borrowings	292.924	31.266	-	324.190	86.960	43.454	-	130.414
Other financial liabilities	74.651	1.610	-	76.261	76.221	1.036	-	77.257
Derivative financial instruments	50	-	-	50	-	-	-	-
Grants	9.480	554	-	10.034	5.783	625	-	6.408
Non-current provisions	28.875	122	-	28.997	27.881	102	-	27.983
Non-current accruals and deferred income	11	2.727	-	2.738	11	3.230	-	3.241
Other non-current liabilities	31.356	69.014	-	100.370	32.392	71.950	-	104.342
Borrowings from group companies and associates	-	37.243	(19.400)	17.843	-	36.418	(18.575)	17.843
	437.347	**221.104**	**(19.400)**	**639.051**	**229.248**	**235.251**	**(18.575)**	**445.924**
CURRENT LIABILITIES:								
Borrowings:								
Notes and other marketable securities	-	-	-	-	63.300	-	-	63.300
Bank borrowings	71.316	24.733	-	96.049	8.685	27.091	-	35.776
Other financial liabilities	11.544	875	-	12.419	11.355	661	-	12.016
Derivative financial instruments	3	-	-	3	358	-	-	358
Current borrowings from related parties	114	508	(368)	254	12	749	(398)	363
Trade and other payables	209.095	67.970	(2.373)	274.692	218.524	156.627	(29.209)	345.942
Income tax payable	-	942	-	942	13	-	-	13
Other taxes payable	7.289	1.906	-	9.195	5.928	2.856	-	8.784
Other current liabilities	2.002	5.145	-	7.147	1.930	4.962	-	6.892
Current provisions	36.020	2.671	-	38.691	39.767	3.033	-	42.800
	337.383	**104.750**	**(2.741)**	**439.392**	**349.872**	**195.979**	**(29.607)**	**516.244**
TOTAL EQUITY AND LIABILITIES	**1.347.000**	**560.007**	**(151.980)**	**1.755.027**	**1.298.819**	**660.137**	**(178.752)**	**1.780.204**

(*) This business includes the renewable gas (biomethane) business

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND 2022

	First-half 2023				First-half 2022			
€ 000	Pulp	Renewables (**)	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables (**)	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	335.117	125.685	(1.989)	458.813	379.998	175.226	(1.538)	553.686
Gains/(losses) on hedging transactions	(730)	-	-	(730)	(11.313)	-	-	(11.313)
Changes in inventories of finished goods and work in progress	4.320	(6.761)	-	(2.441)	(8.964)	-	-	(8.964)
Self-constructed assets	5.216	1.397	-	6.613	2.834	1.319	-	4.153
Other operating income	5.757	371	(625)	5.503	1.551	1.021	(541)	2.031
Grants taken to profit and loss	3.845	1.516	-	5.361	3.777	1.440	-	5.217
Operating income subtotal	353.525	122.208	(2.614)	473.119	367.883	179.006	(2.079)	544.810
Cost of goods sold	(183.548)	(40.592)	1.990	(222.150)	(169.807)	(55.251)	1.538	(223.520)
Employee benefits expense	(43.264)	(10.061)	-	(53.325)	(36.693)	(8.603)	-	(45.296)
Depreciation and amortisation charges	(26.216)	(17.542)	808	(42.950)	(20.427)	(19.991)	512	(39.906)
Depletion of forest reserve	(5.033)	-	-	(5.033)	(3.971)	(7)	-	(3.978)
Impairment of and gains/(losses) on disposal of fixed assets	(505)	254	-	(251)	(1.060)	(36.988)	727	(37.321)
Impairment of financial assets	(652)	(29)	-	(681)	(3)	(40)	-	(43)
Other operating expenses	(98.833)	(39.912)	626	(138.119)	(91.686)	(36.551)	541	(127.696)
Operating expenses subtotal	(358.051)	(107.882)	3.424	(462.509)	(323.647)	(157.431)	3.318	(477.760)
OPERATING PROFIT/(LOSS)	**(4.526)**	**14.326**	**810**	**10.610**	**44.236**	**21.575**	**1.239**	**67.050**
Finance income								
From equity instruments:								
Third parties	29	-	-	29	-	-	-	-
From marketable securities & other financial instruments:								
Related parties	333	19	(333)	19	655	-	(655)	-
Third parties	1.497	437	-	1.934	1.544	88	-	1.632
Finance costs								
Borrowings from related parties	-	(628)	333	(295)	-	(1.301)	655	(646)
Third-party borrowings	(8.380)	(6.264)	-	(14.644)	(6.722)	(7.977)	-	(14.699)
Change in fair value of financial instruments	-	-	-	-	-	317	-	317
Exchange differences	(457)	-	-	(457)	2.072	(31)	-	2.041
NET FINANCE INCOME/(COST)	**(6.978)**	**(6.436)**	**-**	**(13.414)**	**(2.451)**	**(8.904)**	**-**	**(11.355)**
Share of profit/(loss) of entities accounted for using the equity method	2	-	-	2	(44)	-	-	(44)
PROFIT/(LOSS) BEFORE TAX	**(11.502)**	**7.890**	**810**	**(2.802)**	**41.741**	**12.671**	**1.239**	**55.651**
Income tax	2.897	1.200	(72)	4.025	(1.355)	(7.308)	(73)	(8.736)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	**(8.605)**	**9.090**	**738**	**1.223**	**40.386**	**5.363**	**1.166**	**46.915**
Profit/(loss) for the period from continuing operations attributable to non-controlling interests	-	(1.195)	(4.197)	(5.392)	-	994	(3.212)	(2.218)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (*)	**(8.605)**	**7.895**	**(3.459)**	**(4.169)**	**40.386**	**6.357**	**(2.046)**	**44.697**

(*) 100% from continuing operations
(**) This business includes the renewable gas (biomethane) business

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND 2022

	First-half 2023				First-half 2022			
€ 000	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewables (*)	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING ACTIVITIES:								
Profit/(loss) before tax from continuing operations	(11.502)	7.890	810	(2.802)	41.741	12.671	1.239	55.651
Adjustment for:								
Depreciation and amortisation	31.251	17.542	(810)	47.983	24.398	19.998	(512)	43.884
Changes in provisions and other deferred expense (net)	12.940	1.728	-	14.668	(2.413)	586	-	(1.827)
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and financial	559	(253)	-	306	1.060	36.988	(727)	37.321
Adjustments for tariff shortfall/surplus (electricity market)	(2.470)	(8.087)	-	(10.557)	14.417	12.081	-	26.498
Finance income and costs (net)	6.465	6.435	-	12.900	2.881	8.873	-	11.754
Grants taken to profit and loss	(392)	(71)	-	(463)	(254)	(71)	-	(325)
	48.353	**17.294**	**(810)**	**64.837**	**40.089**	**78.455**	**(1.239)**	**117.305**
Changes in working capital:								
Inventories	(9.636)	(6.025)	-	(15.661)	8.566	(1.197)	-	7.369
Trade and other receivables	(1.237)	13.775	(26.837)	(14.299)	(23.170)	(1.345)	-	(24.515)
Financial and other current assets	821	-	-	821	638	(12)	-	626
Trade payables, other payables and other liabilities	(10.871)	(92.629)	26.837	(76.663)	(17.276)	37.180	-	19.904
	(20.923)	**(84.879)**	**-**	**(105.802)**	**(31.242)**	**34.626**	**-**	**3.384**
Other cash flows used in operating activities:								
Interest paid, net (including right-of-use assets)	(4.452)	(6.444)	-	(10.896)	(3.328)	(9.767)	-	(13.095)
Income tax paid	(3.932)	(10.149)	-	(14.081)	(1.887)	(2.457)	-	(4.344)
Other amounts received/(paid)	-	-	-	-	-	-	-	-
	(8.384)	**(16.593)**	**-**	**(24.977)**	**(5.215)**	**(12.224)**	**-**	**(17.439)**
Net cash flows (used in)/from operating activities	**7.544**	**(76.288)**	**-**	**(68.744)**	**45.373**	**113.528**	**-**	**158.901**
INVESTING ACTIVITIES:								
Payments for investments:								
Property, plant and equipment and biological assets	(24.543)	(2.626)	-	(27.169)	(23.841)	(4.658)	-	(28.499)
Intangible assets	(2.483)	(285)	-	(2.768)	(1.595)	(149)	-	(1.744)
Financial assets	(122)	406	295	579	(28)	0	-	(28)
	(27.148)	**(2.505)**	**295**	**(29.358)**	**(25.464)**	**(4.807)**	**-**	**(30.271)**
Proceeds from disposals:								
Property, plant and equipment	(79)	-	-	(79)	3	-	-	3
Financial assets	(400)	-	400	-	-	380	-	380
	(479)	**-**	**400**	**(79)**	**3**	**380**	**-**	**383**
Net cash flows used in investing activities	**(27.627)**	**(2.505)**	**695**	**(29.437)**	**(25.461)**	**(4.427)**	**-**	**(29.888)**
FINANCING ACTIVITIES:								
Proceeds from/(payments for) equity instruments:								
Transactions with non-controlling interests	5.630	-	-	5.630	-	-	-	-
Buyback of own equity instruments	(34.068)	-	-	(34.068)	(26.997)	-	-	(26.997)
Disposal of own equity instruments	34.380	-	-	34.380	28.385	-	-	28.385
	5.942	**-**	**-**	**5.942**	**1.388**	**-**	**-**	**1.388**
Proceeds from/(repayments of) financial liabilities:								
Borrowings from related parties	1	694	(695)	-	(655)	655	-	-
Proceeds from issuance of bonds, net of arrangement fees	(63.300)	(1)	-	(63.301)	(39.432)	(14.000)	-	(53.432)
Increase/(decrease) in bank borrowings, net of issuance costs	267.275	(14.700)	-	252.575	(10.091)	(14.699)	-	(24.790)
Increase/(decrease) in other borrowings	(2.259)	-	-	(2.259)	(3.976)	-	-	(3.976)
Payments for right-of-use assets	(2.702)	(616)	-	(3.318)	(2.226)	(530)	-	(2.756)
Grants received, net	636	-	-	636	1.377	-	-	1.377
	199.651	**(14.623)**	**(695)**	**184.333**	**(55.003)**	**(28.574)**	**-**	**(83.577)**
Dividends and payments on other equity instruments								
Dividends paid to ENCE shareholders	(140.608)	-	-	(140.608)	(13.119)	-	-	(13.119)
	(140.608)	**-**	**-**	**(140.608)**	**(13.119)**	**-**	**-**	**(13.119)**
Net cash flows from/(used in) financing activities	**64.985**	**(14.623)**	**(695)**	**49.667**	**(66.734)**	**(28.574)**	**-**	**(95.308)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**44.902**	**(93.416)**	**-**	**(48.514)**	**(46.822)**	**80.527**	**-**	**33.705**
Cash and cash equivalents - opening balance	278.376	134.537	-	412.913	318.496	61.468	-	379.964
Cash and cash equivalents - closing balance	323.278	41.121	-	364.399	271.674	141.995	-	413.669

(*) This business includes the renewable gas (biomethane) business

ENCE Energía y Celulosa, S.A. and subsidiaries

Interim Consolidated Management Report for the six months ended30 June 2023

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Interim Consolidated Management Report for
the six months ended 30 June 2023

1. Introduction

This interim 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 2022.

An integral part of this interim consolidated management report, and appended thereto, is the Group earnings report for the second quarter of 2023, 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 2023.

The reader should also note that the information provided in this interim consolidated management report is complemented by the environmental disclosures provided in note 30.

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 & 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 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.

The Company also has an Internal Audit Department and a Compliance Department. Both report to the Audit Committee. The Compliance Department 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 Operational Excellence Committee is made up of the Chairman & CEO, who chairs it, the members of the Management Committee and the management teams at the pulp biomills. That committee meets weekly to monitor the pulp biomills' 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.

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. It actively involves all of the areas of the organisation with specific responsibilities for each phase of the process.

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 then monitors developments with respect to the risks so identified. When updating the risk map, it can also determine certain risks to have dissipated or materialised. 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 Group's key risk factors.

The result of this process is the Risk Register and Map, which is 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 the 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 Group'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 Reporting
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. Criminal Risks
7. Tax Risks
8. Climate Change Related Risks

In keeping with the Risk Management and Control Policy, the Group 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 mitigating 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 own employees and partners and workers that are not employees.
2. It similarly takes a zero-tolerance stance towards any situation in which the performance of any of activity could cause any damage whatsoever 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 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 directly tied 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 perspectives, with the aim of arranging financial hedges to mitigate currency exposure if necessary.

At 30 June 2023, the Group had arranged a number of currency forwards hedging approximately 22% of forecast pulp sales in 2023 and 9% of the sales forecast for the first four months of 2024.

c) TRADE CREDIT RISK - PULP BUSINESS

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

ENCE has a credit insurance policy, which has been renewed until 31 December 2024, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

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

d) LIQUIDITY AND CAPITAL RISK

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

This is one of the risk factors monitored most closely by the 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, there is 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 Group'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.

f) REGULATORY DEVELOPMENTS IN THE ENERGY MARKET

Changes to the regulations governing the production of energy that affect the remuneration assigned to the renewable energy plants operated by the Group, specifically the remuneration for investment and remuneration for operation parameters, could undermine future remuneration and thereby affect the Group's profitability.

ENCE strives to calibrate its output levels as necessary to achieve the initially-estimated returns despite possible changes in energy market regulations.

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 its productive processes and maintaining a customer complaints/claims management system. In 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 Group 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 raw materials such as timber and biomass, chemical products, fuel, gas, industrial supplies and spare parts, logistics and transport costs, strike action, economic fallout from sector and environmental regulations and technological developments on the part of competitors. 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 drafting of contingency plans, maintenance of minimum stock buffers, enhanced communication with transport providers and analysis of the current logistics model.

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 Group. 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 2023 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 Renewables 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 the first half of 2023, the Group also continued to invest to make its facilities more environmentally-friendly.

Objective: Business Continuity

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.

Given that the risk of water restrictions in the vicinity of our operations materialised in the second half of 2022, significantly affecting the supply of water to our facilities and therefore eroding the Company's revenue, the Group has set ambitious targets for reducing its facilities' water consumption, which are reviewed monthly by the Management Committee and the Board of Directors. That effort has translated into a significant decrease in unit water consumption in recent years. In addition, due to materialisation of that risk factor at the Pontevedra biomill in 2022, ENCE has embarked on a pioneering pilot test in Spain consisting of the installation of equipment that allows it to regenerate the water originating in the adjacent urban wastewater treatment facility for use in the pulp production process, so complementing its regular water supply. In parallel, ENCE has launched a project for the recovery and recirculation of process waters in order to reduce incoming water requirements.

In rulings issued on 6 March 2023, the Supreme Court upheld the appeals lodged by ENCE, confirming the legality of the 60-year extension of the concession over the land on which the Pontevedra biomill is located, i.e., until 2073. Subsequently, the state attorney and the town council of Pontevedra applied to have the Supreme Court ruling on the appeal related with the case brought by the town council against the concession extension annulled on technicalities. Likewise, the state attorney attempted to have the Supreme Court sentence related with the case brought by Greenpeace annulled. On 21 June 2023, the Supreme Court dismissed their annulment proceedings, reaffirming the validity of its original rulings, so that at the date of preparing this report, all doubts about the rulings have been dispelled and the potential risks that lingered at the end of 2022 have dissipated.

Since the Supreme Court is the highest court in respect of all lower court orders, its decisions cannot be appealed. The only remaining possible course of appeal would be to bring a case before the Constitutional Court of Spain; such a case would only prosper if the claimant could prove that one of the parties' fundamental rights were breached in the process.

Objective: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, inspired 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 matters and issues related to ENCE's own staff and the employees of the firms that collaborate with it at its production facilities include: potential harm to worker health; workplace accidents; the organisation of strike action; staff 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.

In the first half of 2023, 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.

It also drafted and implemented its Whistleblower Policy and Whistleblower Procedure, in compliance with Law 2/2023 on the protection of persons who report breaches of law. Lastly, it implemented the software needed to support the whistleblower channel.

Objective: Tax Risk Control

The Audit Committee monitors the Group's tax-related risks with a view to assisting the Board with its task of determining its 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 the interim condensed consolidated 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-sale of own shares

The disclosures concerning own shares and related transactions in the first half of 2023 are provided in note 17 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2023.

Appendix I – Second-Quarter 2023 Earnings Report

Earnings Report 2Q23

27 July 2023

Global ESG score: 90/100

CONTENTS

EXECUTIVE SUMMARY

Market figures	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
BHKP (USD/t) average price	1,101.6	1,241.3	*(11.3%)*	1,338.8	*(17.7%)*	1,220.2	1,199.8	*1.7%*
Average exchange rate (USD/€)	1.09	1.07	*1.8%*	1.07	*1.6%*	1.08	1.10	*(1.7%)*
BHKP (€/t) average price	1,012.1	1,160.6	*(12.8%)*	1,249.8	*(19.0%)*	1,131.0	1,092.7	*3.5%*

Source: Bloomberg & OMIE

Operating Metrics	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Pulp production (t)	**225,324**	**266,954**	***(15.6%)***	**252,679**	***(10.8%)***	**478,003**	**465,888**	***2.6%***
Navia pulp production	137,085	154,786	*(11.4%)*	153,866	*(10.9%)*	290,951	269,501	*8.0%*
Pontevedra pulp production	88,240	112,168	*(21.3%)*	98,812	*(10.7%)*	187,052	196,387	*(4.8%)*
Pulp sales (t)	**244,875**	**287,600**	***(14.9%)***	**216,618**	***13.0%***	**461,493**	**487,059**	***(5.2%)***
Average sales pulp price (€/t)	577.7	723.9	*(20.2%)*	762.4	*(24.2%)*	664.4	693.9	*(4.2%)*
Cash cost (€/t)	534.5	489.5	*9.2%*	635.8	*(15.9%)*	587.4	499.7	*17.5%*
Operating margin per ton (€/t)	43.2	234.4	*(81.6%)*	126.6	*(65.9%)*	77.0	194.2	*(60.3%)*
Renewable Energy sales volume (MWh)	**250,145**	**382,440**	***(34.6%)***	**305,608**	***(18.1%)***	**555,753**	**823,124**	***(32.5%)***
Average sales price (€/MWh)	148.1	128.3	*15.4%*	151.4	*(2.2%)*	149.9	139.4	*7.5%*
Remuneration for investment (€ m)	6.2	10.2	*(39.1%)*	6.2	*1.1%*	12.4	20.5	*(39.4%)*

	Proforma			Proforma [1]				
P&L € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Revenue from Pulp business	155.6	221.5	*(29.8%)*	179.6	*(13.4%)*	335.1	380.0	*(11.8%)*
Revenue from Renewable Energy business	43.7	99.1	*(55.9%)*	82.0	*(46.7%)*	125.7	175.2	*(28.3%)*
Consolidation adjustments	(0.6)	(1.0)		(1.3)		(2.0)	(1.5)	
Total revenue	**198.6**	**319.6**	*(37.9%)*	**260.2**	*(23.7%)*	**458.8**	**553.7**	*(17.1%)*
Pulp business EBITDA	8.2	49.0	*(83.3%)*	25.6	*(68.1%)*	33.8	69.8	*(51.6%)*
Renewable Energy business EBITDA	4.2	52.9	*(92.1%)*	27.4	*(84.7%)*	31.6	78.6	*(59.8%)*
EBITDA	**12.4**	**101.9**	*(87.9%)*	**53.1**	*(76.7%)*	**65.4**	**148.4**	*(55.9%)*
Depreciation, amortisation and forestry depletion	(24.0)	(22.9)	*5.0%*	(24.0)	*0.3%*	(48.0)	(43.9)	*9.3%*
Impairment of and gains/(losses) on fixed-assets	(0.0)	(36.6)	*(99.9%)*	(0.2)	*(87.9%)*	(0.3)	(37.3)	*(99.3%)*
Other non-ordinary results of operations	(6.6)	(0.1)	*n.s.*	-	*n.s.*	(6.6)	(0.1)	*n.s.*
EBIT	**(18.3)**	**42.4**	*n.s.*	**28.9**	*n.s.*	**10.6**	**67.1**	*(84.2%)*
Net finance cost	(7.6)	(8.2)	*(7.3%)*	(5.4)	*41.6%*	(13.0)	(13.7)	*(5.3%)*
Other finance income/(cost) results	(0.0)	1.6	*n.s.*	(0.4)	*(94.3%)*	(0.4)	2.3	*n.s.*
Profit before tax	**(25.9)**	**35.8**	*n.s.*	**23.1**	*n.s.*	**(2.8)**	**55.6**	*n.s.*
Income tax	6.6	(5.1)	*n.s.*	(2.6)	*n.s.*	4.0	(8.7)	*n.s.*
Consolidated Net income	**(19.3)**	**30.7**	*n.s.*	**20.5**	*n.s.*	**1.2**	**46.9**	*(97.4%)*
Non-controlling interests	2.5	0.9	*191.0%*	(7.9)	*n.s.*	(5.4)	(2.2)	*143.1%*
Atributable Net Income	**(16.8)**	**31.6**	*n.s.*	**12.6**	*n.s.*	**(4.2)**	**44.7**	*n.s.*
Earnings per share (Basic EPS)	(0.07)	0.13	*n.s.*	0.05	*n.s.*	(0.02)	0.18	*n.s.*

	Proforma			Proforma [2]				
Cash flow € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
EBITDA	**12.4**	**101.9**	*(87.9%)*	**53.1**	*(76.7%)*	**65.4**	**148.4**	*(55.9%)*
Change in working capital	30.9	4.9	*n.s.*	(136.7)	*n.s.*	(105.8)	3.4	*n.s.*
Maintenance capex	(3.2)	(5.8)	*(45.5%)*	(2.0)	*55.4%*	(5.2)	(11.0)	*(52.8%)*
Net interest Payment	(6.3)	(7.6)	*(17.3%)*	(4.6)	*36.1%*	(10.9)	(13.1)	*(16.8%)*
Income tax received/(paid)	(14.1)	(4.4)	*219.1%*	0.0	*n.s.*	(14.1)	(4.3)	*224.2%*
Normalised free cash flow	**19.7**	**89.0**	***(77.9%)***	**(90.2)**	***n.s.***	**(70.6)**	**123.3**	***n.s.***
Energy regulation adjustment (regullatory collar)	(4.8)	(13.8)	*n.s.*	(5.8)	*(16.4%)*	(10.6)	26.5	*n.s.*
Other cash adjustments	(0.1)	3.7	*n.s.*	7.8	*n.s.*	7.8	(2.0)	*n.s.*
Efficiency and expansion capex	(10.6)	(5.6)	*87.8%*	(2.9)	*n.s.*	(13.5)	(14.5)	*(7.0%)*
Sustainability capex and other	(3.5)	(2.4)	*49.0%*	(7.8)	*(54.8%)*	(11.3)	(4.7)	*138.9%*
Disposals	(0.1)	0.0	*n.s.*	-	*n.s.*	(0.1)	0.4	*n.s.*
Free cash flow	**0.6**	**71.0**	*(99.1%)*	**(98.8)**	*n.s.*	**(98.2)**	**129.0**	*n.s.*
Dividends from the parent	(77.7)	(13.3)	*n.s.*	(62.9)	-	(140.6)	(13.3)	*n.s.*

Net debt € m	Jun-23	Dec-22	Δ%
Net financial debt Pulp business	123.7	(36.1)	*n.s.*
Net financial debt Renewable Energy business	86.6	6.1	*n.s.*
Net financial debt	**210.4**	**(30.0)**	*n.s.*

Pro forma 1Q23 and 2Q23: The accounting impact of the update of the remuneration parameters applicable to the Group's renewable energy plants, with retroactive effect from 1 January 2023, has been allocated to each quarter with the following impact on the already-published 1Q23 earnings:

1) The updates imply a reduction of €35.9m in consolidated revenue and of €17.8m in profit attributable to equity holders of the parent in the first quarter with respect to the figures previously published and will be offset by higher annual remuneration for investment in the affected plants of €14m from this year.
2) The updated parameters have no impact on the free cash flow generated in the first quarter.

- ✓ The second-quarter results were marked by the drop in pulp prices and the accounting impact of the updated regulatory energy prices approved at the end of June with retroactive effect from 1 January 2023.
- ✓ From an operations point of view, it is worth highlighting the quarter-on-quarter reduction of over €100/tonne in the cash cost in 2Q23 to €535/tonne, partially mitigating the impact of the decrease of 24% in the average sales price during the quarter.
- ✓ Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power plants for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively. The regulatory price for 2023 has been set at €109/MWh, compared to the price of €208/MWh published in the draft Order dated 28 December 2022, which is now void.
- ✓ The updated regulatory energy price implied an increase in cash generation in the first half of approximately €14m and, for accounting purposes, a reduction in revenue of €65m, with no impact on cash, to be offset by higher annual remuneration for investment of €14m from this year.
- ✓ As a result, the Group reported EBITDA of €12m in 2Q23 and of €65m in 1H23. Under the previously proposed regulatory price and methodology, first-half EBITDA would have been €130m.
- ✓ Completion of the sale of the first photovoltaic power plant under construction in Jaén in 1Q23 increased EBITDA by €23m. The anticipated completion of the sale of the rest of the plants under development in Huelva, Seville and Granada during the coming quarters will boost EBITDA by an estimated €27m.
- ✓ Attributable net income for the first half was affected by the accounting impact - in the amount of €34m - of the update of the regulatory energy price, which will be offset by higher attributable net income throughout the rest of the plants' regulatory useful lives. Under the previously proposed regulatory price and methodology, attributable net income for the first half would have been €30m, rather than the reported loss of €4m.
- ✓ Free cash flow generated during the first six months before working capital movements totalled €8m. The €106m increase in working capital in the first half reflects the repayment of the €85m of surplus remuneration collected as a result of the regulatory adjustments made in renewables in 2022, as well as normalisation of activity at Pontevedra biomill.
- ✓ The Company paid out dividends from 2022 earnings of €0.29 per share in both March and May 2023 for a total payment of €140m, implying a shareholder return of 16%.
- ✓ In 1H23, Ence redeemed the remaining €63m of convertible bonds issued in March 2018 and arranged a number of bilateral loans with several financial institutions, raising €268m, to leave the Group's cash balance at €377m as at 30 June 2023.
- ✓ The Group's net debt stood at €210m at the June close, implying leverage of just 1.1 times mid-cycle EBITDA (2015-2022).
- ✓ On 7 February 2023, Spain's Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073 and on 4 July 2023, it dismissed the proceedings brought by the town council of Pontevedra and the state attorney to have the concession extension annulled on technicalities.
- ✓ The Company's financial strength gives it flexibility to take advantage of growth and diversification opportunities in its two core businesses.
    - o In the Pulp business, Ence continues to boost the sale of its differentiated products and to diversify its production into pulp for absorbent personal care products (fluff pulp).
    - o In parallel, Ence continues to analyse the project planned for As Pontes, Coruña, which was declared 'strategic' by the regional government of Galicia in June. It is an innovative project for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence, without increasing its wood consumption.
    - o In the Renewables business, Ence Biogas aims to develop 20 biomethane plants in the next five years. This subsidiary already has a pipeline of 15 projects under development in Spain and in 1Q23 it hired Sener to perform the conceptual engineering work for six of those facilities, which are expected to be commissioned in 2026.
    - o Likewise in the Renewables business, the Group also has a 140-MW portfolio of rights for participating in upcoming biomass capacity auctions and is exploring opportunities for generating industrial heat from biomass.
- ✓ Ence has been the leading sustainability player in the global pulp market for three years in a row, according to its most recent Sustainalytics score, having defended its overall ESG performance score of 90/100 in 2023.
- ✓ In June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance.

1. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in northeast 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 mostly locally from sources that can certify sustainable forest management.

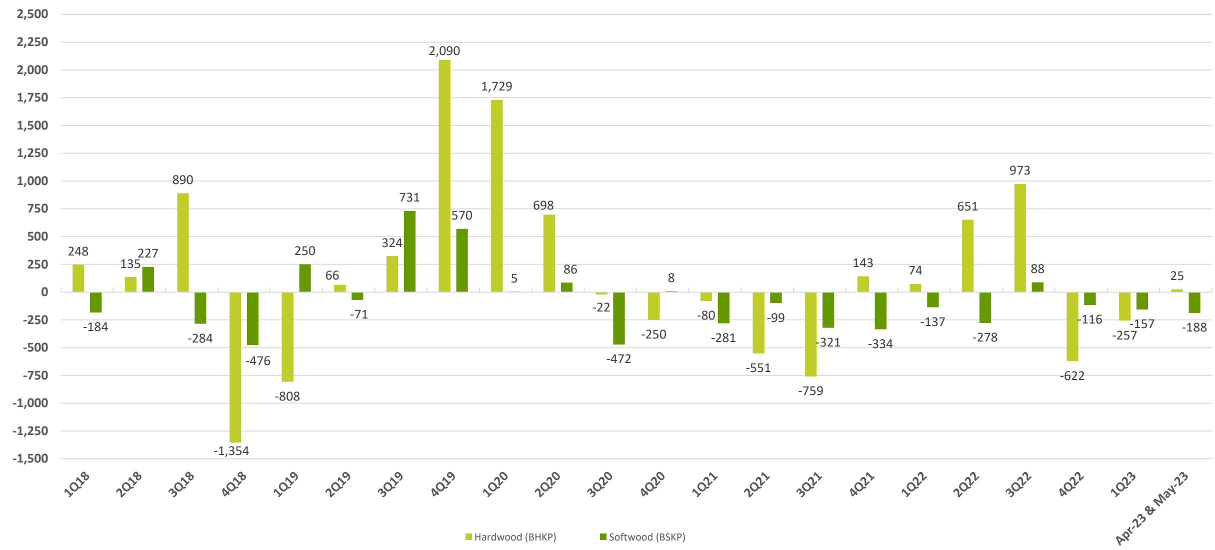
On 7 February 2023, Spain's Supreme Court upheld the legality of the extension of the Pontevedra biomill concession until 2073.

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. 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.

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

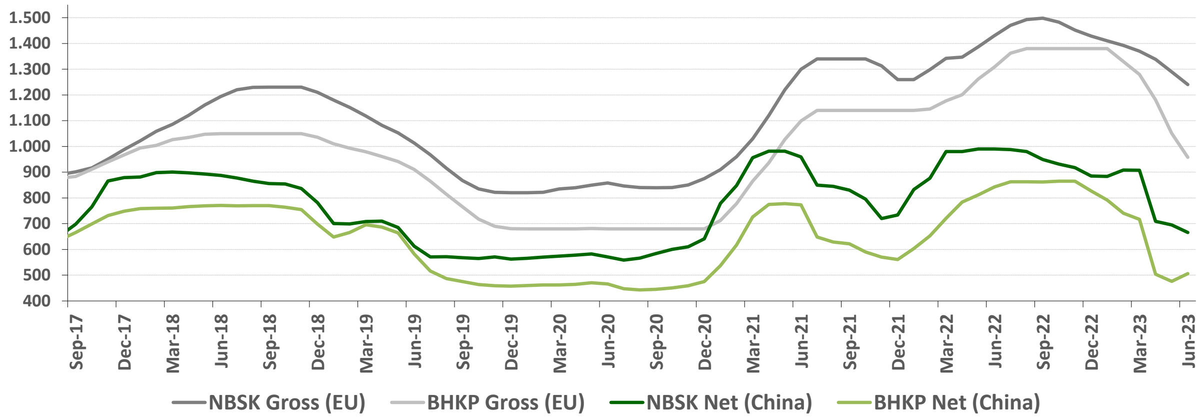


Source: PPPC–G100

Demand for pulp eased by 3% in the first five months of 2023, due mainly to destocking by the paper industry, particularly in the West. Demand shrank in all markets except for China, where it increased by 9%, boosted by the removal of Covid-related restrictions.

The dip in demand implied a 13-day increase in pulp producers' inventories to 56 days as of the end of May.

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



Source: FOEX

The benchmark price for hardwood pulp (BHKP) in Europe averaged $1,101/tonne (gross) in 2Q23, down 17.7% from 1Q23 and 11.3% lower than the 2Q22 average.

Market figures	**2Q23**	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
BHKP (USD/t) average price	1,101.6	1,241.3	*(11.3%)*	1,338.8	*(17.7%)*	1,220.2	1,199.8	*1.7%*
Average exchange rate (USD/€)	1.09	1.07	*1.8%*	1.07	*1.6%*	1.08	1.10	*(1.7%)*
BHKP (€/t) average price	1,012.1	1,160.6	*(12.8%)*	1,249.8	*(19.0%)*	1,131.0	1,092.7	*3.5%*

Source: Bloomberg & OMIE

2.2. Revenue from pulp sales

Pulp sales increased by 13% quarter-on-quarter to 244,875 tonnes in the second quarter. Year-on-year, sales volumes contracted by 14.9% due to the effect of the annual maintenance stoppages at both biomills, which were carried out in the second quarter of this year compared to the first quarter in 2022.

In the first half, pulp sales volumes declined by 5.2% year-on-year to 461,493 tonnes, shaped by pulp inventory factors.

Elsewhere, the second-quarter average sales price decreased by 24.2% quarter-on-quarter and 20.2% year-on-year to €577.7 per tonne (net), due mainly to the drop in benchmark prices in Europe, the movement in the euro exchange rate against the dollar and lower prices fetched on sales outside Europe. The average sales price decreased by 4.2% year-on-year in 1H23.

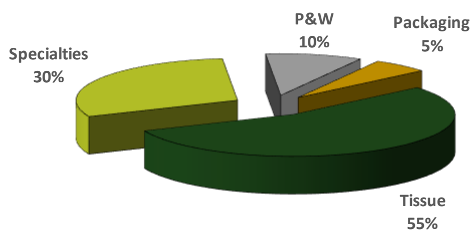
	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Pulp sales (t)	**244,875**	**287,600**	*(14.9%)*	**216,618**	*13.0%*	**461,493**	**487,059**	*(5.2%)*
Average sales price (€/t)	577.7	723.9	*(20.2%)*	762.4	*(24.2%)*	664.4	693.9	*(4.2%)*
Pulp sales revenue (€ m)	**141.5**	**208.2**	*(32.1%)*	**165.2**	*(14.3%)*	**306.6**	**338.0**	*(9.3%)*

The combination of the two factors left revenue from pulp sales at €141.5m in 2Q23, down 14.3% compared to 1Q23 and 32.1% versus 2Q22.

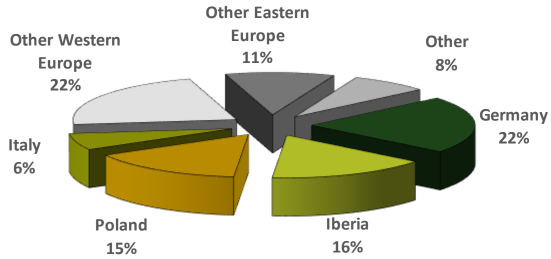
Ence's differentiated products, such as Naturcell and Powercell, which are more sustainable and better suited for replacing softwood pulp, accounted for 16% of revenue from pulp sales in 1H23, compared to 19% in 1H22. The lower contribution this year is attributable to the temporary narrowing of the gap between hardwood and softwood pulp prices observed in the first quarter.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 55% of revenue from pulp sales in 1H23, followed by the specialty paper segment, at 30%. The printing and writing paper segment accounted for 10% 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 92% of revenue from pulp sales in 1Q23. Germany and Iberia accounted for 22% and 16% of total revenue, respectively, followed by Poland (15%), and Italy (6%). The other western European countries accounted for 22% of the total, with the rest of Eastern Europe representing 11%.

2.3. Pulp production and cash cost

First-half pulp production amounted to 478,003 tonnes, up 2.6% year-on-year. The drop in production in the second quarter is attributable to the timing of the annual maintenance stoppages at the two biomills, which were carried out in the second quarter of this year compared to the first quarter in 2022.

	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Navia pulp production	137,085	154,786	*(11.4%)*	153,866	*(10.9%)*	290,951	269,501	*8.0%*
Pontevedra pulp production	88,240	112,168	*(21.3%)*	98,812	*(10.7%)*	187,052	196,387	*(4.8%)*
Pulp production (t)	**225,324**	**266,954**	*(15.6%)*	**252,679**	*(10.8%)*	**478,003**	**465,888**	*2.6%*

The cash cost fell by a noteworthy €100/tonne in 2Q23 versus 2Q22 to €535/tonne, thanks mainly to the drop in the cost of raw materials and energy. Moreover, the extra costs of €46/tonne recorded in 1Q23 fell back to €28/tonne in 2Q23 thanks to lower costs associated with the incident affecting the turbine at the co-generation plant and the water treatment facility in Pontevedra. The repair of the co-generation turbine at the Pontevedra biomill concluded in July.

Figures in €/t	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Total cash cost	534.5	489.5	*9.2%*	635.8	*(15.9%)*	587.4	499.7	*17.5%*
Operating margin	**43.2**	**234.4**	*(81.6%)*	**126.6**	*(65.9%)*	**77.0**	**194.2**	*(60.3%)*

Leaving aside the above-mentioned extra cost of €28/tonne, the cash cost would only have increased by 4.5% year-on-year in 2Q23, due largely to the different timing of the maintenance stoppages in both years.

The lower average sales price, coupled with the growth in costs, drove a reduction in unit operating profit to €43/tonne in 2Q23 and €77/tonne in 1H23, compared to €234/tonne and €194/tonne in 2Q22 and 1H22, respectively.

2.4. Other income

Ence's pulp production operations are self-sufficient electricity-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	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
Revenues from energy sales linked to pulp (€ m)	8.8	10.2	*(13.6%)*	7.4	*18.2%*	16.2	35.8	*(54.8%)*
Forestry and other revenue (€ m)	5.3	3.2	*67.5%*	7.0	*(23.5%)*	12.3	6.2	*98.4%*
Other income	**14.1**	**13.3**	*5.8%*	**14.4**	*(2.0%)*	**28.5**	**42.0**	*(32.2%)*

The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp business results in a reduction of €11.3m in revenues from energy sales in 1Q23 compared to the previously reported figures.

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory sub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively. The regulatory price for 2023 has been set at €109.31/MWh, compared to the price of €207.88/MWh published in the draft Order dated 28 December 2022, which is now void.

Although the price update had an accounting impact of €25.4m on first-half revenue, the impact on cash was positive thanks to the collection of €4.7m more annual remuneration for investment from this year on.

2.5. Statement of profit or loss

EBITDA in the Pulp business amounted to €8.2m in 2Q23 and €33.8m in 1H23, down 51.6% compared to 1H22. In addition to the margin squeeze implied by the sudden drop in pulp prices and more gradual correction in the cash cost, the updated regulatory energy price further eroded profits.

Although the regulatory energy price update had an accounting impact of €25.4m on first-half EBITDA, the impact on cash was positive thanks to the collection of €4.7m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half EBITDA in the Pulp business would have been €59.2m.

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

Figures in € m	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
Pulp sales revenue	141.5	208.2	*(32.1%)*	165.2	*(14.3%)*	306.6	338.0	*(9.3%)*
Other income	14.1	13.3	*5.8%*	14.4	*(2.0%)*	28.5	42.0	*(32.2%)*
Total net revenue	**155.6**	**221.5**	*(29.8%)*	**179.6**	*(13.4%)*	**335.1**	**380.0**	*(11.8%)*
EBITDA	**8.2**	**49.0**	*(83.3%)*	**25.6**	*(68.1%)*	**33.8**	**69.8**	*(51.6%)*
Depreciation and amortisation	(13.0)	(10.9)	*19.3%*	(13.2)	*(1.5%)*	(26.2)	(20.4)	*28.3%*
Depletion of forestry reserves	(2.7)	(2.3)	*21.1%*	(2.3)	*18.2%*	(5.0)	(4.0)	*26.7%*
Impairment of and gains/(losses) on fixed-asset disp	(0.3)	(0.3)	*(5.3%)*	(0.2)	*30.6%*	(0.5)	(1.1)	*(52.4%)*
Other non-recurring gains/(losses)	(6.6)	(0.1)	*n.s.*	-	*n.s.*	(6.6)	(0.1)	*n.s.*
EBIT	**(14.4)**	**35.5**	*n.s.*	**9.9**	*n.s.*	**(4.5)**	**44.2**	*n.s.*
Net finance cost	(4.3)	(3.5)	*23.2%*	(2.3)	*91.0%*	(6.6)	(4.5)	*44.9%*
Other financial results	(0.0)	1.5	*n.s.*	(0.4)	*(94.6%)*	(0.4)	2.0	*n.s.*
Profit before tax	**(18.7)**	**33.5**	*n.s.*	**7.2**	*n.s.*	**(11.5)**	**41.7**	*n.s.*
Income tax	4.9	(1.4)	*n.s.*	(2.0)	*n.s.*	2.9	(1.4)	*n.s.*
Net Income	**(13.8)**	**32.0**	*n.s.*	**5.2**	*n.s.*	**(8.6)**	**40.4**	*n.s.*

The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp business results in a reduction of €11.3m in revenues and €8.4m in net income in 1Q23 compared to the previously reported figures.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. These hedges implied a cash inflow of €0.2m in 2Q23 and a cash outflow of €0.7m in 1H23, compared to outflows €7.7m and €11.3m in the same periods of 2022, respectively. For the rest of 2023, Ence has arranged hedges over a notional amount of $60m with a weighted average ceiling of $/€1.09 and a weighted average floor of $/$1.05.

FX Hedges	1Q23	2Q23	3Q23	4Q23
Nominal hedged (USD Mn)	**25.0**	26.0	30.0	30.0
Average cap (USD / EUR)	**1.14**	1.10	1.09	1.09
Average floor (USD / EUR)	**1.11**	1.04	1.03	1.06

Below the EBITDA line, depreciation and amortisation charges increased to €13m in 2Q23 and €26.2m in 1H23, due to the resumption of depreciation of the Pontevedra biomill following the Supreme Court ruling upholding its continuity until 2073.

Forest depletion charges also increased to €2.7m in 2Q23 and €5m in 1H23 due to higher owned wood consumption.

“Other non-recurring operating items” includes €6.6m of inventory impairment allowances, as net pulp prices were below the amount at which the Group’s inventories were carried as at the June close.

Elsewhere, the business’s net finance cost increased to €4.3m in 2Q23 and €6.6m in 1H23, due mainly to a higher gross debt balance and the increase in interest rates. Other finance income/(cost) presents the effect of movements in exchange rates on working capital during the period: a net loss of €0.4m in 1H23 compared to a net gain of €2m in 1H22.

Lastly, tax income amounted to €4.9m in 2Q23 and €2.9m in 1Q23, compared to tax expense of €1.4m in the same periods of 2022, when the Company utilised tax credits related with the impairment losses recognised in respect of the Pontevedra biomill.

As a result, the Pulp business reported a net loss of €13.8m in 2Q23 and of €8.6m in 1H23, compared to net profit of €32m and €40.4m in the same periods of 2022, respectively.

2.6. Cash flow analysis

Net cash flows from operating activities amounted to €49.7m in 2Q23, up 41% year-on-year, thanks mainly to a lower working capital requirement. In 1H23, net cash from operating activities totalled €7.5m, compared to €45.4m in 1H22, shaped mainly by the drop in EBITDA.

Figures in € m	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
EBITDA	**8.2**	**49.0**	*(83.3%)*	**25.6**	*(68.1%)*	**33.8**	**69.8**	*(51.6%)*
Energy regulation adjustment (regullatory collar)	(0.7)	7.8	*n.s.*	(1.7)	*(58.7%)*	(2.5)	14.4	*n.s.*
Other cash adjustments	(1.0)	4.2	*n.s.*	6.5	*n.s.*	5.5	(2.4)	*n.s.*
Change in working capital	48.9	(22.7)	*n.s.*	(69.8)	*n.s.*	(20.9)	(31.2)	*(33.0%)*
Income tax received / (paid)	(3.9)	(1.9)	*108.3%*	-	*n.s.*	(3.9)	(1.9)	*108.4%*
Net interest received / (paid)	(1.7)	(1.1)	*56.2%*	(2.8)	*(39.9%)*	(4.5)	(3.3)	*33.8%*
Net cash flow from operating activities	**49.7**	**35.3**	*41.0%*	**(42.2)**	*n.s.*	**7.5**	**45.4**	*(83.4%)*

The update of the remuneration parameters applicable to the renewable energy plants linked to the Pulp has no impact on the cash flow from operating activities generated in 1Q23 compared to the previously reported figures.

Working capital movements implied a cash inflow of €48.9m in the second quarter, due in part to the effect of the correction in pulp prices on trade receivables. In 1H23, working capital movements implied a cash outflow of €20.9m due to the increase in inventories and reduction in trade payables, including the repayment of surplus remuneration collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Inventories	(1.9)	8.3	*n.s.*	(7.7)	*(75.0%)*	(9.6)	8.6	*n.s.*
Trade and other receivables	43.5	(48.1)	*n.s.*	(44.7)	*n.s.*	(1.2)	(28.8)	*(95.7%)*
Financial and other current assets	1.1	0.6	*69.5%*	(0.3)	*n.s.*	0.8	0.6	*28.9%*
Trade and other payables	6.2	16.4	*(62.0%)*	(17.1)	*n.s.*	(10.9)	(11.6)	*(6.5%)*
Change in working capital	**48.9**	**(22.7)**	*n.s.*	**(69.8)**	*n.s.*	**(20.9)**	**(31.2)**	*(33.0%)*

At 30 June 2023, the Pulp business had drawn down €89.1m under its non-recourse receivable discounting facilities, compared to €45.2m at year-end 2022.

Ence has also arranged several reverse factoring facilities, which were drawn down by €90.2m at the June close, compared to €76.5m at year-end. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

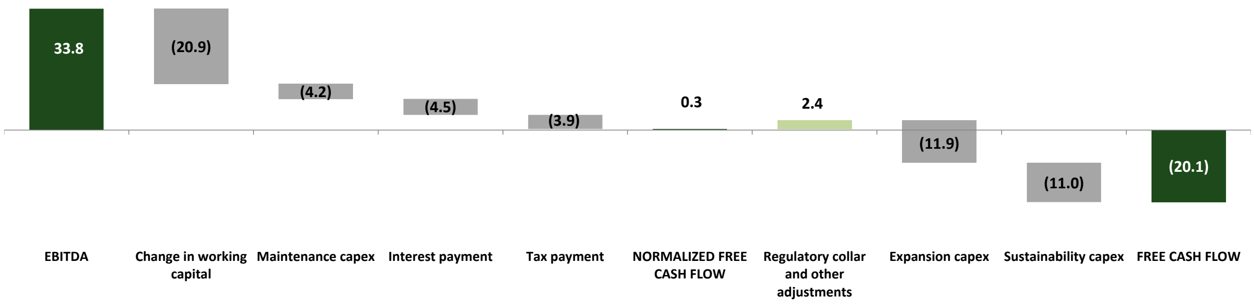
Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Maintenance capex	(2.7)	(5.4)	*(49.5%)*	(1.5)	*83.4%*	(4.2)	(9.9)	*(57.7%)*
Sustainability capex and other	(3.4)	(2.1)	*65.9%*	(7.6)	*(54.8%)*	(11.0)	(4.1)	*170.7%*
Efficiency and expansion capex	(9.6)	(3.7)	*155.7%*	(2.3)	*n.s.*	(11.9)	(11.4)	*3.5%*
Financial investments	(0.6)	(0.0)	*n.s.*	0.5	*n.s.*	(0.1)	(0.0)	*n.s.*
Investments	**(16.3)**	**(11.2)**	*45.7%*	**(10.8)**	*51.2%*	**(27.1)**	**(25.5)**	*6.7%*
Disposals	(0.5)	0.0	*n.s.*	-	*n.s.*	(0.5)	0.0	*n.s.*
Net cash flow used in investing activities	**(16.8)**	**(11.2)**	*50.0%*	**(10.8)**	*55.6%*	**(27.6)**	**(25.4)**	*8.5%*

Investments in efficiency and growth amounted to €16.3m in 2Q23 and €27.1m in 1H23. Maintenance capex declined to €2.7m in 2Q23 and €4.2m in 1H23, sustainability capex amounted to €3.4m in 2Q23 and €11m in 1H23 and investments in efficiency and growth came to €9.6m in 2Q23 and €11.9m in 1H23.

The sustainability investments were largely related with the new water recovery system in Pontevedra for use during periods of drought, as well as a range of initiatives targeted at reinforcing safety and reducing odour, noise and water consumption at the biomills, all of which will make Ence more competitive in the long run.

The investments in efficiency and growth were mostly related with development of the project underway in As Pontes, efficiency improvements in Navia and additional wood-cutting capacity in Galicia.

As a result, normalised free cash flow was €0.3m in 2Q23, while free cash flow was negative by €20.1 in 1H23, affected by the impact of resumption of activity in Pontevedra on working capital in the first quarter.



2.7. Change in net debt

The Pulp business ended June with net debt of €123.7m, compared to net cash of €36.1m at year-end 2022. The Company paid out €140.6m in dividends during the first half.

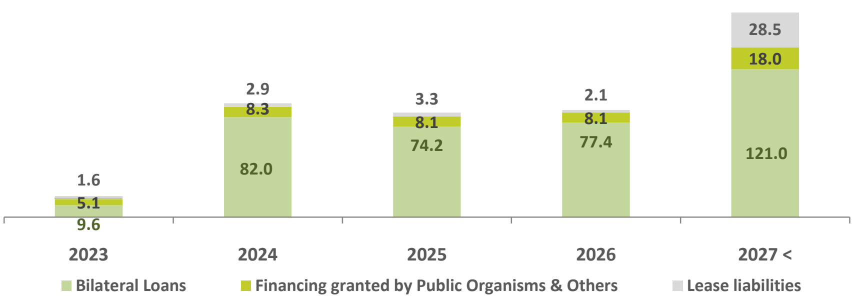
Figures in €Mn	Jun-23	Dic-22	Δ%
Non-current financial debt	332.2	128.6	*158.3%*
Current financial debt	79.7	80.3	*(0.7%)*
Gross financial debt	**412.0**	**208.9**	*97.2%*
Non-current lease contracts	35.4	34.6	*2.2%*
Current lease contracts	3.1	3.0	*3.5%*
Financial liabilities related to lease contracts	**38.5**	**37.6**	*2.3%*
Cash and cash equivalents	323.3	278.4	*16.1%*
Short-term financial investments	3.4	4.2	*(19.4%)*
Net financial debt Pulp business	**123.7**	**(36.1)**	*n.s.*

In 1H23, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in March 2018 and arranged a number of bilateral loans with several financial institutions, raising €268m of new financing due in 2030 at the latest.

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 €326.7m.

The gross debt of €412m at the June close corresponds to the outstanding balance of €364.2m of bilateral loans and a series of loans totalling €47.7m 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 €38.5m at the June close. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



2.8. Growth and diversification opportunities

Ence's strategy in the Pulp business encompasses growth, decarbonisation and diversification into new types of pulp and specialty products, leveraging its competitive advantages in the European market.

In 2022, Ence launched its "Navia Excellence" plan, designed to boost the sale of differentiated products, diversify production into pulp for absorbent personal care products (fluff pulp) and decarbonise the facility by cutting its annual GHG emissions by 50,000 tonnes. That project entails investments of an estimated €105m between 2024 and 2027, with a projected return on capital employed (ROCE) of over 12%.

Last year, Ence and the regional government of Galicia also announced a new project that is currently under analysis in the local town of As Pontes for the production of mixed bleached fibre made from recovered board and paper and virgin pulp produced by Ence.

The project embodies the fair transition and circular bioeconomy thrusts by transforming land that is part of a fossil fuel power plant into an innovative facility that will recover and reuse natural resources, without increasing wood consumption.

Phase one of that project, which could be commissioned in 2027, consists of a production line with annual capacity of 100,000 tonnes, entailing an estimated investment of €125m and a projected ROCE of over 12%.

3. RENEWABLES BUSINESS

Ence's Renewables business comprises the generation of renewable energy from biomass at independent plants that have no relation with the pulp production process, the development of photovoltaic power generation facilities and incipient new businesses related with the generation of biomethane and renewable industrial heating.

Through its subsidiary, Magnon Green Energy, Ence has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW).

Magnon has also developed a pipeline of 373 MW of photovoltaic facilities in Jaen, Huelva, Seville and Granada. In December 2021, it agreed to sell those assets as they obtain the required permits for up to €62m. The sale of one 100-MW capacity facility under construction in Jaen closed in March 2023, generating revenue of €29.6m and EBITDA of €22.8m in 1Q23. The sale of the rest of the assets is expected to close between the second half of 2023 and 2024, generating additional EBITDA of an estimated €27m.

3.1. Electricity market trends

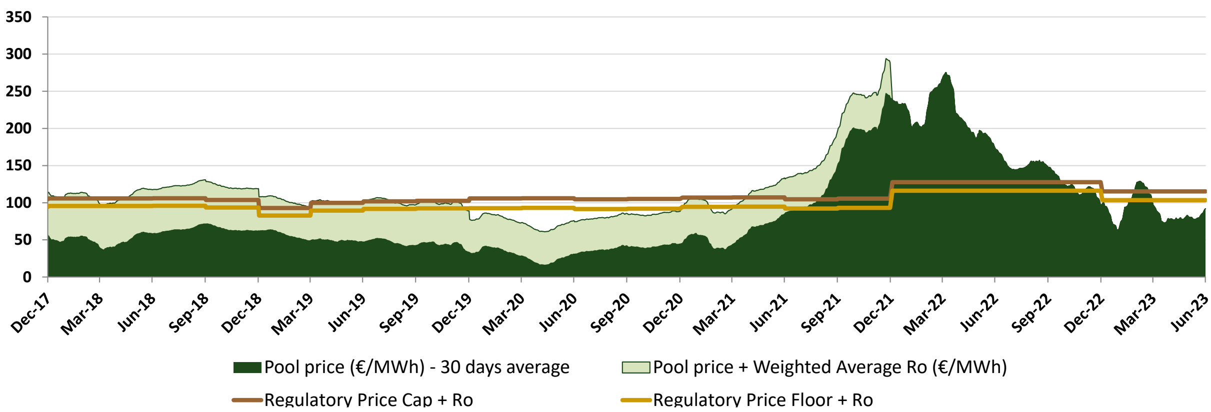
The average price on the day-ahead market (pool price) declined by 56.1% year-on-year to €80.3/MWh in 2Q23 and by 56.7% year-on-year to €88.9/MWh in 1H23.

Market figures	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Average pool price (€/MWh)	80.3	182.8	*(56.1%)*	97.6	*(17.7%)*	88.9	205.6	*(56.7%)*

Source: OMIE

The price that Ence recognises in its financial statements is a regulated price made up of the regulatory price plus the supplementary remuneration for operations (Ro) earned by each plant, where applicable.

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



Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory sub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively.

The regulatory price for 2023 has been set at €109.31/MWh, compared to the price of €207.88/MWh published in the draft Order dated 28 December 2022, which is now void.

Application of the new regulatory price to the Group's plants' remuneration parameters will imply an increase in annual remuneration for investment of €9.4m to €24.8m from this year on.

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

3.2. Revenue from energy sales

Ence sold 250,145 MWh of energy in 2Q23 (-34.6% year-on-year) and 555,753 MWh in 1H23 (-32.5% year-on-year) due mainly to a relatively longer maintenance stoppage at the 50-MW Huelva plant, which is carried out every four years and took place this year in the second quarter, coupled with the stoppage of the 16-MW Ciudad Real plant during the entire first half due to the reduced availability of olive pomace and the drop in pool prices.

Operating figures	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
Huelva 41 MW - Biomass	34,319	44,786	*(23.4%)*	34,712	*(1.1%)*	69,031	96,950	*(28.8%)*
Jaén 16 MW - Biomass	18,972	21,302	*(10.9%)*	16,836	*12.7%*	35,807	47,453	*(24.5%)*
Ciudad Real 16 MW - Biomass	-	23,484	*(100.0%)*	-	*n.s.*	-	48,723	*(100.0%)*
Córdoba 27 MW - Biomass	35,885	37,223	*(3.6%)*	29,122	*23.2%*	65,007	85,564	*(24.0%)*
Huelva 50 MW - Biomass	-	88,684	*(100.0%)*	79,306	*(100.0%)*	79,306	183,855	*(56.9%)*
Mérida 20 MW - Biomass	29,345	30,273	*(3.1%)*	31,852	*(7.9%)*	61,197	71,819	*(14.8%)*
Huelva 46 MW - Biomass	64,751	67,194	*(3.6%)*	62,431	*3.7%*	127,182	142,581	*(10.8%)*
Ciudad Real 50 MW - Biomass	66,873	69,494	*(3.8%)*	51,350	*30.2%*	118,222	146,179	*(19.1%)*
Energy sales (MWh)	**250,145**	**382,440**	*(34.6%)*	**305,608**	*(18.1%)*	**555,753**	**823,124**	*(32.5%)*
Average sales price - (€/MWh)	148.1	128.3	*15.4%*	151.4	*(2.2%)*	149.9	139.4	*7.5%*
Remuneration for investment (€m)	6.2	10.2	*(39.1%)*	6.2	*1.1%*	12.4	20.5	*(39.4%)*
Revenue from energy sales (€ m)	**43.3**	**59.3**	*(27.0%)*	**52.4**	*(17.5%)*	**95.7**	**135.2**	*(29.2%)*

The update of the remuneration parameters applicable to the renewable energy plants results in a reduction of €88.2/MWh in the average sales price and a €2.4m increase in the remuneration for investment in 1Q23 compared to the previously reported figures.

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

The sales price averaged €148.1/MWh in 2Q23 and €149.9/MWh in 1H23 following application of the new regulatory price published in June 2023. These sales prices are 15.4% and 7.5% higher year-on-year thanks to the additional contribution made by the back-up services provided to the electricity system, coupled with the complementary remuneration for operation (Ro) of the gas co-generation plant in Cordoba.

Although the update of the plants' remuneration parameters had an accounting impact of €39.5m on first-half revenue from energy sales, the impact on cash was positive thanks to the collection of €9.4m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half revenue from energy sales would have been €135.2m.

Year-on-year, remuneration for investment decreased by 39.4%, due to the cumulative effect of the adjustments for deviations between the pool price and the regulatory price in 2022.

In all, revenue from energy sales amounted to €43.3m in 2Q23 and €95.7m in 1H23, down 27% and 29.2% year-on-year, respectively.

3.3. Statement of profit or loss

The update of the regulatory energy price, the increase in generation costs and the fixed costs associated with the new businesses under development weighed on the Renewable business EBITDA, which decreased to €4.2m in 2Q23, from €27.4m in 1Q23, which included a €22.8m contribution from the sale of a 100-MW photovoltaic development under construction in Jaén.

As a result, first-half EBITDA amounted to €31.6m, compared to €78.6m in 1H22, which included the reversal of the regulatory collar provided for at the time by €39.6m, offset by an impairment charge below the EBITDA line of €35.5m.

Although the update of the plants' remuneration parameters had an accounting impact of €39.5m on first-half EBITDA, the impact on cash was positive thanks to the collection of €9.4m more annual remuneration for investment from this year on. Under the previously proposed regulatory price and methodology, first-half EBITDA would have been €71.1m.

Figures in € m	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
Revenue from energy sales	43.3	59.3	*(27.0%)*	52.4	*(17.5%)*	95.7	135.2	*(29.2%)*
Other revenues	0.4	39.8	*(99.0%)*	29.6	*(98.6%)*	30.0	40.0	*(25.1%)*
Total revenue	**43.7**	**99.1**	*(55.9%)*	**82.0**	*(46.7%)*	**125.7**	**175.2**	*(28.3%)*
EBITDA from energy sales	5.4	52.9	*(89.8%)*	27.4	*(80.4%)*	32.8	78.6	*(58.2%)*
EBITDA from new businesses	(1.2)	-		-		(1.2)	-	
EBITDA	**4.2**	**52.9**	*(92.1%)*	**27.4**	*(84.7%)*	**31.6**	**78.6**	*(59.8%)*
Depreciation and amortisation	(8.7)	(10.0)	*(12.9%)*	(8.8)	*(1.7%)*	(17.5)	(20.0)	*(12.3%)*
Impairment of and gains/(losses) on fixed-asset disp.	0.3	(37.0)	*n.s.*	(0.0)	*n.s.*	0.3	(37.0)	*n.s.*
EBIT	**(4.3)**	**5.9**	*n.s.*	**18.6**	*n.s.*	**14.3**	**21.6**	*(33.6%)*
Net finance cost	(3.3)	(4.7)	*(29.8%)*	(3.1)	*6.1%*	(6.4)	(9.2)	*(30.0%)*
Other finance income/(cost)	(0.0)	0.2	*n.s.*	0.0	*n.s.*	-	0.3	*(100.0%)*
Profit before tax	**(7.6)**	**1.4**	*n.s.*	**15.5**	*n.s.*	**7.9**	**12.7**	*(37.7%)*
Income tax	1.8	(3.6)	*n.s.*	(0.6)	*n.s.*	1.2	(7.3)	*n.s.*
Net Income	**(5.8)**	**(2.3)**	*154.7%*	**14.9**	*n.s.*	**9.1**	**5.4**	*69.5%*
Non-controlling interests	-	0.2	*(100.0%)*	(1.2)		(1.2)	1.0	*n.s.*
Attributable Net Income	**(5.8)**	**(2.1)**	*179.8%*	**13.7**	*n.s.*	**7.9**	**6.4**	*24.2%*

The update of the remuneration parameters applicable to the renewable energy plants results in a reduction of €24.6m in the revenue from energy sales and €18.4m in net income in 1Q23 compared to the previously reported figures.

Below the EBITDA line, depreciation charges decreased to €8.7m in 2Q23 and €17.5m in 1H23 following the asset impairments recognised in 2022.

Recall that Ence recognised an impairment loss of €35.5m in 1H22 against the plants (the 41-MW Huelva, 16-MW Jaen, 16-MW Ciudad Real and 14-MW Cordoba plants) for which it was estimated that the remuneration for investment parameter in 2023 would be zero or scantly material as a result of high pool prices that year.

Finance costs fell to €3.3m in 2Q23 and to €6.4m in 1H23, due mainly to the lower gross debt balance.

Lastly, tax income amounted to €1.8m in 2Q23 and €1.2m in 1H23.

In all, the net profit attributable to the Renewables business amounted to €7.9m in the first half, a year-on-year growth of 24.2%.

3.4. Cash flow analysis

The Renewables business used €31.8m of cash in operating activities in 2Q23 and €76.3m in 1H23, due mainly to the reimbursement of the surplus remuneration for operations (Ro) collected as a result of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	Proforma 2Q23	2Q22	Δ%	Proforma 1Q23	Δ%	1H23	1H22	Δ%
EBITDA	**4.2**	**52.9**	*(92.1%)*	**27.4**	*(84.7%)*	**31.6**	**78.6**	*(59.8%)*
Energy regulation adjustment (regulatory collar)	(4.1)	(21.6)	*(81.1%)*	(4.0)	*2.0%*	(8.1)	12.1	*n.s.*
Other cash adjustments	0.9	(0.4)	*n.s.*	0.8	*8.3%*	1.6	0.5	*238.4%*
Change in working capital	(18.0)	27.6	*n.s.*	(66.9)	*(73.1%)*	(84.9)	34.6	*n.s.*
Income tax received / (paid)	(10.2)	(2.5)	*n.s.*	0.0	*n.s.*	(10.1)	(2.5)	*n.s.*
Net interest received / (paid)	(4.6)	(6.5)	*(29.6%)*	(1.8)	*150.5%*	(6.4)	(9.8)	*(34.2%)*
Net cash flow from operating activities	**(31.8)**	**49.5**	*n.s.*	**(44.5)**	*(28.5%)*	**(76.3)**	**113.5**	*n.s.*

The update of the remuneration parameters applicable to the renewable energy plants has no impact on the cash flow from operating activities generated in 1Q23 compared to the previously reported figures.

Working capital movements implied a cash outflow of €18m in 2Q23 and of €84.9m in 1H23, due mainly the reduction in trade payables, which includes the reimbursement of the surplus remuneration for operations (Ro) collected in the wake of the regulatory adjustments applicable to renewables in 2022.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Inventories	(5.5)	(2.3)	*141.8%*	(0.5)	*n.s.*	(6.0)	(1.2)	*n.s.*
Trade and other receivables	13.8	(7.8)	*n.s.*	(0.1)	*n.s.*	13.8	10.2	*34.7%*
Current financial and other assets	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Trade and other payables	(26.3)	37.7	*n.s.*	(66.3)	*(60.3%)*	(92.6)	25.6	*n.s.*
Change in working capital	**(18.0)**	**27.6**	*n.s.*	**(66.9)**	*(73.1%)*	**(84.9)**	**34.6**	*n.s.*

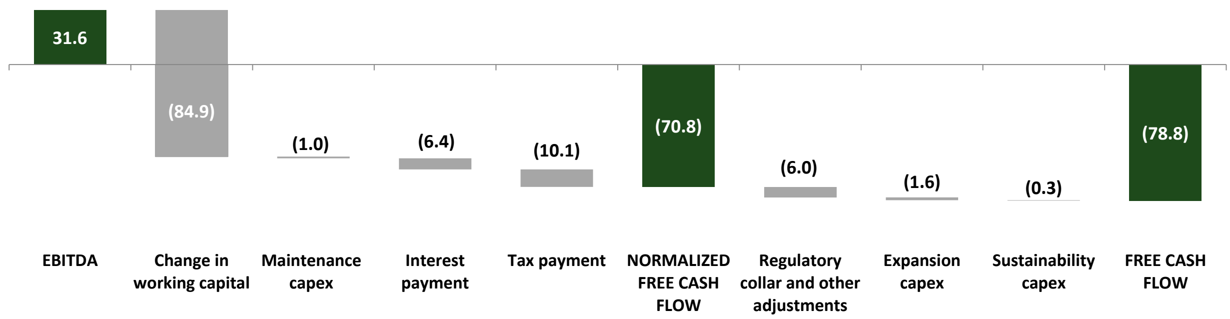
The Renewables business has not made any drawdown under its receivable discounting lines. Ence has arranged several non-recourse reverse factoring facilities, which were drawn down by €21.9m at the June close, compared to €23m at year-end 2022. The reverse factoring facilities do not entail the provision of guarantees, do not alter the average payment term agreed with the corresponding suppliers and do not accrue interest.

Figures in € m	2Q23	2Q22	Δ%	1Q23	Δ%	1H23	1H22	Δ%
Maintenance capex	(0.5)	(0.4)	*4.3%*	(0.6)	*(19.2%)*	(1.0)	(1.1)	*(8.6%)*
Sustainability capex and other	(0.1)	(0.3)	*(70.8%)*	(0.2)	*(56.2%)*	(0.3)	(0.7)	*(57.5%)*
Efficiency and expansion capex	(1.0)	(1.9)	*(46.2%)*	(0.6)	*68.6%*	(1.6)	(3.0)	*(46.7%)*
Financial investments	0.4	0.0	*n.s.*	-	*n.s.*	0.4	-	*n.s.*
Investments	**(1.2)**	**(2.6)**	*(55.8%)*	**(1.4)**	*(14.8%)*	**(2.5)**	**(4.8)**	*(47.8%)*
Disposals	-	-	*n.s.*	-	*n.s.*	-	0.4	*(100.0%)*
Net cash flow from investing activities	**(1.2)**	**(2.6)**	*(55.8%)*	**(1.4)**	*(14.8%)*	**(2.5)**	**(4.4)**	*(43.3%)*

Capital expenditure decreased to €1.2m in 2Q23 and €2.5m in 1H23. Maintenance capex declined to €0.5m in 2Q23 and €1m in 1H23, sustainability capex amounted to €0.1m in 2Q23 and €0.3m in 1H23 and investments in efficiency and growth came to €1m in 2Q23 and €1.6m in 1H23.

The investments in efficiency and growth corresponded to small investments designed to boost efficiency across a number of plants.

As a result, normalised free cash flow in the Renewables business was negative by €70.8m in 1H23, and free cash flow, after the adjustment of electricity regulations and efficiency, growth and sustainability capex, was negative by €78.8m.

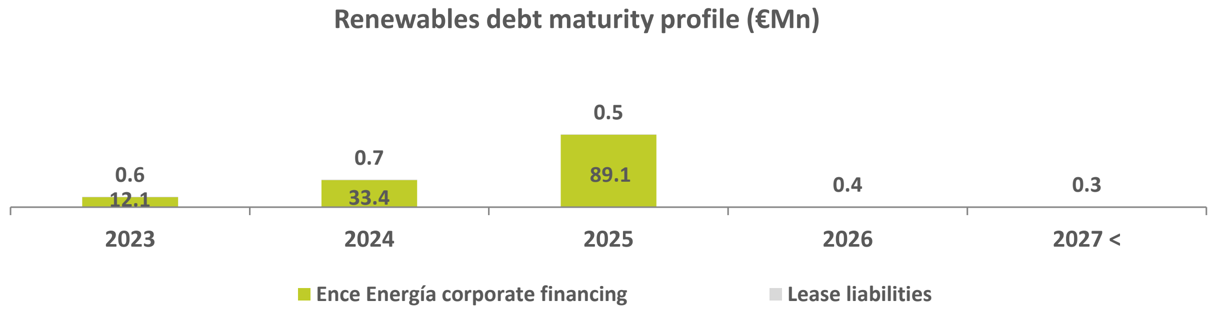


3.5. Change in net debt

Net debt in the Renewables business increased by €80.5m from year-end 2022 to €86.6m.

Figures in € m	Jun-23	Dic-22	Δ%
Non-current financial debt	109.8	121.9	*(9.9%)*
Current financial debt	24.7	27.1	*(8.7%)*
Gross financial debt	**134.6**	**149.0**	*(9.7%)*
Non-current lease contracts	1.6	1.0	*55.4%*
Current lease contracts	0.9	0.7	*32.4%*
Financial liabilities related to lease contracts	**2.5**	**1.7**	*46.4%*
Cash reserve for debt service	10.0	10.0	-
Cash and cash equivalents	40.4	134.5	*(70.0%)*
Net financial debt Renewable Energy business	**86.6**	**6.1**	*n.s.*

Gross debt, due by 2025, stood at €134.6m at the June close, while lease liabilities amounted to €2.5m. The Renewables business had €86.6m of cash at 30 June 2023.



3.6. Growth and diversification opportunities

In 2022, Ence created a new subsidiary, Ence Biogas, to develop and operate biomethane and fertiliser plants, underpinned by a model based on sustainable and circular management of organic waste (agricultural, breeding and industrial waste).

Ence Biogas plans to develop 20 plants in the next five years with the capacity to supply more than 1 TWh of biomethane a year. To do so, it already has a pipeline of 15 projects under development in Spain and in 1Q23 it hired Sener to perform the conceptual engineering work for six of those facilities, which are expected to be commissioned between the end of 2025 and 2026.

The Group also has a 140-MW portfolio of rights with which it can participate in upcoming biomass capacity auctions and is working with potential industrial customers in Spain to replace fossil-fuel heating with renewable heating.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss: Reported 1Q23 and 2Q23

	1Q23 Reported				2Q23			
Figures in € m	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Total revenue	**190.8**	**106.6**	**(1.4)**	**296.1**	**144.3**	**19.1**	**(0.6)**	**162.7**
Other income	4.8	1.3	(0.3)	5.8	10.0	2.0	(0.3)	11.7
Foreign exchange hedging operations results	(0.9)	-	-	(0.9)	0.1	-	-	0.1
Cost of sales and change in inventories of finished produ	(87.0)	(32.7)	1.4	(118.3)	(92.3)	(14.7)	0.6	(106.3)
Personnel expenses	(22.5)	(4.2)	-	(26.7)	(20.7)	(5.9)	-	(26.6)
Other operating expenses	(48.4)	(19.0)	0.3	(67.1)	(44.5)	(20.9)	0.3	(65.1)
EBITDA	**36.9**	**52.1**	**-**	**88.9**	**(3.1)**	**(20.4)**	**-**	**(23.5)**
Depreciation and amortisation	(13.2)	(8.8)	0.4	(21.7)	(13.0)	(8.7)	0.4	(21.3)
Depletion of forestry reserves	(2.3)	-	-	(2.3)	(2.7)	-	-	(2.7)
Impairment of and gains/(losses) on fixed-asset disposals	(0.2)	(0.0)	-	(0.2)	(0.3)	0.3	-	(0.0)
Other non-ordinary operating gains/(losses)	-	-	-	-	(6.6)	-	-	(6.6)
EBIT	**21.1**	**43.2**	**0.4**	**64.8**	**(25.7)**	**(28.9)**	**0.4**	**(54.1)**
Net finance cost	(2.3)	(3.1)	-	(5.4)	(4.3)	(3.3)	-	(7.6)
Other finance income/(costs)	(0.4)	0.0	-	(0.4)	(2.1)	(0.2)	-	(2.3)
Profit before tax	**18.5**	**40.1**	**0.4**	**59.0**	**(30.0)**	**(32.2)**	**0.4**	**(61.8)**
Income tax	(4.8)	(6.7)	-	(11.6)	7.7	7.9	-	15.6
Net Income	**13.7**	**33.3**	**-**	**47.4**	**(22.3)**	**(24.2)**	**-**	**(46.1)**
Non-controlling interests	0.0	(1.2)	(15.7)	(16.9)	(0.0)	-	11.6	11.5
Atributable Net Income	**13.7**	**32.1**	**(15.4)**	**30.4**	**(22.3)**	**(24.2)**	**11.9**	**(34.6)**
Earnings per Share (EPS)	0.06	0.13	(0.06)	0.13	(0.09)	(0.10)	0.05	(0.14)

4.2. Summarised statement of profit or loss for 1H23

	1H23				1H22			
Figures in € m	Pulp	Renewables	Adjustments	Consolidated	Pulp	Renewables	Adjustments	Consolidated
Total revenue	**335.1**	**125.7**	**(2.0)**	**458.8**	**380.0**	**175.2**	**(1.5)**	**553.7**
Other income	14.8	3.3	(0.6)	17.5	8.2	3.8	(0.5)	11.4
Foreign exchange hedging operations results	(0.7)	-	-	(0.7)	(11.3)	-	-	(11.3)
Cost of sales and change in inventories of finished produ	(179.2)	(47.4)	2.0	(224.6)	(178.8)	(55.3)	1.5	(232.5)
Personnel expenses	(43.3)	(10.1)	-	(53.3)	(36.7)	(8.6)	-	(45.3)
Other operating expenses	(92.9)	(39.9)	0.6	(132.2)	(91.6)	(36.6)	0.5	(127.6)
EBITDA	**33.8**	**31.6**	**-**	**65.4**	**69.8**	**78.6**	**-**	**148.4**
Depreciation and amortisation	(26.2)	(17.5)	0.8	(43.0)	(20.4)	(20.0)	0.5	(39.9)
Depletion of forestry reserves	(5.0)	-	-	(5.0)	(4.0)	(0.0)	-	(4.0)
Impairment of and gains/(losses) on fixed-asset disposals	(0.5)	0.3	-	(0.3)	(1.1)	(37.0)	-	(37.3)
Other non-ordinary operating gains/(losses)	(6.6)	-	-	(6.6)	(0.1)	-	-	(0.1)
EBIT	**(4.5)**	**14.3**	**0.8**	**10.6**	**44.2**	**21.6**	**1.2**	**67.1**
Net finance cost	(6.6)	(6.4)	-	(13.0)	(4.5)	(9.2)	-	(13.7)
Other finance income/(costs)	(0.4)	-	-	(0.4)	2.0	0.3	-	2.3
Profit before tax	**(11.5)**	**7.9**	**0.8**	**(2.8)**	**41.7**	**12.7**	**1.2**	**55.6**
Income tax	2.9	1.2	(0.1)	4.0	(1.4)	(7.3)	-	(8.7)
Net Income	**(8.6)**	**9.1**	**-**	**1.2**	**40.4**	**5.4**	**1.2**	**46.9**
Non-controlling interests	-	(1.2)	(4.2)	(5.4)	-	1.0	(3.2)	(2.2)
Atributable Net Income	**(8.6)**	**7.9**	**(3.5)**	**(4.2)**	**40.4**	**6.4**	**(2.1)**	**44.7**
Earnings per Share (EPS)	(0.04)	0.03	(0.01)	(0.02)	0.17	0.03	(0.01)	0.18

4.3. Summarised statement of financial position

Figures in € m	Jun-23 Pulp	Jun-23 Renewables	Jun-23 Adjustments	Jun-23 Consolidated	Dec-22 Pulp	Dec-22 Renewables	Dec-22 Adjustments	Dec-22 Consolidated
Intangible assets	16.5	34.4	(12.4)	38.5	15.6	35.0	(12.7)	37.9
Property, plant and equipment	601.4	377.9	(8.0)	971.3	603.4	389.0	(8.5)	983.9
Biological assets	60.2	0.2	-	60.3	60.4	0.2	-	60.5
Non-current investments in Group companies	112.6	0.0	(112.5)	0.0	112.6	0.0	(112.5)	0.0
Non-current borrowings to Group companies	19.4	-	(19.4)	-	18.6	-	(18.6)	-
Non-current financial assets	23.6	10.0	-	33.7	20.8	5.4	-	26.1
Deferred tax assets	32.8	21.5	3.1	57.4	30.5	19.4	3.2	53.1
Cash reserve for debt service	-	10.0	-	10.0	-	10.0	-	10.0
Total non-current assets	**866.5**	**454.0**	**(149.2)**	**1,171.3**	**861.8**	**459.0**	**(149.1)**	**1,171.6**
Inventories	82.3	22.5	-	104.8	80.5	21.9	-	102.3
Trade and other accounts receivable	56.7	34.8	(2.4)	89.1	59.4	40.5	(29.2)	70.6
Income tax	6.8	1.3	-	8.0	6.8	1.3	-	8.0
Other current assets	6.5	2.5	-	9.0	7.5	0.4	-	7.9
Hedging derivatives	1.2	3.7	-	4.9	0.0	2.6	-	2.6
Current financial investments in Group companies	0.3	0.1	(0.4)	0.0	0.4	0.0	(0.4)	0.0
Current financial investments	3.4	0.0	-	3.4	4.2	0.0	-	4.3
Cash and cash equivalents	323.3	41.1	-	364.4	278.4	134.5	-	412.9
Total current assets	**480.5**	**106.0**	**(2.8)**	**583.8**	**437.1**	**201.2**	**(29.6)**	**608.7**
TOTAL ASSETS	**1,347.0**	**560.0**	**(152.0)**	**1,755.0**	**1,298.9**	**660.2**	**(178.8)**	**1,780.3**
Equity	**572.3**	**234.2**	**(129.8)**	**676.6**	**719.8**	**228.9**	**(130.6)**	**818.2**
Non-current borrowings	367.6	111.4	-	479.0	163.2	122.9	-	286.1
Non-current loans with Group companies and associates	-	37.2	(19.4)	17.8	-	36.4	(18.6)	17.8
Non-current derivatives	0.1	-	-	0.1	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Non-current provisions	28.9	0.1	-	29.0	27.9	0.1	-	28.0
Other non-current liabilities	40.8	72.3	-	113.1	38.2	75.8	-	114.0
Total non-current liabilities	**437.3**	**221.1**	**(19.4)**	**639.1**	**229.2**	**235.3**	**(18.6)**	**445.9**
Current borrowings	82.9	25.6	-	108.5	83.3	27.8	-	111.1
Current derivatives	0.0	-	-	0.0	0.4	-	-	0.4
Trade and other account payable	218.4	75.0	(2.4)	291.0	226.4	164.4	(29.2)	361.6
Short-term debts with group companies	0.1	0.5	(0.4)	0.3	0.0	0.7	(0.4)	0.4
Income tax	0.0	0.9	-	0.9	0.0	-	-	0.0
Current provisions	36.0	2.7	-	38.7	39.8	3.0	-	42.8
Total current liabilities	**337.4**	**104.8**	**(2.8)**	**439.4**	**349.9**	**196.0**	**(29.6)**	**516.2**
TOTAL EQUITY AND LIABILITIES	**1,347.0**	**560.0**	**(152.0)**	**1,755.0**	**1,298.9**	**660.2**	**(178.8)**	**1,780.3**

4.4. Statement of cash flows for 1H23

Figures in € m	1H23 Pulp	1H23 Renewables	1H23 Adjustments	1H23 Consolidated	1H22 Pulp	1H22 Renewables	1H22 Adjustments	1H22 Consolidated
Consolidated profit/(loss) for the period before tax	**(11.5)**	**7.9**	**0.8**	**(2.8)**	**41.7**	**12.7**	**1.2**	**55.7**
Depreciation and amortisation	31.3	17.5	(0.8)	48.0	24.4	20.0	(0.5)	43.9
Changes in provisions and other deferred expense	12.9	1.7	-	14.7	(2.4)	0.6	-	(1.8)
Impairment of gains/(losses) on disposals intangible assets	0.6	(0.3)	-	0.3	1.1	37.0	(0.7)	37.3
Net finance result	6.5	6.4	-	12.9	2.9	8.9	-	11.7
Energy regulation adjustment (regulatory collar)	(2.5)	(8.1)	-	(10.6)	14.4	12.1	-	26.5
Government grants taken to income	(0.4)	(0.1)	-	(0.5)	(0.3)	(0.1)	-	(0.3)
Adjustments to profit	**48.4**	**17.3**	**(0.8)**	**64.8**	**40.1**	**78.5**	**(1.2)**	**117.3**
Inventories	(9.6)	(6.0)	-	(15.7)	8.6	(1.2)	-	7.4
Trade and other receivables	(1.2)	13.8	(26.8)	(14.3)	(23.2)	(1.3)	-	(24.5)
Current financial and other assets	0.8	0.0	-	0.8	0.6	(0.0)	-	0.6
Trade and other payables	(10.9)	(92.6)	26.8	(76.7)	(17.3)	37.2	-	19.9
Changes in working capital	**(20.9)**	**(84.9)**	**-**	**(105.8)**	**(31.2)**	**34.6**	**-**	**3.4**
Interest paid	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Dividends received	-	-	-	-	-	-	-	-
Income tax received/(paid)	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
Other collections/(payments)	-	-	-	-	-	-	-	-
Other cash flows from operating activities	**(8.4)**	**(16.6)**	**-**	**(25.0)**	**(5.2)**	**(12.2)**	**-**	**(17.4)**
Net cash flow from operating activities	**7.5**	**(76.3)**	**-**	**(68.7)**	**45.4**	**113.5**	**-**	**158.9**
Property, plant and equipment	(24.5)	(2.626)	-	(27.2)	(23.8)	(4.7)	-	(28.5)
Intangible assets	(2.5)	(0.285)	-	(2.8)	(1.6)	(0.1)	-	(1.7)
Other financial assets	(0.1)	0.400	0.3	0.6	(0.0)	-	-	(0.0)
Disposals	(0.5)	-	0.4	(0.1)	0.0	0.4	-	0.4
Net cash flow used in investing activities	**(27.6)**	**(2.511)**	**0.7**	**(29.4)**	**(25.5)**	**(4.4)**	**-**	**(29.9)**
Free cash flow	**(20.1)**	**(78.8)**	**0.7**	**(98.2)**	**19.9**	**109.1**	**-**	**129.0**
Buyback/(disposal) of own equity instruments	5.9	-	-	5.9	1.4	-	-	1.4
Proceeds from and repayments of financial liabilities	199.7	(14.6)	(0.7)	184.3	(55.0)	(28.6)	-	(83.6)
Dividends payments	(140.6)	-	(0.0)	(140.6)	(13.1)	-	-	(13.1)
Net cash flow from/ (used in) financing activities	**65.0**	**(14.6)**	**(0.7)**	**49.7**	**(66.7)**	**(28.6)**	**-**	**(95.3)**
Net increase/(decrease) in cash and cash equivalents	**44.9**	**(93.4)**	**-**	**(48.5)**	**(46.8)**	**80.5**	**-**	**33.7**

5. KEY DEVELOPMENTS

Spain's Supreme Court upholds the validity of the extension of the Pontevedra biomill's concession to 2073

On 7 February 2023, the Supreme Court announced a favourable ruling on the appeals presented by Ence and other entities against the National Appellate Court rulings of July 2021 annulling the Resolution issued by the Directorate General of Coastal and Marine Sustainability on 20 January 2016, extending Ence's concession at the Pontevedra biomill until 2073.

The Supreme Court has concluded that concessions awarded prior to the 1988 Coastal Act can be extended so long as they are accompanied by favourable environmental reports, as is the case in this instance.

Any subsequent amendment of coastal regulations would not apply to the extended concession in Pontevedra.

The reversal of the asset impairment charges and provisions recognised in the 2021 financial statements in the wake of those Appellate Court rulings implied a gain of €169m in 2022.

On 4 July 2023, the Supreme Court dismissed the annulment proceedings brought by the town council of Pontevedra and state attorney against the sentence upholding the validity of the extension of our concession in Pontevedra.

The last available option would be to bring an appeal before the Constitutional Court of Spain; however, the Company believes there are no legal grounds for a successful appeal.

Dividend payments

The Company paid out dividends of €0.29 (before withholdings) from 2022 earnings on each of 16 March and 18 May 2023, for a total outlay of €140.6m.

Update of the regulatory energy prices applicable in 2023 – 2025

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory sub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively.

These new regulations set the regulatory prices for 2023, 2024 and 2025 at €109.31/MWh, €108.86/MWh and €89.37/MWh, respectively, compared to the prices of €207.88/MWh, €129.66/MWh and €78.19/MWh published in the draft Order dated 28 December 2022, now defunct.

The new regulations also annul the draft Royal Decree and proposed Order published in April 2023 proposing new methodology for calculating and settling deviations between the regulated energy price and electricity market prices.

The Company estimates that application of these new regulatory prices to the remuneration parameters applicable to the Group's plants will imply an increase in cash generation this year of approximately €26m and a decrease in accounting profit attributable to equity holders of the parent of approximately €52m, to be offset during the remaining regulatory useful lives of the plants via higher profit attributable to equity holders of the parent.

The Group's renewable energy power plants continue to be regulated by Royal Decree 413/2014 which ensures the generation of a reasonable return, which was set at 7.4% for 2020-2031 under Royal Decree-Law 17/2019.

The results for the first half of 2023 have been prepared in keeping with these updates to the regulatory prices.

Sale of the first photovoltaic development under construction

On 28 March 2023, Magnon Green Energy closed the sale of one of its photovoltaic solar facilities under construction in the town of Andújar (Jaen), with capacity of 100 MW, generating proceeds of €27.7m.

That transaction is part of the agreement entered into with Naturgy Renovables SLU in December 2021 for the sale of the photovoltaic pipeline in Jaen, Huelva, Seville and Granada for up to €62m.

The sale of the remaining photovoltaic assets is expected to be closed between 2H23 and 2024.

Ence Biogas hires Sener to carry out the engineering work for six biomethane plants

On 28 March 2023, Ence Biogas mandated Sener to perform the conceptual engineering work for six biomethane plants in Spain, which are expected to be commissioned between the end of 2025 and 2026.

Ence Biogas is planning to develop 20 biomethane plants in the next five years and already has a portfolio of 15 under development in Spain, including the six mentioned above.

Repayment at maturity of the remainder of the convertible bonds issued in 2018 and new bilateral loans

On 6 March 2023, Ence redeemed the remaining €63.3m of the €160m of convertible bonds issued in 2018 and has arranged in 1H23 a number of bilateral loans with several financial institutions, raising €268m of new financing due in 2030 at the latest.

2023 Annual General Meeting

Ence held its Annual General Meeting on 5 May 2023. The agenda motions ratified were:

1) Examination and ratification of the annual financial statements and management reports of ENCE ENERGÍA Y CELULOSA, S.A. and of its consolidated group for the year ended 31 December 2022.
2) Examination and ratification of the group's non-financial statement (2022 Sustainability Report) for the year ended 31 December 2022.
3) Examination and ratification of the motion for the appropriation of the profit of ENCE ENERGÍA Y CELULOSA, S.A. for the year ended 31 December 2022.
4) Examination of and grant of discharge for the performance of the Board of Directors of ENCE ENERGÍA Y CELULOSA, S.A. during the year ended 31 December 2022.
5) The offset of retained losses with a charge against voluntary reserves.
6) The re-election of Ignacio de Colmenares Brunet as executive director.
7) Examination and ratification of the director remuneration policy for 2024, 2025 and 2026.
8) Examination and ratification of the new long-term incentive plan for 2023-2027.
9) Delegation of powers in the Board of Directors to interpret, supplement, rectify, execute and formalise the resolutions ratified at the Annual General Meeting.
10) Advisory vote on the annual report on director remuneration for 2022.

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.

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. Ence has started work on updating that plan, which terminates this year, in order to build a new sustainability roadmap for the coming years. That work includes a double-materiality assessment in order to identify the material matters on which to focus and help pin down the next universe of targets.

The current master plan (2019-2023) is articulated around seven priority lines of initiative. An account is provided on the progress made on each in the following sections.

Ence's noteworthy performance along environmental, social and governance (ESG) dimensions is echoed in its assessments by prestigious ESG agencies and indices. In 2023, Sustainalytics gave Ence an overall ESG score of 90 points out of 100, ranking it as a global leader in the pulp and paper sector for the third year running. The Company has been part of the prestigious FTSE4Good Index Series since 2021. In addition, in June 2023, Ecovadis awarded Ence its platinum medal, the highest accolade given by this platform specialised in assessing companies' sustainability performance.

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, among others.

In terms of the generation of **quality work**, note that as of June 2023, 92.6% of Ence employees had indefinite employment contracts and 98.1% were working full time. Moreover, the headcount increased by 8.7% in the first half of 2023.

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 2022 the Company secured Great Place to Work certification for the third 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 1H23, it promoted 29 professionals, 11 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 2023, the Company imparted 11,737 hours of training, adapting the formats to make them compatible with remote working arrangements. The training effort focused on health and safety, O&M services, compliance, leadership skills, and digital transformation.

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 13% so far in 2023 to account for 27.1% of the workforce as of the June close. Moreover, so far in 2023, 46% of new positions have been covered by women.

Under its equality programme, 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. It is currently in the process of renegotiating the collective bargaining agreement in place at the Pontevedra biomill. It is also in the course of negotiating the Company’s Equality Plan.

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 decarbonisation plans based on continuous improvement and the substitution of fossil fuels at the biomills. The Company began to implement the measures established in those plans in 2021, 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 total GHG emissions by 11% year-on-year in 2022. In 2023, Ence continues to work on the roadmap devised for decarbonising its biomills, making progress on the engineering details for the project for replacing fossil fuels with renewable sources in Navia, which will cut annual GHG emissions by around 50,000 tonnes.

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, performed in keeping with the IPCC guidelines, showed that in 2022 the forests managed by Ence sequestered around 90,000 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 1.5ºC, for its analysis.

In 2023, Ence is working to analyse the financial impacts of the main climate risks to which it is exposed.

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.

Magnon had a strong first half from the **health and safety** standpoint, as it did not record any lost-time injuries at any of its power plants, marking the third quarter in a row of zero lost-time injuries. The pulp biomills, meanwhile, continue to report accident metrics that are almost four times below the sector average. There is room for improvement in the forestry area, however, as its accident metrics deteriorated somewhat during the first six months of the year.

As for Ence's **environmental performance**, the pulp biomills made further progress in 1H23, cutting monthly odour emissions by 71% year-on-year in Navia and by 56% in Pontevedra, with both biomills continuing to mark new records in that respect. Also noteworthy is the fact that both biomills managed to reduce their unit water consumption ratios year-on-year, by 4.7% in Navia and 7.2% in Pontevedra, similarly recording new lows.

In the Renewables business, this year the Group has continued to execute and monitor its plans for delivering specific unit water consumption targets across its plants, eking out overall savings across the Huelva, Merida, Jaen and Puertollano plants of 5.8% in 1H23 compared to the 2022 average.

As for its circular economy transition, Ence continues to present high waste recovery and recycling readings (above 90% of all waste at year-end 2022), 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). As of 2023, all of the Group's facilities boast that certification.

At Magnon, it is worth highlighting the improved management of fine materials returned to the soil, at the sites from which the biomass was originally sourced whenever possible. That initiative returns a natural material of value in combatting desertification and soil degradation. In 1H23, 67% of the fine materials produced at the plants in Huelva, Puertollano and Merida were processed so as to enable their return to the original farming land.

In terms of environmental performance, the pulp biomills successfully completed their ISO 14001, ISO 45001, ISO 50001 and Zero Waste certification renewal audits. They also verified their compliance with European Community eco-management and audit scheme (EMAS) and renewed SURE certification for their sustainable management of biomass.

The Renewables business obtained approval for a pilot production test to research the reuse of wood crate waste at the Merida and Puertollano plants. Testing is underway in Merida. The Huelva plant is conducting the research, development and experimentation work for the project for drying wet, fatty olive pomace without generating emissions, which is expected to take one year to complete.

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 criteria and 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 2023, over 80% of its forest assets were certified under one or other of those standards and over 71% 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 studies to analyse biodiversity encompassing 85% of its forest assets, notably including the first documented study of the fauna potentially present in its woodlands. Further progress is planned for 2023 in the form of new fauna and flora biodiversity studies at more than 50 forest tracts owned by Ence.

In order to **create value** for land owners and suppliers, Ence lends particular support to smaller sized companies. In 1H23, the Company purchased over €25 million worth of wood from more than 980 forest owners.

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; indeed, most of the wood and biomass bought comes from Galicia, Asturias, Cantabria, the Basque region, 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 by means of complementary tools: the 10-Point Declaration on the Sustainability of Biomass (a voluntary self-regulation scheme) and plant certification under the SUstainable REsources Verification Scheme (SURE) to comply with the European Renewable Energy Directive (RED II).

Some 92.3% of the agricultural biomass used in 1H23 was compliant with the 10-Point Plan criteria, so far ahead of the target of 80% for this year. In industrial biomass, compliance stands at 90%, which is likewise ahead of target.

As for implementation of the SURE scheme to comply with RED II, the energy plants and biomills completed the audits for renewing their certifications during the second quarter of 2023. In addition to renewing its own facilities' certifications, Ence is working to get its entire supply chain certified. By the June 2023 close, more than 150 of its suppliers were SURE certified. Turning to the use of certified biomass, around 95% of the energy plants' biomass was certified in 1H23, compared to 98% at the biomills.

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 2023.

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, but also the GHG emissions derived from its life cycle are offset by credits purchased on the voluntary market. All sales of Naturcell made in Pontevedra in 2022 involved the carbon-neutral product, Naturcell Zero, topping the related sustainability target set by the Company for last year.

On the carbon footprint front, the Company is currently working on a project to enable its pulp customers obtain information about the GHG emissions derived from the products they purchase, from raw material supply through manufacture and delivery. This information will be available directly from Ence's website.

In June, **Ecovadis** awarded Ence its platinum medal, this entity's highest accolade. The Ecovadis platform assesses the non-financial global performance of organisations. It has grown to become the world's largest and most trusted provider of business sustainability ratings, analysing more than 100,000 business worldwide around a wide range of non-financial criteria.

In its assessment, Ecovadis highlighted Ence's performance in terms of environmental sustainability, labour practices & human rights, sustainable procurement and ethics, the areas where Ecovadis' analysts awarded Ence their highest scores. The score obtained by Ence puts it at the global forefront in sustainability matters. Specifically, Ence ranked in the 99th percentile, ahead of all of its peers, evidencing the work being done by the Company to lead the way and become the best possible partner for its customers.

Similarly in order to transparently evidence its products' sustainability attributes, Ence has worked together with Environdec to draft the Product Category Rule (PCR) needed to complete the standardised life cycle assessment (LVA) and Environmental Product Declaration (EPD) for pulp, so that the results are comparable with those of similar products. The EDPs for the pulp made in Pontevedra, Encell, TCF and Naturcell, were published on Environdec's website in 2021, making them **the first pulp products in the market to obtain an Environmental Product Declaration**. The new PCR[1] and the revised and updated EDPs[2] have been available for consultation since March and August 2022, respectively. In 2023, Ence is working to prepare the EDPs for Navia, starting with Encell ECF, whose EDP is due to be published in the third quarter.

Growth in the sale of **sustainable products** is one of Ence's key priorities, to which end it has set new and very ambitious sales targets for Naturcell, Powercell and Naturcell Zero for 2023. Sales of those products accounted for 19.1% of total pulp sales in 2Q23 (16.9% in 1H23).

In parallel, in 2023, Ence continues to work to have pulp manufacturing at both of its biomills certified for food safety purposes under ISO 22000.

(1) https://www.environdec.com/product-category-rules-pcr/get-involved-in-pcr-development#recentlypublishedpcrs.
(2) https://www.environdec.com/library/epd6638 y https://www.environdec.com/library/epd6639

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. Notably in 1H23, the Company called a new tender for the Ence Pontevedra Community Plan, endowed with €3 million at each call. That Community Plan is one of the largest of its kind for a private company in Spain. The Company also awarded the aid provided under the scope of its collaboration agreement with the San Juan del Puerto town council, which encompassed a total of 24 initiatives, focused on providing support for vulnerable groups, quality education and social well-being and helping reduce the digital divide, among other matters.

In addition to the above community investments, in 1H23 Ence continued to roll out specific community relations plans with the aim of educating local residents and other stakeholders about the Company's activities. Under the umbrella of those plans, it hosted almost 1,000 visits to the facilities in Navia, Pontevedra, Huelva and Puertollano in the first half of 2023. In parallel with those facility tours, the Company, with the help of its employees, carried out a number of training and education projects such as the Iberdrola-Galicia Business Owners Seminar, "What is your industry decarbonisation plan?", in Vigo and participation in the international Expobiomasa trade fair, the sector's largest showcase in Europe, in Valladolid. In Asturias, the Company participated in Asturforesta, the benchmark forestry sector trade fair in north-eastern Spain, which took place in Tineo. At that event, Ence told sector professionals about its commitments around operational safety, sustainable forest management and the creation of business and jobs in rural areas through the recovery of timber and biomass.

Elsewhere, in the first half of the year, the Company organised over 20 meetings with representatives of different stakeholders in order to keep communication flowing with all of them. Framed by that same line of engagement and commitment to its surroundings, in 2Q23, in collaboration with the town council of Navia, Company employees participated in an environmental awareness event in which school-goers helped plant trees near the Veiga de Arenas beach in Navia, an area of high ecological value.

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.

In the first half of the year, Ence approved its Whistleblower Policy in order to adapt its internal regulations for the new Law 2/2023 (20 February 2023), transposing Directive (EU) 2019/1937 into Spanish law and regulating the protection of persons who report breaches of law and other anti-corruption matters. This legislation obliges companies to design and implement internal communication channels in order to protect the persons who, in the context of their work-related activities, detect potential breaches. Also, and as contemplated in the new Policy, Ence has approved its Whistleblower Procedure in order to guarantee that if any Ence stakeholder presents information, including reasonable suspicions, about actual or potential breaches of the law or of the Company's body of in-house rules and regulations, that information is handled professionally and confidentially, safeguarding the whistleblower's anonymity if he or she so desires.

Safe & efficient operations

Protecting Health and Safety

- ✓ **9 months without sick leave accidents** in the energy plants and biomass supply chain

Water footprint reduction

- ✓ **Water use reduction in both biomills** (-4,7% in Navia vs. 2022 and -7,2% in Pontevedra vs. 2022) and energy plants* (-5,8%)

Advancing towards a circular economy

- ✓ **High levels of waste recovery,** in line with 2022 results (>98%)
- ✓ **100% plants ZERO WASTE certified**

Odour reduction (vs 2022)

- ✓ **-70,5%** odour minutes in Navia and **-56,2%** in Pontevedra

*Huelva, Mérida, Jaén and Puertollano

Climate action

Committed to mitigate climate change

- ✓ **-10% total GHG emissions** (2022 vs. 2021)
- ✓ Ongoing climate risk analysis following **TCFD Recommendations**

Sustainable products

Differentiated products with higher added value

- ✓ **19,1% of total sales.** Products with higher and growing margins
- ✓ **1st Pulp EPD* published**: Encell TCF and Naturcell
- ✓ **1st Carbon neutral product** (Naturcell Zero)

*EPD: Environmental Product Declaration

People & Values

Talent as a competitive advantage

- ✓ **Great Place to Work** certification for the third year in a row
- ✓ Offering quality jobs: **93% permanent contracts**
- ✓ **+13% female employees** vs 2022

Commitment to communities

Adding value to society:

- ✓ **Launch of the Ence Pontevedra 2023 Social Plan,** endowed with 3 million euros
- ✓ **52 sponsorship actions** in Q2

Sustainable agroforestry

Certified supply chain

- ✓ **86%** of managed land certified
- ✓ **>71%** of supplied wood certified
- ✓ **>99%** wood & biomass suppliers homologated
- ✓ **100% plants SURE System certified** (Sustainable biomass)

Corporate governance

- ✓ **Adaptation of Ence's internal regulations** to the new Law 2/2023, regulating the protection of people who report on regulatory violations and the fight against corruption. Approval of the Internal Information System Policy and the internal information channel Procedure

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

Facility	Type of facility	MW	2023 Remuneration for investment in P&L (Ri; €/MW) *	Type of fuel	Remuneration for operation 2023 (Ro; €/MWh)	Sale hours limit under regulated price	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	-	Lignin	-	6,500	2032
	Biomass generation		46,362	Agroforestry biomass	-	7,500	
Navia	Biomass co-generation	40.3	-	Lignin	-	6,500	2034
	Biomass generation	36.2	210,395	Agroforestry biomass	-	7,500	
Huelva 41MW	Biomass generation	41.0	39,759	Agroforestry biomass	-	7,500	2025
Jaen 16MW	Biomass generation	16.0	123,610	Olive Pulp	-	7,500	2027
Ciudad Real 16MW	Biomass generation	16.0	66,232	Olive Pulp	-	7,500	2027
Cordoba 27MW	Biomass generation	14.3	184,086	Olive Pulp	-	7,500	2031
	Gas co-generation	12.8	-	Natural Gas	286.1	6,537	2030
Huelva 50MW	Biomass generation	50.0	242,587	Agroforestry biomass	-	7,500	2037
Mérida 20MW	Biomass generation	20.0	267,374	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

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:

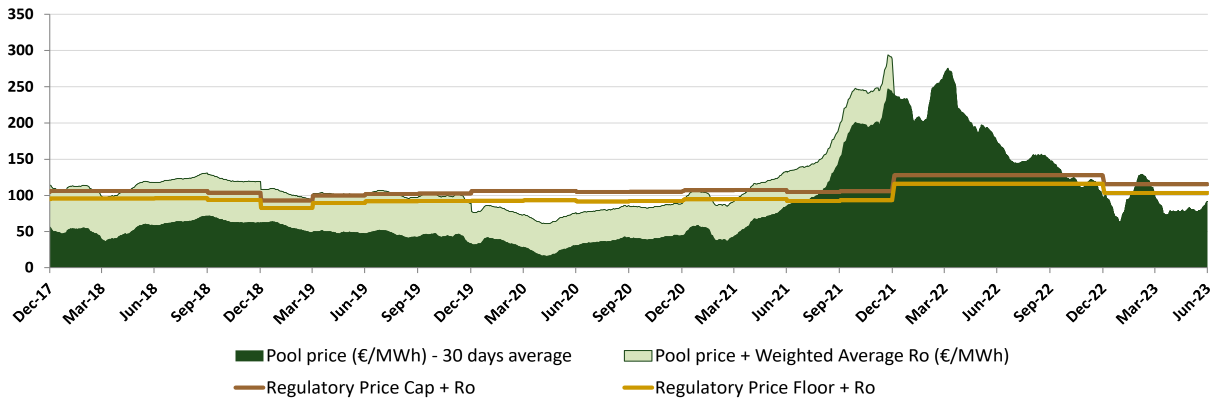
1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a minimum return on the estimated cost of building a 'standard' plant. That return was set at 7.4% for 2020–2031 via Royal Decree-Law 17/2019 (22 November 2019).

2. The **regulated sales price (€/MWh)** enables plant owners to cover all the estimated costs of operating a 'standard' plant, including fuel costs. That price is made up of the regulatory price plus the supplementary remuneration for operations (Ro) earned by each plant, where applicable.

   The Ministry of Green Transition determines the supplementary remuneration for operation of each plant (Ro) as a function of the estimated costs of operating a 'standard' plant, which are updated annually, and the electricity prices estimated at the start of each 3-year regulatory sub period (regulatory price). Any deviations between the electricity market price and the price estimated by the Ministry at the start of each period (regulatory price) are settled by adjusting the remuneration for investment to be collected during the plants' remaining regulatory useful lives.

   When estimating electricity market prices, the Ministry will rely on the weighted average value of a basket of prices made up of day-ahead market prices and market prices gleaned from futures markets.

   If the price estimated by the Ministry (regulated price) is higher than the estimated cost of operating a 'standard' plant, that difference also triggers an adjustment to the remuneration for investment due to the plants over their remaining useful lives.



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

Royal Decree-Law 5/2023 and the Ministerial Order updating the regulatory energy price and remuneration parameters applicable to the Group's power generation plants for the regulatory stub period elapsing between 1 January 2023 and 31 December 2025 were published on 29 June and 30 June, respectively.

These new regulations establish the regulatory prices for 2023, 2024 and 2025 at €109.31/MWh, €108.86/MWh and €89.37/MWh, respectively, compared to the prices of €207.88/MWh, €129.66/MWh and €78.19/MWh published in the draft Order dated 28 December 2022, which is now void.

Below are the pool prices estimated by the regulator for 2023-2025, along with the corresponding annual ceilings and floors:

Eur / MWh	2023	2024	2025
LS2	117.1	116.7	97.2
LS1	113.2	112.8	93.3
Estimated price pool	109.3	108.9	89.4
LI1	105.4	105.0	85.5
LI2	101.5	101.1	81.6

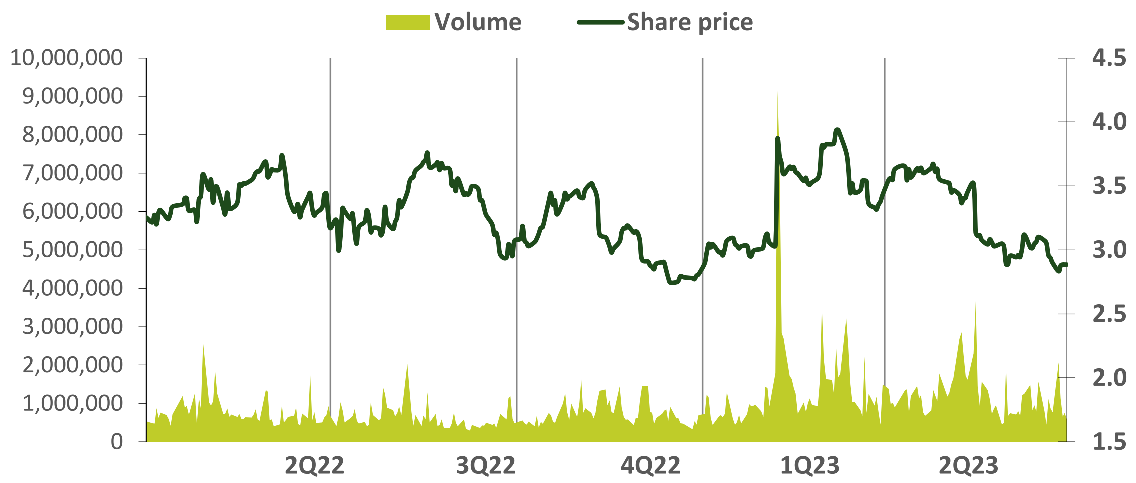
APPENDIX 3: SHARE PRICE PERFORMANCE

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 €2.89, a gain of 2.7% from year-end 2022, or 23.3% adjusting for the two interim dividends of €0.29 per share paid out on each of 16 March and 18 May 2023.

Over the same timeframe, the Company's peers' share prices corrected by 10.5% on average.

On 7 February 2023, Spain’s Supreme Court upheld the validity of the extension of the Pontevedra biomill concession until 2073. That day the Company’s share price jumped 27%.



SHARES	2Q22	3Q22	4Q22	1Q23	2Q23
Share price at the end of the period	3.26	3.07	2.81	3.43	2.89
Market capitalization at the end of the period	803.3	756.1	692.0	844.7	710.7
Ence quarterly evolution	2.1%	(5.9%)	(8.5%)	22.1%	(15.9%)
Daily average volume (shares)	793,780	657,916	745,786	1,455,322	1,222,432
Peers quarterly evolution *	(1.0%)	(8.6%)	(4.0%)	(10.5%)	(4.4%)

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

Source: Bloomberg

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 1, 2.5, 2.6, 3.3, 3.4, 4.1 and 4.2, 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 Group'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 both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
OPERATING PROFIT/(LOSS)	€ m	P&L	(4.5)	14.3	0.8	10.6	44.2	21.6	1.2	67.1
Depreciation and amortisation charges	€ m	P&L	26.2	17.5	(0.8)	43.0	20.4	20.0	(0.5)	39.9
Depletion of forest reserve	€ m	P&L	5.0	-	-	5.0	4.0	0.0	-	4.0
Impairment of and gains/(losses) on disposal of fixed assets	€ m	P&L	0.5	(0.3)	-	0.3	1.1	37.0	-	37.3
Other non-operating items	€ m	APM	6.6	-	-	6.6	0.1	-	-	0.1
EBITDA	**€ m**		**33.8**	**31.6**	**-**	**65.4**	**69.8**	**78.6**	**-**	**148.4**

Other non-operating items, presented in sections 1, 2.5, 4.1 and 4.2 of this report, refers to *ad-hoc* income and expenses unrelated to the Company's ordinary business activities that render two reporting periods less comparable. The balance of €6.6m recognised in 1H23 relates to inventory impairment allowances, as net pulp prices were below the amount at which the Group's inventories were carried as at the June close.

CASH COST

The 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 2.3 of this report.

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

The cash cost 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 adjustments for deviations in electricity market prices (the regulatory collar), forest depletion charges and the change in inventories. To calculate the cash cost, the related production costs are divided by the volume of tonnes produced, while overhead and sales and logistics costs are divided by the volume of tonnes sold.

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H22 Pulp
Revenue from pulp sales	€ m	P&L	306.6	338.0
EBITDA	€ m	APM	(33.8)	(69.8)
Total costs (Revenue - EBITDA)	€ m		272.8	268.1
Gains/(losses) on hedging transactions	€ m	APM	(0.7)	(11.3)
Adjustments for tariff shortfall/surplus (electricity market)	€ m		2.5	(14.4)
Depletion of forest reserve	€ m	P&L	5.0	4.0
Change in inventories	€ m	P&L	4.3	(9.0)
Other income and expenses	€ m		(4.7)	(2.8)
ADJUSTED CASH COST	€ m		279.3	234.6
Pulp production costs	€ m		236.8	192.6
No. of tonnes produced	Unit		478,003	465,888
PRODUCTION-RELATED COSTS PER TONNE	€/tonne		**495.4**	**413.3**
Overhead, sales and logistics costs			42.5	42.1
No. of tonnes sold	Unit		461,493	487,059
	€/tonne		**92.0**	**86.4**
OVERHEAD, SALES AND LOGISTICS COSTS PER TONNE				
CASH COST	**€/tonne**		**587.4**	**499.7**

"Other income and expenses" includes the gain/(loss) on the sale of wood to third parties (-€0.4m in 1H23 and -€0.4m in 1H22), nursery costs (-€0.4m in 1H23 and -€0.3m in 1H22), long-term remuneration and termination benefits (-€1.4m in 1H23 and -€1.3m in 1H22), receivables impairment allowances (-€0.8m in 1H23) and bank charges (-€0.7m in 1H23 and -€0.7m in 1H22). The remaining items implied costs of €1.1m in 1H23.

OPERATING PROFIT PER TONNE OF PULP

The operating profit referred to in sections 1 and 2.3 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 or gains or losses on their disposal or 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 both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H22 Pulp
Revenue from pulp sales	€ m	P&L	306.6	338.0
No. of tonnes sold	Unit		461,493	487,059
Average sales price per tonne (Revenue / # tonnes)	€/tonne		664.4	693.9
Cash cost (€)	€/tonne	APM	587.4	499.7
TOTAL OPERATING PROFIT PER TONNE OF PULP	**€/tonne**		**77.0**	**194.2**

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 2.5, 3.3, 4.1 and 4.2. They aggregate statement of profit or loss headings 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 this APM and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H23 Renewable Energy	1H23 Adjustments & Eliminations	1H23 CONSOLIDATED TOTAL	1H22 Pulp	1H22 Renewable Energy	1H22 Adjustments & Eliminations	1H22 CONSOLIDATED TOTAL
Finance income	€ m	P&L	1.8	0.5	(0.3)	2.0	2.2	0.1	(0.7)	1.6
Finance costs	€ m	P&L	(8.4)	(6.9)	0.3	(14.9)	(6.7)	(9.3)	0.7	(15.3)
NET FINANCE COST	**€ m**		**(6.6)**	**(6.4)**	**-**	**(13.0)**	**(4.5)**	**(9.2)**	**(0.0)**	**(13.7)**
Change in fair value of financial instruments	€ m	P&L	-	-	-	-	-	0.3	-	0.3
Exchange differences	€ m	P&L	(0.5)	-	-	(0.5)	2.1	(0.0)	-	2.0
OTHER FINANCIAL ITEMS	**€ m**		**(0.5)**	**-**	**-**	**(0.5)**	**2.1**	**0.3**	**-**	**2.4**
NET FINANCE INCOME/(COST)	€ m	P&L	(7.0)	(6.4)	-	(13.4)	(2.5)	(8.9)	-	(11.4)

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, 2.6 and 3.4, 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 Group'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 and raise occupational health and safety and environmental performance. 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. Capex-related cash flows are broken down by area of investment to make it easier to track execution of the published Business Plan.

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H23 Renewable Energy	1H23 Adjustments & Eliminations	1H23 CONSOLIDATED TOTAL	1H22 Pulp	1H22 Renewable Energy	1H22 Adjustments & Eliminations	1H22 CONSOLIDATED TOTAL
Maintenance capex	€ m		(4.2)	(1.0)	-	(5.2)	(9.9)	(1.1)	-	(11.0)
Efficiency and growth capex	€ m		(11.0)	(0.3)	-	(11.3)	(4.1)	(0.7)	-	(4.7)
Sustainability capex	€ m		(11.9)	(1.6)	-	(13.5)	(11.4)	(3.0)	-	(14.5)
Financial investments	€ m		(0.1)	0.4	0.3	0.6	(0.0)	-	-	(0.0)
TOTAL CAPITAL EXPENDITURE	**€ m**		**(27.1)**	**(2.5)**	**0.3**	**(29.4)**	**(25.5)**	**(4.8)**	**-**	**(30.3)**

OPERATING CASH FLOW

The operating cash flow analysed in sections 1, 2.6 and 3.4 of this report coincides with the net cash from operating activities presented in the statement of cash flows included in section 4.4. 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 both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

			1H23				1H22			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EBITDA	€ m	APM	33.8	31.6	-	65.4	69.8	78.6	-	148.4
Other non-recurring items	€ m	APM	(6.6)	-	-	(6.6)	(0.1)	-	-	(0.1)
Adjustments to reconcile profit before tax to net cash flows:					-				-	
Changes in provisions and other deferred expense (net)	€ m	CF	12.9	1.7	-	14.7	(2.4)	0.6	-	(1.8)
Adjustments for tariff shortfall/surplus (electricity market)	€ m	CF	(2.5)	(8.1)	-	(10.6)	14.4	12.1	-	26.5
Grants taken to profit and loss	€ m	CF	(0.4)	(0.1)	-	(0.5)	(0.3)	(0.1)	-	(0.3)
Exchange differences with an impact on cash	€ m		(0.5)	(0.0)	(0.0)	(0.5)	0.4	(0.0)	-	0.3
Change in working capital	€ m		(20.9)	(84.9)	0.0	(105.8)	(31.2)	34.6	-	3.4
Interest paid, net (including right-of-use assets)	€ m	CF	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Dividends received	€ m	CF	-	-	-	-	-	-	-	-
Income tax paid	€ m	CF	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
Other collections/(payments)	€ m	CF	-	-	-	-	-	-	-	-
OPERATING CASH FLOW			**7.5**	**(76.3)**	**-**	**(68.7)**	**45.4**	**113.5**	**-**	**158.9**

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 1, 2.6, 3.4 and 4.3 of this report.

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

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

			1H23				1H22			
	Unit	Source Financial Statement	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Net cash flows from/(used in) operating activities	€ m	CF	7.5	(76.3)	-	(68.7)	45.4	113.5	-	158.9
Net cash flows from/(used in) investing activities	€ m	CF	(27.6)	(2.5)	-	(29.4)	(25.5)	(4.4)	-	(29.9)
FREE CASH FLOW	**€ m**		**(20.1)**	**(78.8)**	**-**	**(98.2)**	**19.9**	**109.1**	**-**	**129.0**

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow metrics for each of its two business units in sections 1, 2.6 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Group's operating activities before collection of proceeds from asset sales, the adjustments related with electricity sector regulations and other adjustments to profit. It represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

Below is a reconciliation between this APM and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine this metric were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H23 Renewable Energy	1H23 Adjustments & Eliminations	1H23 CONSOLIDATED TOTAL	1H22 Pulp	1H22 Renewable Energy	1H22 Adjustments & Eliminations	1H22 CONSOLIDATED TOTAL
EBITDA	€ m	APM	33.8	31.6	-	65.4	69.8	78.6	-	148.4
Changes in working capital:					-				-	
Inventories	€ m	CF	(9.6)	(6.0)	-	(15.7)	8.6	(1.2)	-	7.4
Trade and other receivables	€ m	CF	(1.2)	13.8	(26.8)	(14.3)	(23.2)	(1.3)	-	(24.5)
Short-term investments	€ m	CF	0.8	0.0	-	0.8	0.6	(0.0)	-	0.6
Trade payables, other payables and other liabilities	€ m		(10.9)	(92.6)	26.8	(76.7)	(17.3)	37.2	-	19.9
Maintenance capex	€ m	APM	(4.2)	(1.0)	-	(5.2)	(9.9)	(1.1)	-	(11.0)
Interest paid, net (including right-of-use assets)	€ m	CF	(4.5)	(6.4)	-	(10.9)	(3.3)	(9.8)	-	(13.1)
Income tax paid	€ m	CF	(3.9)	(10.1)	-	(14.1)	(1.9)	(2.5)	-	(4.3)
NORMALISED FREE CASH FLOW	**€ m**		**0.3**	**(70.9)**	**-**	**(70.6)**	**23.4**	**99.9**	**-**	**123.3**

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 unrestricted cash on the asset side, which includes 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 2.7 and 3.5 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 both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	Jun. 2023 Pulp	Jun. 2023 Renewable Energy	Jun. 2023 Adjustments & Eliminations	Jun. 2023 CONSOLIDATED TOTAL	Dec. 2022 Pulp	Dec. 2022 Renewable Energy	Dec. 2022 Adjustments & Eliminations	Dec. 2022 CONSOLIDATED TOTAL
Non-current borrowings:										
Bonds and other maketable securities	€ m	BS	-	78.6		78.6	-	78.4		78.4
Bank borrowings	€ m	BS	288.1	31.0		319.1	96.9	43.7		140.6
Other financial liabilities	€ m	BS	79.5	1.9		81.4	66.3	0.8		67.0
Current borrowings:	€ m									
Bonds and other maketable securities	€ m	BS	-	-		-	64.1	0.0		64.1
Bank borrowings	€ m	BS	76.2	25.0		101.2	13.0	27.2		40.1
Other financial liabilities	€ m	BS	6.7	0.6		7.3	6.3	0.6		6.9
Cash and cash equivalents	€ m	BS	323.3	40.4		363.7	278.4	134.5		412.9
Current financial assets - Other financial investments	€ m		3.4	0.0		3.4	4.2	0.0		4.3
Cash reserve for debt service	€ m		-	10.0		10.0	-	10.0		10.0
NET DEBT/(CASH)	**€ m**		**123.7**	**86.6**		**210.4**	**(36.1)**	**6.1**		**(30.0)**

ROCE

ROCE stands for the return on capital employed and is used by management as a key profitability performance indicator. It is provided in section 1 of this report.

It is calculated by dividing EBIT for the last 12 months by average capital employed during the period, capital employed being the sum of equity and net debt. For the Pulp business, equity is calculated as the difference between consolidated equity and the equity recognised by the Renewables business.

ROCE is widely used in the capital markets to measure and compare the earnings performance of different companies.

Below is a reconciliation between both headings and the amounts presented in the financial statements for the first half of 2023 and the comparison with the 1H22 figure. The criteria used to determine these APMs were the same in both periods:

	Unit	Source Financial Statement	1H23 Pulp	1H23 Renewable Energy	1H23 Adjustments & Eliminations	1H23 CONSOLIDATED TOTAL	1H22 Pulp	1H22 Renewable Energy	1H22 Adjustments & Eliminations	1H22 CONSOLIDATED TOTAL
EBIT, last 12 months	€ m	P&L	35.6	21.0	1.2	57.8	62.7	2.6	2.4	67.7
Average capital employed, last 12 months					-					
Average equity	€ m	BS	564.6	236.4	-	801.0	591.7	237.6	-	829.3
Average net debt	€ m	BS	12.6	32.6	-	45.0	1.0	94.3	-	95.3
ROCE	%		**6.2%**	**7.8%**	**n.s.**	**6.8%**	**10.6%**	**0.8%**	**n.s.**	**7.3%**

For ROCE calculation purposes, adjustments have been made for the impairment losses and provisions recognised in 2021 in the wake of the National Appellate Court sentences which annulled the extension of the Pontevedra biomill concession and their subsequent reversal following the Supreme Court ruling upholding the validity of the original extension to 2073.

In 4Q22, the Company reversed impairment losses and provisions with a net effect on EBIT and equity of €167m and €169m.

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

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

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Earnings Report
2Q23

SUSTAINALYTICS Global ESG score: 90/100