Fourth-quarter 2018
Earnings report

26 February 2019

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
BHKP (USD/t) average price	1,045.8	938.5	*11.4%*	1,050.0	*(0.4%)*	1,037.3	817.8	*26.8%*
Average exchange rate (USD/€)	1.14	1.18	*(2.8%)*	1.16	*(1.5%)*	1.18	1.13	*4.5%*
BHKP (€/t) average price	914.1	797.5	*14.6%*	903.5	*1.2%*	878.6	723.6	*21.4%*
Average pool price (€/MWh)	63.0	57.5	*9.5%*	65.9	*(4.4%)*	57.4	52.1	*10.2%*

Source: Bloomberg

Operating Magnitudes	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Pulp production (t)	**253,701**	**257,929**	***(1.6%)***	**256,437**	***(1.1%)***	**967,969**	**957,951**	***1.0%***
Pulp sales (t)	**246,729**	**255,401**	***(3.4%)***	**237,615**	***3.8%***	**947,466**	**975,302**	***(2.9%)***
Average sale pulp price (€/t)	643.6	581.5	*10.7%*	659.9	*(2.5%)*	635.1	528.2	*20.2%*
Cash cost (€/t)	383.5	357.6	*7.2%*	376.0	*2.0%*	376.9	349.6	*7.8%*
Wood cost €/m3	69.4	65.5	*6.0%*	67.1	*3.3%*	67.3	64.5	*4.3%*
Energy sales from Energy business (MWh)	**208,835**	**258,257**	***(19.1%)***	**267,632**	***(22.0%)***	**923,935**	**884,149**	***4.5%***
Average selling price - Pool + Ro (€/MWh)	90.5	108.1	*(16.3%)*	106.9	*(15.3%)*	104.2	106.4	*(2.1%)*
Investment remuneration (€Mn)	12.0	10.2	*17.1%*	10.2	*17.1%*	42.7	39.0	*9.4%*

P&L €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Revenues from Pulp business	182.5	175.5	*4.0%*	181.1	*0.8%*	697.0	611.6	*14.0%*
Revenues from Energy business	31.0	38.4	*(19.3%)*	39.1	*(20.8%)*	138.9	133.0	*4.4%*
Consolidation adjustments	(1.2)	(0.9)		(0.8)		(3.9)	(4.4)	
Total net revenue	**212.3**	**213.0**	*(0.3%)*	**219.4**	*(3.2%)*	**832.0**	**740.3**	*12.4%*
Pulp business EBITDA	64.5	55.9	*15.4%*	66.0	*(2.2%)*	245.6	170.6	*44.0%*
Margin %	**35%**	**32%**	*3.5 p.p.*	**36%**	*(1.1) p.p.*	**35%**	**28%**	*7.3 p.p.*
Energy business EBITDA	12.7	12.4	*2.5%*	12.9	*(1.1%)*	45.3	45.4	*(0.3%)*
Margin %	**41%**	**32%**	*8.7 p.p.*	**33%**	*8.2 p.p.*	**33%**	**34%**	*(1.6) p.p.*
EBITDA	**77.3**	**68.4**	*13.0%*	**78.9**	*(2.0%)*	**290.9**	**216.0**	*34.7%*
Margin %	*36%*	*32%*	*4.3 p.p.*	*36%*	*0.5 p.p.*	*35%*	*29%*	*5.8 p.p.*
Amortization and forestry depletion	(19.5)	(21.5)	*(9.6%)*	(18.3)	*6.5%*	(75.7)	(75.4)	*0.3%*
Other results	(5.0)	3.5	*n.s.*	(0.7)	*n.s.*	(5.7)	9.1	*n.s.*
EBIT	**52.8**	**50.3**	*5.0%*	**59.9**	*(11.9%)*	**209.6**	**149.6**	*40.0%*
Net financial costs	(5.1)	(6.4)	*(20.3%)*	(3.3)	*54.1%*	(37.4)	(21.8)	*71.9%*
Other financial results	(0.1)	(4.5)	*(98.5%)*	(0.1)	*(46.9%)*	1.1	(8.0)	*n.s.*
Profit before tax	**47.6**	**39.4**	*20.8%*	**56.5**	*(15.7%)*	**173.2**	**119.9**	*44.5%*
Income tax	(9.4)	(6.5)	*43.5%*	(14.3)	*(34.7%)*	(41.6)	(26.2)	*58.6%*
Net Income	**38.2**	**32.9**	*16.2%*	**42.1**	*(9.2%)*	**131.7**	**93.7**	*40.6%*
Non-controlling interests	(0.8)	(0.6)	*32.2%*	(0.8)	*n.s*	(2.5)	(1.9)	*35.2%*
Atributable Net Income	**37.5**	**32.3**	*16.0%*	**41.4**	*(9.5%)*	**129.1**	**91.8**	*40.7%*
Earnings per share (Basic EPS)	0.15	0.13	*16.0%*	0.17	*(9.5%)*	0.53	0.37	*40.7%*

Note: The definition of EBITDA was updated in 3Q18 to exclude one-off items of income and expenses that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

Cash flow €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
EBITDA	**77.3**	**68.4**	*13.0%*	**78.9**	*(2.0%)*	**290.9**	**216.0**	*34.7%*
Change in working capital	8.3	22.1	*(62.2%)*	(9.2)	*n.s.*	(10.1)	(6.7)	*50.3%*
Maintenance capex	(7.0)	(5.7)	*22.4%*	(7.0)	*0.4%*	(21.8)	(19.3)	*12.9%*
Net interest Payment	(4.6)	(12.6)	*(63.3%)*	(1.4)	*223.6%*	(29.9)	(23.0)	*30.3%*
Income tax received/(paid)	(21.0)	(16.6)	*26.6%*	(0.6)	*n.s.*	(28.8)	(19.6)	*46.7%*
Normalized free cash flow	**53.0**	**55.5**	*(4.6%)*	**60.7**	*(12.7%)*	**200.2**	**147.4**	*35.9%*
Financial investments and other collections / (payments)	0.3	6.6	*n.s.*	6.9	*n.s*	7.7	16.8	*(54.4%)*
Expansion capex	(158.1)	(14.3)	*n.s.*	(45.0)	*n.s.*	(279.6)	(55.8)	*n.s.*
Sustainability capex	(6.1)	(1.6)	*n.s.*	(2.4)	*152.4%*	(11.5)	(5.8)	*96.7%*
Disposals	(1.8)	0.2	*n.s.*	0.1	*n.s.*	1.4	3.4	*(60.0%)*
Free Cash Flow	**(112.6)**	**46.5**	*n.s.*	**20.3**	*n.s.*	**(81.8)**	**106.0**	*n.s.*
Dividends	(28.2)	(16.1)	*75.0%*	(22.8)	*n.s*	(67.1)	(39.8)	*68.8%*

Net debt €Mn	Dec-18	Dec-17	Δ%	Sep-18	Δ%
Pulp business net financial debt	147.6	120.1	*22.9%*	60.2	*145.3%*
Energy business net financial debt	157.2	33.0	*n.s.*	96.6	*62.8%*
Net financial debt	**304.8**	**153.1**	*99.0%*	**156.8**	*94.5%*

- ✓ **Group´s Attributable Net Income increased by 41% in 2018 to €129m, while Group EBITDA registered growth of 35% to €291m, boosted by the Pulp business. As a result, earnings per share increased from €0.37 in 2017 to €0.53 in 2018.**
- ✓ **Attributable Net Income and EBITDA registered continued year-on-year growth of 16% and 13%, respectively, in 4Q18.**
- ✓ **In the Pulp business, EBITDA was 44% higher in 2018 at €246m while in the Renewable Energy business was stable at €45m, both in line with the guidance provided by the Company last November.**
- ✓ **Normalised free cash flow was 36% higher, topping the €200m mark, allowing for the payment of €67m of dividends (up 69% from 2017) and partially financing the expansion capex of €280m and sustainability investments of €12m undertaken in 2018.**
- ✓ **In the Pulp business, 30,000 tonnes of capacity were added at the Pontevedra biofactory. That expansion will be followed by the addition of another 20,000 tonnes in Pontevedra and 80,000 tonnes in Navia during the first half of 2019.**
- ✓ **In the Renewable Energy business, Ence acquired a 50-MW thermosolar plant in Puertollano (Ciudad Real) which will boost this segment's EBITDA by €18m.**
- ✓ **Meanwhile, work continued on the construction of two new biomass plants with an aggregate capacity of 96 MW which are slated to be commissioned at the end of 2019, lifting annual EBITDA in this business by a further €30m.**
- ✓ **In total, the Group's net debt-to-EBITDA ratio stood at just 1x at year-end; 0.6x in the Pulp business and 2.5x in the Renewable Energy business (factoring in the annualised contribution by the thermosolar plant consolidated for the first time in December).**
- ✓ **During the fourth quarter, the Pulp business contributed €78m of equity to the Renewable Energy business to better tap the growth opportunities contemplated in the 2019 - 2023 Business Plan, while keeping leverage well within the thresholds established by Ence for each unit.**
- ✓ **Both Moody's and Standard & Poor's have improved by one notch the credit ratings awarded to the Company, expressly acknowledging the structural improvement in Ence's business model thanks to the growth in the Renewable Energy Business.**
- ✓ **During the fourth quarter, Ence entered into two long-term agreements for the sale of wood from the plantations it owns in the south of Spain, triggering the reversal of €11.6m of impairment losses recognised on forest assets in prior years. It also recognised a provision of €10.7m to cover the termination of certain agreements arranged in 2008 for the transportation of timber and pulp at the Navia biofactory which would have implied surplus costs going forward. Both items were recognised below EBITDA and virtually offset each other; they had no impact on cash flows in 2018.**
- ✓ **The outlook for the BHKP pulp market remains very positive due to sustained growth in demand and the lack of major capacity additions in the coming years. The soonest confirmed project, being built by Arauco in Chile, is not expected to be operational until the second half of 2021.**
- ✓ **Against this backdrop, last November, Ence presented its Business Plan for 2019 - 2023, articulated around the objective of almost doubling Group EBITDA (assuming constant pulp prices) to €550m in 2023, with at least €150m coming from the Renewable Energy business.**
- ✓ **Ence's shares were added to the Spain's benchmark stock index, the Ibex 35, last December and in January 2019 they were also included in the Ibex Top Dividend index.**
- ✓ **The Board of Directors has agreed to submit a proposal for the payment of a gross final dividend from 2018 profits of €0.054 per share at the Annual General Meeting scheduled for 28 March.**

2. PULP BUSINESS

Ence has two eucalyptus pulp biofactories in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 495,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally.

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

2.1. Pulp market trends

Global demand for BHKP pulp increased by 1.4% in 2018, which is equivalent to a year-on-year increase of 0.5 million tonnes, according to PPPC estimates. Within the various grades of BHKP pulp, eucalyptus pulp continued to gain market share: demand increased by 4.7% or 1.1 million tonnes in 2018.

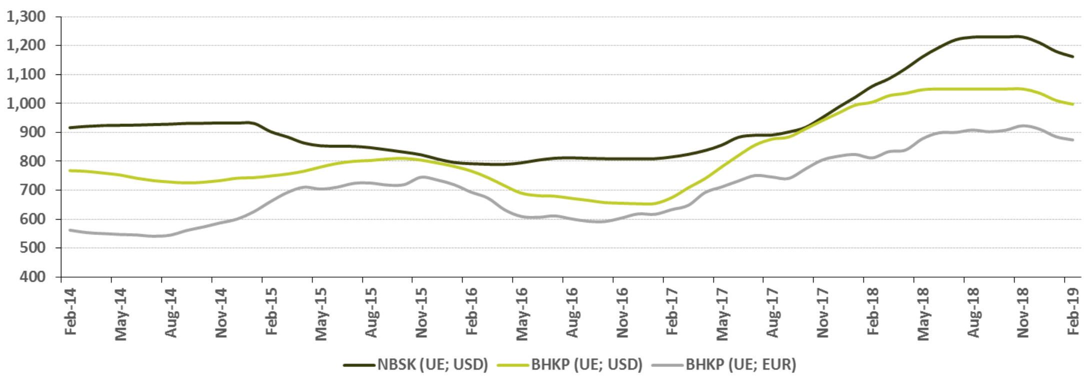
The momentum in demand for BHKP pulp is being shaped primarily by ongoing growth in the consumption of tissue paper on the back of rapid urban development and growing standards of living in emerging economies.

The prospect of a slowdown in global economic growth, coupled with heightened trade tensions between China and the US, led to a destocking process in the paper industry, particularly in China, during the last two months of the year.

The resulting slowdown in demand for pulp drove a $60 correction in BHKP pulp prices in Europe, which stood at $990/tonne as of mid-February, by which time Chinese pulp prices begun to recover.

Ence announced a price of $1,010/tonne for its eucalyptus pulp from February. Low inventory levels in the paper industry, together with the anticipated normalisation in demand for pulp after the Chinese New Year and in the absence of major capacity addition plans, foreshadow pulp price recovery in the coming quarters.

Pulp prices in Europe during the last five years



Source: FOEX

Longer-term, the lack of major plans to add BHKP market pulp capacity bodes for strong price fundamentals for the coming years. The soonest confirmed project, being built by Arauco in Chile, is not expected to be operational until the second half of 2021.

2.2. Revenue from pulp sales

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Pulp sales (t)	**246,729**	**255,401**	*(3.4%)*	**237,615**	*3.8%*	**947,466**	**975,302**	*(2.9%)*
Average selling price (€/t)	643.6	581.5	*10.7%*	659.9	*(2.5%)*	635.1	528.2	*20.2%*
Pulp sales revenues (€Mn)	**158.8**	**148.5**	*6.9%*	**156.8**	*1.3%*	**601.7**	**515.2**	*16.8%*

Ence´s average pulp selling price increased by 10.7% year-on-year in 4Q18, driven by growth of 11.4% in the dollar-denominated benchmark price and boosted by average euro depreciation against the dollar of 2.8%.

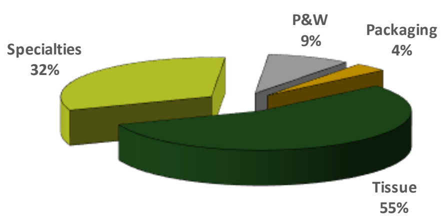
The growth in average sales prices was partially offset by higher volumes of sales in the spot market, outside of Europe, during the quarter. Those markets accounted for 9% of pulp sales in 2018.

Pulp sales volumes declined by 3.4% year-on-year in the fourth quarter, due mainly to the replenishment of inventories ahead of the capacity additions planned for the first half of 2019. Inventories stood at 53,400 tonnes at year-end.

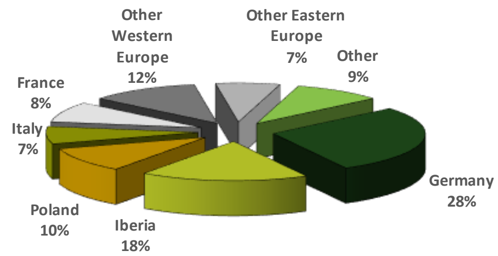
The combination of the two factors drove year-on-year growth in revenue from pulp sales of 6.9% to €158.8m in 4Q18.

Revenue from pulp sales was 16.8% higher in 2018 at €601.7m, driven by growth of 20.2% in the average sales price.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 55% of revenue from pulp sales in 2018, followed by the specialty paper segment, at 32%, and the printing and writing papers segment, at 9%. The remaining 4% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 91% of revenue from pulp sales. Germany and Iberia accounted for 28% and 18% of total revenue, respectively, followed by Poland (10%), France (8%) and Italy (7%). Other western European countries accounted for 12% of the total, with Eastern Europe representing 7%.

2.3. Pulp production and the cash cost

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Navia pulp production	138,554	142,780	*(3.0%)*	143,176	*(3.2%)*	530,463	523,297	*1.4%*
Pontevedra pulp production	115,147	115,149	*(0.0%)*	113,261	*1.7%*	437,505	434,654	*0.7%*
Pulp production (t)	**253,701**	**257,929**	*(1.6%)*	**256,437**	*(1.1%)*	**967,969**	**957,951**	*1.0%*

Pulp production decreased by 1.6% year-on-year in the fourth quarter of 2018. In 2018 as a whole, however, production increased by 1% to 967,969 tonnes.

In May, the Company took advantage of the 10-day maintenance stoppage at the Navia biofactory to prepare the connections needed to expand its annual capacity by 80,000 tonnes, work scheduled to be carried out in May 2019. It also attained new milestones on the environmental excellence front with investments designed to reduce the biofactory's odour and noise impact, minimise its emissions and improve the quality of its effluent.

In March, the Pontevedra biofactory was stopped for maintenance work for 12 days. The Company took advantage of that annual stoppage to carry out the investments required to increase annual capacity at that complex by 30,000 tonnes; notably, it invested in the recovery boiler, the causticising system and the evaporation facilities, which were expanded.

The cash cost was €383.5/tonne in the fourth quarter, up €7.5/tonne quarter-over-quarter, due mainly to the €7.8/tonne increase in wood costs, primarily as a result of the increase in the average supply distance during the fourth quarter.

Figures in €/t	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Wood cost	207.6	196.5	5.6%	199.8	3.9%	201.4	192.7	4.5%
Conversion costs	105.4	105.6	(0.2%)	107.1	(1.6%)	109.1	102.9	6.0%
Commercial and logistic costs	31.5	30.7	2.8%	31.6	(0.4%)	31.7	29.4	8.0%
Overheads	39.0	24.8	57.0%	37.4	4.2%	34.6	24.6	40.8%
Total cash cost	**383.5**	**357.6**	7.2%	**376.0**	2.0%	**376.9**	**349.6**	7.8%

In 2018, the cash cost was €376.9/tonne, up €27.3/tonne from 2017. Overhead costs, which include the cost of the supply chain department, increased by €10/tonne, due mainly to new hires carried out under the scope of the 2019 - 2023 Business Plan. Wood costs were €8.7/tonne higher, primarily due to their indexation to pulp prices. Conversion costs were €6.2/tonne higher as a result, principally, of the increased cost of chemicals, particularly caustic soda following the discontinuation of its production using mercury. Lastly, sales and logistics costs were €2.3/tonne more expensive on the back of higher oil prices.

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Wood cost €/m3	69.4	65.5	6.0%	67.1	3.3%	67.3	64.5	4.3%
Timber supply (m3)	729,431	718,967	1.5%	672,042	8.5%	2,872,574	2,857,483	0.5%
Big suppliers	19.7%	25.7%		24.7%		24.1%	24.9%	
Small suppliers	53.5%	48.5%		48.8%		49.9%	48.2%	
Standing timber acquired directly from land owners	25.6%	25.8%		24.1%		21.9%	26.9%	
Owned timber	1.2%	0.0%		2.4%		4.1%	0.0%	

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

As an integral part of its pulp production process, Ence uses the lignin and forest biomass derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra biofactory, and a 40.3-MW CHP plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biofactory.

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

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Navia energy sales	138,139	142,906	(3.3%)	136,631	1.1%	519,327	527,884	(1.6%)
Pontevedra energy sales	60,374	58,110	3.9%	59,217	2.0%	230,660	217,441	6.1%
Energy sales linked to the pulp process (MWh)	**198,514**	**201,016**	(1.2%)	**195,849**	1.4%	**749,988**	**745,325**	0.6%
Average selling price - Pool + Ro (€/MWh)	95.2	93.1	2.3%	103.1	(7.6%)	96.8	89.4	8.2%
Investment remuneration (€Mn)	2.6	2.6	(0.2%)	2.6	(0.2%)	10.2	10.2	0.4%
Revenues from energy sales linked to pulp (€Mn)	**21.5**	**21.3**	0.9%	**22.7**	(5.6%)	**82.8**	**76.8**	7.8%

The energy sold as part of the pulp production process decreased by 1.2% year-on-year in 4Q18, while growth in the volume of power sold in 2018 was 0.6% to 749,988 MWh.

The average sales price was 2.3% higher compared to 4Q17 at €95.2/MWh, as a result of higher pool prices. The average sales price in 2018 was €96.8/MWh, up 8.2% from 2017.

Ence adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of provisions of €1.3m in 4Q18 and of €2.6m in 2018, which have been accounted as a decrease in the average sales price.

In total, revenue from energy sales in the Pulp business, factoring in remuneration for investment - which does not change - increased by 0.9% year-on-year in 4Q18. In 2018, revenue from energy sales increased by 7.8% to €82.8m.

2.5. Revenue from forestry and other activities

In addition to the sale of pulp and energy, the Pulp Business encompasses other activities, notable among which the sale of timber to third parties.

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Forestry and other revenues (€Mn)	**2.3**	**5.7**	*(60.4%)*	**1.5**	*48.6%*	**12.4**	**19.6**	*(36.8%)*

Revenue from forestry activities declined by 60.4% and 36.8% year-on-year in 4Q18 and 2018, respectively, as a result of the planned reduction in the volume of timber sold to third parties.

Ence plans to reactivate this activity in 2019 by exploiting the eucalyptus plantations located in the south of Spain. In 2018, Ence entered into two 12-year agreements for the annual sale of approximately 200,000 tonnes of timber from those plantations; those agreements are expected to generate recurring annual EBITDA of over €8m on average in the years to come.

2.6. Income statement

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Total net revenue	**182.5**	**175.5**	*4.0%*	**181.1**	*0.8%*	**697.0**	**611.6**	*14.0%*
EBITDA	**64.5**	**55.9**	*15.4%*	**66.0**	*(2.2%)*	**245.6**	**170.6**	*44.0%*
EBITDA margin	*35%*	*32%*	*3.5 p.p.*	*36%*	*(1.1) p.p.*	*35%*	*28%*	*7.3 p.p.*
Amortization	(12.8)	(15.8)	*(18.7%)*	(13.3)	*(3.8%)*	(52.0)	(54.4)	*(4.4%)*
Forest depletion	(1.6)	(1.4)	*9.6%*	(0.6)	*179.2%*	(5.7)	(4.0)	*41.3%*
Impairment of and gains/(losses) on fixed-asset disposals	4.3	3.5	*24.9%*	1.4	*208.4%*	11.6	9.2	*26.4%*
Other non-ordinary results of operations	(9.7)	-	*n.s.*	(2.0)	*n.s.*	(15.7)	-	*n.s.*
EBIT	**44.8**	**42.2**	*6.1%*	**51.5**	*(13.0%)*	**183.8**	**121.4**	*51.5%*
EBIT margin	*25%*	*24%*	*0.5 p.p.*	*28%*	*(3.9) p.p.*	*26%*	*20%*	*6.5 p.p.*
Net financial cost	(1.4)	(3.3)	*(57.3%)*	(1.3)	*9.6%*	(27.0)	(14.2)	*90.1%*
Other financial results	(0.1)	(0.8)	*(93.5%)*	(0.1)	*(57.6%)*	7.7	3.7	*107.2%*
Profit before tax	**43.3**	**38.0**	*13.8%*	**50.0**	*(13.5%)*	**164.5**	**110.9**	*48.4%*
Income tax	(9.3)	(8.5)	*8.8%*	(12.7)	*(27.1%)*	(38.3)	(24.3)	*57.5%*
Net Income	**34.0**	**29.5**	*15.3%*	**37.3**	*(8.9%)*	**126.2**	**86.6**	*45.8%*

Note: The definition of EBITDA was updated in 3Q18 to exclude one-off items of income and expenses that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

EBITDA in the Pulp business amounted to €64.5m in 4Q18, up 15.4% from 4Q17, thanks to the 10.7% increase in the average sales price, which offset the 3.4% decline in sales volumes and the 7.2% increase in the cash cost.

In 2018, this business's EBITDA increased by 44% to €245.6m, driven by growth of 20.2% in the average pulp sales price, more than mitigating the 2.9% decline in sales volumes due to the necessary build-up of inventories ahead of the annual stoppages planned for the first half of 2019 and the 7.8% increase in the cash cost.

Note that 2018 EBITDA includes €3.7m of gains from exchange rate hedges, offset by €3m of other net expenses not included in the cash cost. Other income and expenses outside the cash cost include the EBITDA generated on the sale of timber to third parties, community involvement programs in the vicinity of the Group's biofactories and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were 4.4% higher at €52m in 2018, while forest depletion charges increased by 41.3% to €5.7m as a result of more intense use of timber sourced from proprietary plantations during the period.

During the fourth quarter, Ence entered into two 12-year agreements for the sale of timber from its plantations in the south of Spain at prices that are higher than those the Company had been using to test the value of its forest to date. Those agreements have led to the reversal of €11.6m of impairment losses against forest assets recognised in "Impairment and gains/(losses) on fixed assets disposals" (with no impact on cash flows in 2018).

In addition, during the fourth quarter, Ence began to negotiate the termination of certain agreements entered into in 2008 for the transportation of timber and pulp at the Navia biofactory that, were they not cancelled, would have led to higher annual logistics costs going forward relative to the more competitive terms obtained consistently by the Company since then. As a result, and offsetting the above-mentioned impairment reversal, Ence has recognised a provision of €10.7 million to cover the termination of those agreements, that amount being well below the present value of the additional costs it would incur were it not to terminate the transportation contracts. That provision has been recognised under "Other non-ordinary results from operations" and is expected to impact cash flows in 2019.

Note that the above heading also includes €5m of expenses associated with Ence's Environmental Pact in Pontevedra, which dates to June 2016, which are expected to have an impact on cash flows in the coming years and were already provisioned at the end of the third quarter.

Lastly, it is worth highlighting the increase in finance costs in 2018 to €27m as a result of expenses totalling €18.8m associated with the prepayment of a €250m bond issued during the second quarter. Of that sum, €7m corresponded to the prepayment penalty, €6.7m to the second annual coupon due on 1 November and the remaining €5.1m to the original bond arrangement fees that were still pending recognition in profit and loss (which did not accordingly imply a cash outlay). The finance costs corresponding to the €160m of convertible bonds amounted to €4.5m, €2.9m of which had no cash impact.

'Other finance income/costs', which totalled €7.7m 2018, include a €6.6m dividend from the Renewable Energy Business, as well as exchange rate gains.

In all, the Pulp business reported a Net Income growth of 15.3% in 4Q18 and of 45.8% to €126.2m in 2018.

2.7. Cash flow

Net cash flows from operating activities amounted to €44.7m in 4Q18, net of the payment of €20.2m of taxes. In 2018 as a whole, net cash flows from operating activities amounted to €197.1m, up 28.5% from 2017. The growth in EBITDA of 44% was partially offset by a higher working capital requirement and higher tax payments in 2018.

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
EBITDA	**64.5**	**55.9**	*15.4%*	**66.0**	*(2.2%)*	**245.6**	**170.6**	*44.0%*
Non cash expenses / (incomes)	0.8	4.2	*(79.8%)*	5.4	*(84.3%)*	5.7	9.6	*(41.0%)*
Other collections / (payments)	0.3	0.7	*(57.2%)*	0.4	*(32.2%)*	0.4	0.3	*15.5%*
Change in working capital	(0.4)	17.6	*n.s.*	(5.5)	*(92.1%)*	(14.6)	0.3	*n.s.*
Income tax received/(paid)	(20.2)	(12.4)	*62.6%*	(0.0)	*n.s.*	(26.7)	(14.5)	*84.2%*
Net financial collection / (payment)	(0.3)	(7.6)	*(96.5%)*	5.9	*n.s.*	(13.3)	(13.0)	*2.1%*
Net cash flow from operating activities	**44.7**	**58.4**	*(23.4%)*	**72.1**	*(38.0%)*	**197.1**	**153.4**	*28.5%*

Note: The definition of EBITDA was updated in 3Q18 to exclude one-off items of income and expenses that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

The net outflow from financing activities amounted to €13.3m in 2018, which was flat year-on-year. That net outflow included the collection of a €6.6m dividend from the Renewable Energy business, offset by the 13.7m of cash outflows related with the prepayment of the €250m bond issue in 2Q18. Of that sum, €7m corresponded to the prepayment penalty and €6.7m to the second annual coupon due 1 November. The costs associated the €160m convertible bond issue were €2.1m.

The movement in working capital implied a cash outflow of €14.6m in 2018, driven by increases in inventories and trade receivables and a decrease in trade payables.

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Inventories	(5.4)	1.0	*n.s.*	(0.8)	*n.s.*	(9.2)	5.6	*n.s.*
Trade and other receivables	5.1	2.9	*74.7%*	2.8	*84.3%*	(7.5)	(17.9)	*(58.3%)*
Financial and other current assets	(0.7)	2.4	*n.s.*	2.4	*n.s.*	4.2	3.3	*27.1%*
Trade and other payables	0.6	11.3	*(94.3%)*	(9.9)	*n.s.*	(2.1)	9.4	*n.s.*
Change in working capital	**(0.4)**	**17.6**	*n.s.*	**(5.5)**	*(92.1%)*	**(14.6)**	**0.3**	*n.s.*

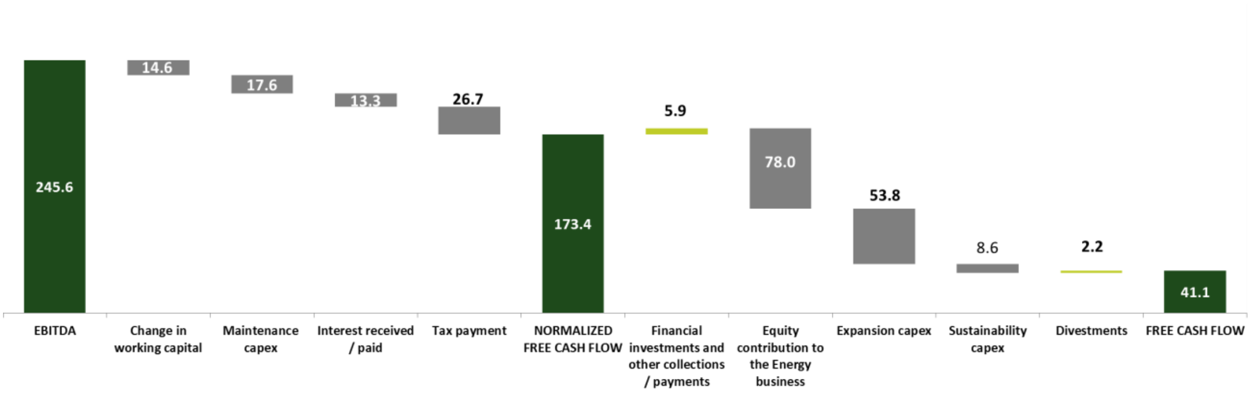
The net outflow from investing activities was €107.5m in 4Q18 and €156m in 2018 includes the equity contribution of €78m into the Renewable Energy business under financial investments. This contribution will enable Ence to tap the growth opportunities contemplated in the 2019 - 2023 Business Plan, while keeping leverage well within the thresholds established for each unit.

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Maintenance capex	(5.8)	(8.1)	*(29.0%)*	(5.4)	*6.9%*	(17.6)	(18.9)	*(7.2%)*
Sustainability capex	(4.7)	(1.6)	*197.7%*	(1.5)	*206.4%*	(8.6)	(5.8)	*48.1%*
Efficiency and expansion capex	(18.9)	(4.7)	*n.s.*	(14.4)	*30.9%*	(53.8)	(15.7)	*243.5%*
Financial investments	(76.3)	0.9	*n.s.*	0.7	*n.s.*	(78.2)	2.5	*n.s.*
Investments	**(105.6)**	**(13.5)**	*n.s.*	**(20.7)**	*n.s.*	**(158.2)**	**(37.9)**	*n.s.*
Disposals	(1.8)	0.2	*n.s.*	0.0	*n.s.*	2.2	3.4	*(36.4%)*
Net cash flow from investing activities	**(107.5)**	**(13.3)**	*n.s.*	**(20.7)**	*n.s.*	**(156.0)**	**(34.5)**	*n.s.*

The outlay for maintenance and sustainability capex totalled €5.8m and €4.7m in 4Q18, respectively, and €17.6m and €8.6m, respectively, in 2018.

Investments in efficiency and growth amounted to €18.9m in 4Q18 and €53.8m in 2018 and largely related to the addition of 30,000 tonnes of capacity at the Pontevedra biofactory in 1Q18 and the first payments associated with the planned addition of 80,000 tonnes of capacity in Navia scheduled for the second quarter of 2019.

As a result, normalised free cash flow in the Pulp business amounted to €173.4m in 2018, while free cash flow net of efficiency, growth and sustainability capex, and also net of the equity contribution to the Renewable Energy business, totalled €41.1m.



2.8. Change in net debt

Net debt in this business increased by €27.5m from year-end 2017 to €147.6m, following the payment of €67.1m in dividends.

Figures in €Mn	Dec-18	Dec-17	Δ%	Sep-18	Δ%
Long term financial debt	292.6	285.6	*2.5%*	227.0	*(100.0%)*
Short-term financial debt	5.4	8.2	*(34.0%)*	3.0	*n.s.*
Gross financial debt	**298.0**	**293.8**	*1.4%*	**230.0**	*(100.0%)*
Cash and cash equivalents	148.2	167.3	*(11.4%)*	168.3	*n.s.*
Short-term financial investments	2.2	6.4	*(65.2%)*	1.5	*n.s.*
Pulp business net financial debt	**147.6**	**120.1**	*22.9%*	**60.2**	*(99.6%)*

On 5 March 2018, Ence issued €160m of 5-year convertible bonds which carry an annual coupon of 1.25% and on 1 June it prepaid the €250m of 5.375% bonds it had issued on 30 October 2015. Those transactions will translate into annual interest savings for the Pulp business of €11.4m from 2019.

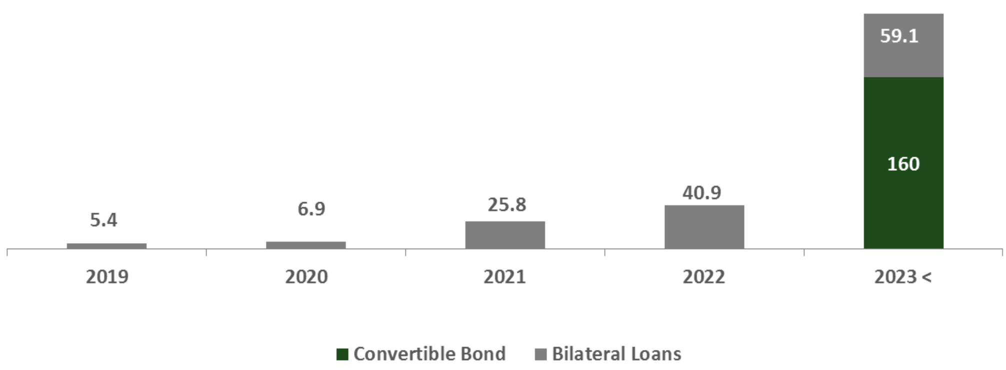
The new bonds are convertible into Ence shares at a price of €7.2635 per share. In keeping with prevailing accounting rules, the conversion option was carried at €14.6m at year-end and was recognised as an increase in equity on the balance sheet.

Elsewhere, in 2018, Ence arranged several bilateral loans, €110m in total maturing in 2023, with the aim of financing certain investments under its 2019 - 2023 Business Plan and repaying two earlier bilateral loans on which €25.7m was outstanding.

Also in 2018, Ence exchanged its €90m credit facility due 2021 (which was fully available at the time) for a new €70m 'sustainable' credit facility due 2023, the cost of which is partially linked to Ence's performance along environmental, social and corporate governance dimensions.

The gross debt of €298m at the December close corresponds mainly to the €145.4m of convertible bonds (deducted by the above-mentioned equity component), the outstanding balance of €110m on the bilateral loans and a series of loans totalling €39.4m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the balance sheet.

Pulp business debt maturity profile (€Mn)



At December 31, the Pulp business had cash and cash equivalents of €150.4m. Lastly, note that none of the €70m sustainable credit facility had been drawn down at year-end.

3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants with aggregate installed capacity of 220 MW that have no relation to the pulp production process.

Ence has six power plants fuelled by agricultural and forestry biomass with aggregate installed capacity of 170 MW: two plants in Huelva (with capacity of 50 MW and 41 MW); one in Merida (20 MW); one in Ciudad Real (16 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW), acquired in August 2017.

In addition, on 30 November 2018, Ence closed the acquisition of a 50-MW thermosolar plant in Puertollano (Ciudad Real), which is expected to contribute with an annualised estimated EBITDA of €18m.

The Company is currently in the process of building two new agroforestry biomass plants - a 46-MW plant in Huelva and a 50-MW facility in Ciudad Real - which are both slated for commissioning towards the end of 2019.

3.1. Electricity market trends

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Average pool price (€/MWh)	63.0	57.5	*9.5%*	65.9	*(4.4%)*	57.4	52.1	*10.2%*

Average pool prices in mainland Spain were 9.5% higher year-on-year in 4Q18 at €63/MWh. The average price in 2018 was €57.4/MWh, up 10.2% from 2017.

Pool prices during the last five years (€/MWh) - 30-day average

Note, however, that Ence´s Renewable Energy revenues are subject to a cap and floor that are established by the regulator every three years (the regulatory collar), as outlined in greater detail in Appendix 1, which describes the plants' remuneration parameters.

3.2. Revenue from energy sales

Energy sales volumes declined by 19.1% year-on-year in the fourth quarter to 208,835 MWh, due to lower operating performance at the two biomass plants located in Huelva, coupled with turbine damage at the power plants in Jaén and Córdoba at the end of the third quarter which was repaired during the fourth quarter.

For the year as a whole, energy sales volumes were nevertheless higher by 4.5% thanks to the first-time consolidation of the 27-MW plant in Cordoba in August 2017 and of the 50-MW thermosolar plant in Ciudad Real in December 2018.

	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Huelva 50 MW	70,516	91,532	*(23.0%)*	94,499	*(25.4%)*	299,919	326,355	*(8.1%)*
Huelva 41 MW	36,574	42,724	*(14.4%)*	38,925	*(6.0%)*	148,640	173,841	*(14.5%)*
Mérida 20 MW	37,020	34,723	*6.6%*	40,522	*(8.6%)*	134,587	134,488	*0.1%*
Ciudad Real 16 MW	24,001	23,071	*4.0%*	23,605	*1.7%*	92,778	90,743	*2.2%*
Jaén 16 MW	12,498	16,974	*(26.4%)*	21,658	*(42.3%)*	79,349	77,059	*3.0%*
Córdoba 27 MW	27,101	49,234	*(45.0%)*	48,423	*(44.0%)*	167,537	81,663	*105.2%*
Ciudad Real 50 MW	1,125	-	*n.s.*	-	*n.s.*	1,125	-	*n.s.*
Energy sales (MWh)	**208,835**	**258,257**	*(19.1%)*	**267,632**	*(22.0%)*	**923,935**	**884,149**	*4.5%*
Average selling price - Pool + Ro (€/MWh)	90.5	108.1	*(16.3%)*	106.9	*(15.3%)*	104.2	106.4	*(2.1%)*
Investment remuneration (€Mn)	12.0	10.2	*17.1%*	10.2	*17.1%*	42.7	39.0	*9.4%*
Revenues (€Mn)	**31.0**	**38.4**	*(19.3%)*	**39.1**	*(20.8%)*	**138.9**	**133.0**	*4.4%*

The average energy sales price decreased by 16.3% year-on-year in 4Q18 to €90.5/MWh as a result of the suspension of the electricity generation tax and the attendant adjustment to remuneration for operation of the plants by the regulator from the fourth quarter. Note that this measure has no impact on EBITDA.

The average sales price in 2018 was €104.2/MWh, down 2.1% from 2017.

Ence adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of provisions of €4.3m in 4Q18 and of €10.5m in 2018, which have been recognised as a decrease in the average sales price. In comparison, the Company had recognised provisions of €1.6m and €4.2m in this respect in 4Q17 and 2017, respectively.

Lastly, quarterly remuneration for investment increased by 17.1% year-on-year in the fourth quarter and by 9.4% year-on-year in 2018 to €12m as a result of the first-time consolidation of the 27-MW biomass plant acquired in Cordoba in August 2017 and of the 50-MW thermosolar plant in Ciudad Real in December 2018.

In all, the Renewable Energy business reported a revenue contraction of 19.3% to €31m in 4Q18 but overall growth of 4.4% in 2018 to €138.9m.

3.3. Income statement

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Total net revenue	**31.0**	**38.4**	*(19.3%)*	**39.1**	*(20.8%)*	**138.9**	**133.0**	*4.4%*
EBITDA	**12.7**	**12.4**	*2.5%*	**12.9**	*(1.1%)*	**45.3**	**45.4**	*(0.3%)*
EBITDA margin	*41%*	*32%*	*8.7 p.p.*	*33%*	*8.2 p.p.*	*33%*	*34%*	*(1.6) p.p.*
Amortization	(5.1)	(4.3)	*17.1%*	(4.3)	*18.5%*	(17.9)	(16.0)	*11.4%*
Forest depletion	(0.0)	-	*n.s.*	(0.1)	*(93.0%)*	(0.1)	(1.0)	*(87.7%)*
Impairment of and gains/(losses) on fixed-asset disposals	(1.3)	-	*n.s.*	(0.1)	*n.s.*	(1.5)	(0.1)	*n.s.*
EBIT	**6.3**	**8.1**	*(21.9%)*	**8.4**	*(24.9%)*	**25.8**	**28.3**	*(8.9%)*
EBIT margin	*20%*	*21%*	*(0.7) p.p.*	*22%*	*(1.1) p.p.*	*19%*	*21%*	*(2.7) p.p.*
Net financial cost	(3.7)	(3.1)	*19.8%*	(2.0)	*82.6%*	(10.4)	(7.6)	*37.7%*
Other financial results	(0.0)	(3.6)	*(99.6%)*	(0.0)	*166.7%*	(0.0)	(3.7)	*(99.0%)*
Profit before tax	**2.6**	**1.4**	*90.1%*	**6.4**	*(59.1%)*	**15.3**	**17.0**	*(9.8%)*
Income tax	(0.5)	2.0	*n.s.*	(1.6)	*(67.7%)*	(3.7)	(1.9)	*94.6%*
Net Income	**2.1**	**3.4**	*(37.9%)*	**4.8**	*(56.2%)*	**11.6**	**15.1**	*(23.0%)*
Non-controlling interests	(0.8)	(0.6)	*32.2%*	(0.8)		(2.5)	(1.9)	*35.2%*
Atributable Net Income	**1.3**	**2.8**	*(52.5%)*	**4.0**	*(67.1%)*	**9.1**	**13.2**	*(31.3%)*

The Renewable Energy business reported fourth-quarter EBITDA of €12.7m, up 2.5% from 4Q17, due mainly to the consolidation of the thermosolar plant in December 2018.

In 2018, EBITDA was largely stable (-0.3%) despite the contribution of the new facilities consolidated for the first time in August 2017 and December 2018, due to higher expenses associated with the operating incidents concentrated mainly during the second half of the year.

Below the EBITDA line, the growth of 11.4% in depreciation charges is mainly attributable to the new facilities consolidated.

Net finance costs increased to €10.4m in 2018 due mainly to the increase in the average gross debt balance.

In all, the net profit attributable to the Renewable Energy business amounted to €1.3m in 4Q18 and €9.1m in 2018, down 52.5% and 31.3% year-on-year, respectively.

3.4. Cash flow

The net cash inflow from operating activities amounted to €13.9m in 4Q18 and €36.8m in 2018, the latter up 60.5% year-on-year, due mainly to a lower working capital requirement.

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
EBITDA	**12.7**	**12.4**	*2.5%*	**12.9**	*(1.1%)*	**45.3**	**45.4**	*(0.3%)*
Non cash expenses / (incomes)	(2.3)	(0.9)	*143.8%*	0.5	*n.s.*	0.1	0.6	*(81.0%)*
Other collections / (payments)	(0.2)	(0.2)	*(3.2%)*	(0.3)	*(36.6%)*	(0.9)	(0.9)	*(0.6%)*
Change in working capital	8.8	4.4	*97.1%*	(3.7)	*n.s.*	4.5	(7.1)	*n.s.*
Income tax received / (paid)	(0.8)	(4.2)	*(81.2%)*	(0.6)	*39.9%*	(2.1)	(5.2)	*(58.6%)*
Net financial collection / (payment)	(4.3)	(5.0)	*(13.4%)*	(0.8)	*n.s.*	(10.0)	(9.9)	*1.0%*
Net cash flow from operating activities	**13.9**	**6.6**	*111.1%*	**8.1**	*71.8%*	**36.8**	**22.9**	*60.5%*

Movements in working capital implied a cash inflow of €8.8m in 4Q18 and of €4.5m in 2018, shaped mainly by the reduction in trade receivables. In 2017, the working capital requirement had implied a cash outflow of €7.1m, due primarily to the consolidation of the 27-MW plant in Cordoba.

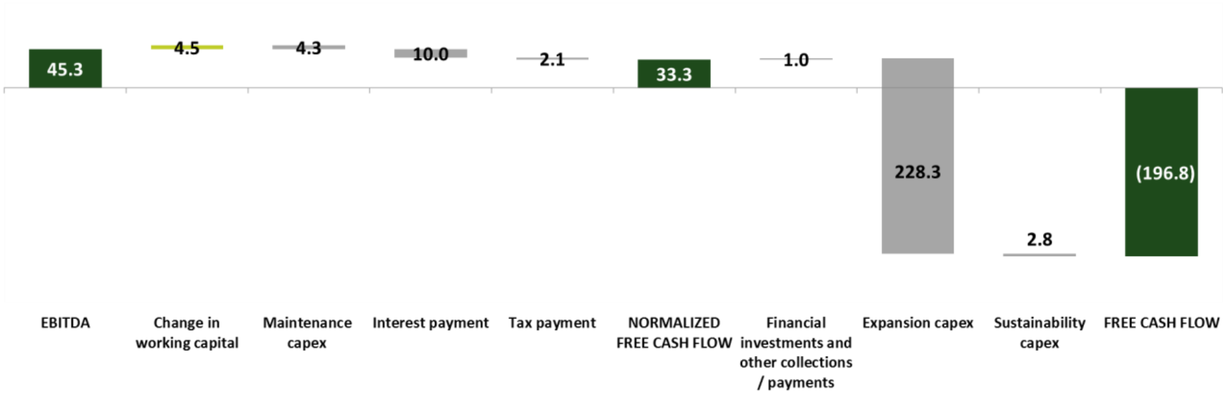
Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Inventories	(0.1)	1.3	*n.s.*	2.1	*n.s.*	2.7	(1.5)	*n.s.*
Trade and other receivables	8.4	1.3	*n.s.*	(6.1)	*n.s.*	3.4	(7.8)	*n.s.*
Trade and other payables	0.5	1.8	*(74.5%)*	0.4	*20.3%*	(1.6)	2.3	*n.s.*
Change in working capital	**8.8**	**4.4**	*97.1%*	**(3.7)**	*n.s.*	**4.5**	**(7.1)**	*n.s.*

Net cash flows used in investing activities amounted to €141.8m in 4Q18, including the net outflow of €124.8m for the acquisition of the 50-MW thermosolar plant in Ciudad Real.

Net cash flows used in investing activities totalled €233.6m in 2018, of which €4.3m corresponded to maintenance capex, €2.8m to sustainability capex and €103.5m to payments related with the construction of two new plants in Huelva (46 MW) and Ciudad Real (50 MW), scheduled for start-up at the end of 2019.

Figures in €Mn	4Q18	4Q17	Δ%	3Q18	Δ%	2018	2017	Δ%
Maintenance capex	(1.2)	(1.1)	*9.8%*	(1.6)	*(21.9%)*	(4.3)	(3.9)	*8.2%*
Sustainability capex	(1.4)	-	*n.s.*	(0.9)	*62.3%*	(2.8)	-	*n.s.*
Efficiency and expansion capex	(139.2)	(9.6)	*n.s.*	(30.6)	*n.s.*	(228.3)	(40.1)	*n.s.*
Financial investments	(0.0)	2.0	*n.s.*	0.3	*n.s.*	1.8	4.7	*(61.0%)*
Investments	**(141.8)**	**(8.8)**	*n.s.*	**(32.7)**	*n.s.*	**(233.6)**	**(39.4)**	*n.s.*
Disposals	0.0	3.5	*(99.7%)*	0.0	*(76.1%)*	0.1	3.5	*(98.4%)*
Net cash flow from investing activities	**(141.8)**	**(5.2)**	*n.s.*	**(32.7)**	*n.s.*	**(233.5)**	**(35.9)**	*n.s.*

As a result, the normalised free cash flow generated by the Renewable Energy business amounted to €33.3m in 2018, while free cash flow net of growth and sustainability capex totalled -€196.8m.



3.5. Change in net debt

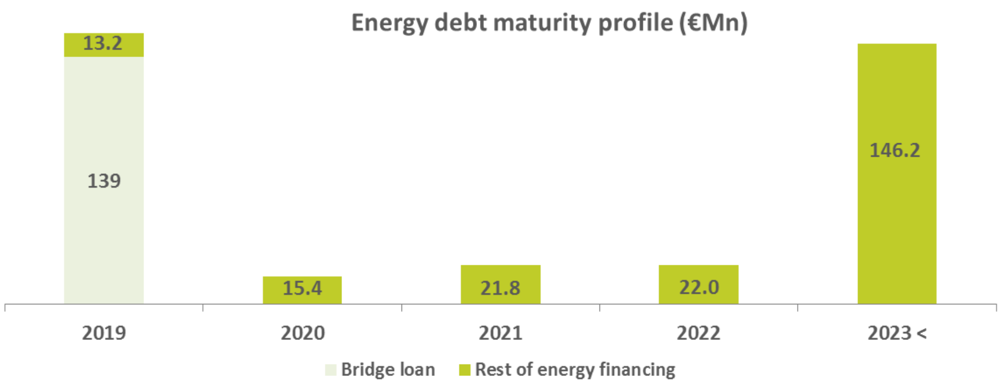
Net debt in the Renewable Energy business increased by €124.2m from year-end 2017 to €157.2m, including the payment of a €6.6m dividend to the Pulp business in 2Q18 and the €78m equity contribution made to it by the Pulp business in 4Q18.

Figures in €Mn	Dec-18	Dec-17	Δ%	Sep-18	Δ%
Long term financial debt	205.4	129.2	*59.0%*	144.7	*42.0%*
Short-term financial debt	152.2	7.0	*n.s.*	11.6	*n.s.*
Gross financial debt	**357.6**	**136.3**	*162.4%*	**156.3**	*128.8%*
Cash and cash equivalents	200.5	103.2	*94.2%*	59.7	*235.7%*
Short-term financial investments	0.0	0.0	-	0.0	-
Energy business net financial debt	**157.2**	**33.0**	*n.s.*	**96.6**	*62.8%*

In November 2018, Ence extended the €220m corporate financing facility secured by the Renewable Energy business in November 2017 by €60m to finance the construction of the 50-MW biomass plant in Ciudad Real. Following that extension and the repayment of €7m in 2018, the balance available under that facility stood at €273m; it was drawn down by €218m at year-end 2018. The last instalment under that facility is due in 2023. The facility includes a €20m credit line which was undrawn at year-end. That facility has obtained S&P's highest green rating.

Also in November 2018, Ence arranged a €139m bridge loan to fund the acquisition of the 50-MW thermosolar plant in Ciudad Real. That loan is due within one year and the Company plans to replace it in 2019 with long-term project finance tailored for the facility's cash flow generation capabilities.

This unit's €357.6m of gross borrowings at year-end corresponded mainly to the €218m drawn down under the corporate finance facility and the €139m bridge loan. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



Cash in this business stood at €200.5m at the December 31.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

	2018				2017			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total net revenue	**697.0**	**138.9**	**(3.9)**	**832.0**	**611.6**	**133.0**	**(4.4)**	**740.3**
Other incomes	15.4	3.4	(3.7)	15.2	16.4	0.2	(5.0)	11.6
Change in inventories of finished products	7.4	-		7.4	(5.2)	-		(5.2)
Cost of sales	(260.3)	(44.0)	3.9	(300.3)	(248.1)	(41.8)	4.4	(285.5)
Personnel expenses	(69.4)	(8.3)		(77.7)	(67.3)	(7.1)		(74.4)
Other operating expenses	(144.6)	(44.8)	3.7	(185.7)	(136.8)	(39.0)	5.0	(170.8)
EBITDA	**245.6**	**45.3**		**290.9**	**170.6**	**45.4**		**216.0**
EBITDA margin	*35%*	*33%*		*35%*	*28%*	*34%*		*29%*
Amortization	(52.0)	(17.9)		(69.8)	(54.4)	(16.0)		(70.4)
Forest depletion	(5.7)	(0.1)		(5.8)	(4.0)	(1.0)		(5.0)
Impairment of and gains/(losses) on fixed-asset disposals(a)	11.6	(1.5)		10.0	9.2	(0.1)		9.1
Other non-ordinary results of operations	(15.7)	-		(15.7)	-	-		-
EBIT	**183.8**	**25.8**		**209.6**	**121.4**	**28.3**		**149.6**
EBIT margin	*26%*	19%		25%	*20%*	21%		*20%*
Net financial cost	(27.0)	(10.4)		(37.4)	(14.2)	(7.6)		(21.8)
Other financial results	7.7	(0.0)	(6.6)	1.1	3.7	(3.7)	(8.0)	(8.0)
Profit before tax	**164.5**	**15.3**	**(6.6)**	**173.2**	**110.9**	**17.0**	**(8.0)**	**119.9**
Income tax	(38.3)	(3.7)		(41.6)	(24.3)	(1.9)		(26.2)
Net Income	**126.2**	**11.6**	**(6.2)**	**131.7**	**86.6**	**15.1**	**(8.0)**	**93.7**
Non-controlling interests	-	(2.5)		(2.5)	-	(1.9)		(1.9)
Atributable Net Income	**126.2**	**9.1**	**(6.2)**	**129.1**	**86.6**	**13.2**	**(8.0)**	**91.8**
Earnings per Share (EPS)	0.51	0.04	(0.0)	0.52	0.35	0.05	(0.0)	0.37

Note: The definition of EBITDA was updated in 3Q18 to exclude one-off items of income and expenses that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

4.2. Balance sheet

	Dec - 18				Dec - 17			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	12.4	47.7		60.1	13.2	2.8		16.0
Property, plant and equipment	475.4	513.4	(1.7)	987.1	438.4	254.3		692.7
Biological assets	82.4	0.2	(0.0)	82.6	81.5	0.2		81.7
Intercompany long term participation	277.4	-	(277.4)	-	198.6	-	(198.6)	-
Intercompany long term loan	75.2	-	(75.2)	-	75.2	-	(75.2)	-
Non-current financial assets	1.7	12.0	-	13.7	4.6	2.1		6.6
Assets for deferred tax	42.8	13.6		56.5	47.3	12.5		59.8
Total fixed assets	**967.3**	**586.9**	**(354.3)**	**1,200.0**	**858.7**	**271.9**	**(273.8)**	**856.7**
Non-current assets held for sale	4.0	-		4.0	-	-		-
Inventories	36.0	7.6		43.5	28.6	10.5		39.1
Trade other accounts receivable	110.1	35.4	(23.1)	122.4	111.9	35.5	(33.6)	113.7
Income tax	0.0	1.4		1.4	0.4	0.7		1.0
Other current assets	2.0	0.0		2.1	1.6	0.5		2.1
Hedging derivatives	0.0	-		-	13.5	-		13.5
Short-term financial assets in group companies	0.0	-		-	-	-		-
Short-term financial assets	2.2	0.0		2.2	6.4	0.0		6.4
Cash and cash equivalents	148.2	200.5		348.6	167.3	103.2		270.5
Total current assets	**302.4**	**244.9**	**(23.1)**	**524.3**	**329.6**	**150.4**	**(33.6)**	**446.4**
TOTAL ASSETS	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**
Equity	**724.5**	**251.5**	**(278.7)**	**697.3**	**678.5**	**162.3**	**(198.6)**	**642.2**
Non-current borrowings	292.6	205.4		498.1	285.6	129.2		414.9
Long term intercompany debt	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.1	4.5		4.7	-	3.6		3.6
Liabilities for deferred tax	21.0	19.4	(0.4)	40.0	21.1	2.8		23.8
Non-current provisions	3.1	9.2		12.3	3.7	0.4		4.2
Other non-current liabilities	8.9	19.4		28.3	7.3	1.9		9.2
Total non-current liabilities	**325.8**	**333.2**	**(75.6)**	**583.3**	**317.7**	**213.1**	**(75.2)**	**455.7**
Liabilities linked to non-current assets held for sale	-	-	-	-	-	-	-	-
Current borrowings	5.4	152.2		157.6	8.2	7.0		15.2
Current derivatives	16.0	3.0		19.0	0.0	2.2		2.2
Trade payables and other	175.0	91.0	(23.2)	242.8	177.2	36.7	(33.6)	180.3
Income tax	1.6	0.2		1.8	0.0	0.4		0.4
Current provisions	21.5	0.9		22.4	6.7	0.4		7.1
Total current liabilities	**219.5**	**247.3**	**(23.2)**	**443.6**	**192.1**	**46.7**	**(33.6)**	**205.2**
TOTAL EQUITY AND LIABILITIES	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**

4.3. Cash flow statement

Figures in €Mn	2018 Pulp	2018 Energy	2018 Adjustments	2018 Consolidated	2017 Pulp	2017 Energy	2017 Adjustments	2017 Consolidated
Consolidated profit/(loss) for the period before tax	**164.5**	**15.3**	**(6.6)**	**173.2**	**110.9**	**17.0**	**(8.0)**	**119.9**
Depreciation	58.7	17.0		75.6	59.6	15.9		75.4
Changes in provisions and other deferred expense	22.5	0.4		22.9	10.8	0.8		11.6
Impairment of gains/(losses) on disposals intangible asset	(11.4)	1.6		(9.7)	(9.1)	0.4		(8.7)
Net financial costs	19.8	10.4	6.6	36.8	17.6	11.3		28.8
Government grants taken to income	(1.1)	(0.3)		(1.4)	(1.2)	(0.2)		(1.4)
Adjustments to profit	**88.5**	**29.1**	**6.6**	**124.2**	**77.7**	**28.1**		**105.8**
Inventories	(9.2)	2.7		(6.5)	5.6	(1.5)		4.1
Trade and other receivables	(7.5)	3.4		(4.1)	(17.9)	(7.8)		(25.8)
Current financial and other assets	4.2	-		4.2	3.3	-		3.3
Trade and other payables	(2.1)	(1.6)		(3.7)	9.4	2.3		11.7
Changes in working capital	**(14.6)**	**4.5**		**(10.1)**	**0.3**	**(7.1)**		**(6.7)**
Interest paid	(19.9)	(10.0)		(29.9)	(13.0)	(9.9)		(23.0)
Dividends received	6.6	-	(6.6)	-	-	-		-
Income tax received/(paid)	(26.7)	(2.1)		(28.8)	(14.5)	(5.2)		(19.6)
Other collections/(payments)	(1.3)	-		(1.3)				
Other cash flows from operating activities	**(41.3)**	**(12.1)**	**(6.6)**	**(60.0)**	**(27.5)**	**(15.1)**		**(42.6)**
Net cash flow from operating activities	**197.1**	**36.8**	**(6.6)**	**227.3**	**161.4**	**22.9**	**(8.0)**	**176.3**
Property, plant and equipment	(78.0)	(88.3)	2.5	(163.8)	(39.1)	(15.2)	3.5	(50.8)
Intangible assets	(2.0)	(22.2)		(24.2)	(1.3)	(0.4)		(1.6)
Other financial assets	(78.2)	(123.0)	78.8	(122.4)	2.5	(23.8)		(21.3)
Disposals	2.2	0.1	(0.9)	1.4	3.4	3.5	(3.5)	3.4
Net cash flow from investing activities	**(156.0)**	**(233.5)**	**80.5**	**(309.1)**	**(34.5)**	**(35.9)**	**-**	**(70.3)**
Free cash flow	**41.1**	**(196.8)**	**73.9**	**(81.8)**	**126.9**	**(13.0)**	**(8.0)**	**106.0**
Buyback/(disposal) of own equity instruments	14.1	80.5	(80.5)	14.1	(0.2)	-		(0.2)
Proceeds from and repayments of financial liabilities	(7.1)	222.9		215.7	(31.7)	20.9		(10.8)
Dividends payments	(67.1)	(9.4)	6.6	(69.9)	(39.8)	(8.0)	8.0	(39.8)
Net cash flow from financing activities	**(60.2)**	**294.0**	**(73.9)**	**159.9**	**(71.7)**	**12.9**	**8.0**	**(50.9)**
Net increase/(decrease) in cash and cash equivalents	**(19.1)**	**97.2**		**78.1**	**55.2**	**(0.1)**	**0.0**	**55.1**

5. KEY DEVELOPMENTS

<u>2019 - 2023 Business Plan</u>

Ence unveiled its new Business Plan for 2019 - 2023 to the market on 20 November, having started in 2018 the last investments contemplated under the outgoing plan during the year.

Ence's target is to virtually double Group EBITDA (assuming constant pulp prices) to €550m in 2023, with at least €150m coming from the Renewable Energy business.

To achieve its target, Ence has designed an investment plan articulated around various independent projects that will be executed stepwise in order to guarantee ongoing financial discipline. Each investment project will be reconfirmed by the Board of Directors before proceeding in order to ensure that the return requirements continue to be met along with the leverage requirements set for each of the businesses (after paying out 50% of net profit in dividends).

Ence will invest €500m in the Pulp business in five independent projects with the following targets for 2023:

1. Addition of two new products: pulp for absorbent hygiene products; and pulp for viscose textiles
2. Pulp capacity expansion to 1.3 million tonnes
3. Reduction in the cash cost of our pulp for BHKP paper to €350/tonne

As for the Renewable Energy business, the new Business Plan contemplates investments totalling €615m, which includes the 50-MW thermosolar plant acquired on 30 November 2018 and the finalisation of the two new biomass power generation plants currently under construction.

Ence's new Business Plan is strategically committed to diversification - product, raw material and renewable energy generation technology diversification - and is articulated around excellence in sustainability. Ence has a budget of between €125m and €225m to invest over the time horizon contemplated by the plan in order to reinforce the reliability, flexibility, environmental excellence and safety of its facilities.

<u>Acquisition of 90% of the Puertollano thermosolar power plant</u>

On 18 October 2018, Ence agreed to acquire a 90% interest in a 50-MW thermosolar power plant in Puertollano (Ciudad Real) from Iberdrola for €139.5m (net of the entity's estimated cash). That transaction was closed on 30 November 2018.

In February 2019, Ence received compensation of €10.6 Mn for the materialization of a risk contemplated in the purchase agreement.

Additionally, the agreement defines a contingent price mechanism (earn-out) for an amount of up to €6.3 Mn, still pending disbursement by Ence.

This transaction marks the first step in Ence's diversification into other renewable technologies where it believes it can add value. The Company is strategically committed to the hybridisation of certain thermosolar plants with biomass plants in order to increase their utilisation rates and convert a renewable source of energy that only generates power during daylight hours into a programmable source.

This solar plant is initially expected to contribute €18m to annual EBITDA.

<u>Shares added to the Ibex-35.</u>

On 24 December 2018, Ence's shares were included in Spain's benchmark stock index, Ibex-35. The Ibex-35 tracks the 35 listed Spanish companies with the highest adjusted liquidities. Ence's inclusion in the index stands to benefit its shareholders.

Dividends from 2018 profits

Ence paid the first and second interim dividend from 2018 profits - €0.104 and €0.105 per share (before withholding tax) - on 12 September and 18 December 2018, respectively.

In addition, the Board of Directors has agreed to submit a proposal for the payment of a final dividend from 2018 profits of €0.054 per share for ratification at the Annual General Meeting scheduled for 28 March.

The Company's dividend policy consists of paying out a dividend per share roughly equivalent to 50% of earnings per share every year in three annual instalments: two interim dividends, one approved at the end of the first half and the other in November of each year, and a final dividend, to be proposed to the Company's shareholders for approval at the Annual General Meeting.

Issuance of €160m of convertible bonds and prepayment of the €250m straight bond issue

On 5 March 2018, Ence issued €160m of convertible 5-year bonds with an annual coupon of 1.25%. The new bonds are convertible into Ence shares at a price of €7.2635 per share.

The proceeds were used to partially finance the prepayment on 1 June of the €250m of 5.375% bonds issued on 30 October 2015. This transaction will translate into annual interest savings for Ence of €11.4m from 2019.

Moody's and S&P improve Ence's credit ratings

On 28 May 2018, Moody's raised the Company's long-term corporate credit rating from Ba3 to Ba2 (stable outlook). In substantiating its decision, Moody's expressly acknowledged the structural improvements made to Ence's business model and cited the likelihood that pulp prices will remain strong for the next two to three years.

On 27 April 2018, Standard & Poor's improved its corporate rating from BB- to BB (similarly with a stable outlook), underpinned by the Company's solid business performance and the Renewable Energy business's growing contribution to Group earnings, injecting stability.

Acquisition of auctioned remuneration rights for 58.5 MW of capacity

On 25 April, Ence announced the acquisition of 58.5 MW of capacity awarded as part of the Spanish auction of 2016. Adding to the 40 MW initially awarded directly to it, the Company is currently in a position to develop 98.5 MW of new biomass-fuelled power generation capacity.

This capacity has been allocated to two facilities, a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real. These plants are expected to entail investments of €217m in total and to contribute €30m to annual EBITDA.

Payment of the final dividend from 2017 profits

The Company paid out a final dividend against 2017 profits of €0.066 per share (before tax) on 12 April 2018.

The final dividend complemented two interim dividends from 2017 profits: a first interim dividend of €0.061 paid out in September 2017 and a second interim dividend of €0.06 in December 2017.

Together, the three dividends were equivalent to 50% of 2017 earnings per share, in line with the Company's dividend policy.

2018 Annual General Meeting

Ence held its Annual General Meeting on 22 March. It was attended by shareholders representing 72% of its share capital who ratified all of the agenda items, including:

- Approval of the 2017 financial statements and the motion for the appropriation of earnings
- Re-election of the Company's auditor
- Grant of discharge for the Board's performance

- Re-election and ratification of certain directors and the appointment of Ms. Rosa María García Piñeiro as independent director
- Approval of the 2017 director remuneration report
- Approval of the proposed director remuneration policy for 2018-2020

APPENDIX 1: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S FACILITIES

Facility	Type of facility	MW	Remuneration to investment 2018 (Ri; €/MW)	Type of fuel	Remuneration to operation 2018 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	35.445	-
	Biomass generation	36.7	230,079	Agroforestry biomass	59.323	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	35.782	-
			55,308	Agroforestry biomass	61.186	6,500
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	65.994	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	58.425	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	55.180	6,500
C. Real 16MW	Biomass generation	16.0	261,008	Olive pulp	45.514	6,500
Jaen 16MW	Biomass generation	16.0	261,008	Olive pulp	46.056	6,500
Cordoba 27MW	Biomass generation	14.3	229,582	Olive pulp	45.814	6,500
	Gas co-generation	12.8	-	Natural Gas	66.404	-
Ciudad Real 50 MW	Thermosolar	50.0	35,015 (b)		-	2,024

(a) The turbine operates according to a combination of steam from a recovery boiler and a biomass boiler

(b) Corresponds only to the month of December

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 by means of two specific concepts designed to enable them to compete on an even footing with the other generation technologies and ensure a reasonable return on investment:

1. The **remuneration for operations (Ro)** enables plant owners to cover all the costs of operating a 'standard' plant that exceed the pool price, including fuel costs. It takes the form of remuneration per MWh sold incremental to the pool price fetched, generating income calculated by adding this supplement to the pool price and multiplying the result by sales volumes in MWh.

   Income from operations = (Ro + pool) * MWh

   Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly output, which is 6,500 hours in the case of power generated using biomass (there is no cap in the case of CHP facilities). Output above this cap is sold at pool prices, with no entitlement to additional premiums.

   The pool prices estimated by the regulator for the purpose of determining the 'Ro' component are reviewed every three years. Deviations in actual average pool prices with respect to the estimate reflected in the corresponding ministerial order are compensated for by adjustments made as a function of the following annual limits:

Eur / MWh	2017	2018	2019
LS2	49.81	48.30	48.68
LS1	46.33	44.92	45.28
Estimated pool price	42.84	41.54	41.87
LI1	39.35	38.16	38.46
LI2	35.87	34.78	35.06

2. The **remuneration for investment (Ri)** parameter guarantees the recovery of the initial investment plus a return on the estimated cost of building a 'standard' plant. This return, which is currently set at 7.4%, is reviewed every six years and is based on the yield on the 10-year Spanish government bonds plus a spread of 300bp. It takes the form of remuneration per gross installed MW, generating an annual payment, which is the product of this parameter and gross installed capacity (MW).

   Investment income = MW * Ri

APPENDIX 2: ENVIRONMENTAL PLEDGE

Each of Ence's Operations Centres, located in Navia (Asturias), Pontevedra, Huelva, Merida, La Loma (Ciudad Real), Enemansa (Jaen) and Lucena (Cordoba), holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass. These permits define the environmental criteria for operating an industrial facility. The goal is to prevent, or at least minimise, and control the impact of the Group's business operations on air, water and soil contamination with a view to protecting the environment as a whole. Accordingly, the permits set emission limits for each facility based on best available techniques as well as monitoring and control plans in respect of all significant environmental parameters.

However, Ence's environmental management strategy seeks to go beyond mere compliance with prevailing legislation. Ence wants to set an example with its environmental management and record. To this end it has implemented a total quality management (TQM) programme which addresses matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, it has established targets with a clear environmental focus aimed specifically at:

1. Reducing odour pollution
2. Improving the quality of wastewater
3. Boosting energy efficiency
4. Reducing the consumption of raw materials
5. Cutting waste generation
6. Reducing noise levels
7. Reducing air pollution

The integrated management system in place at the Navia, Pontevedra and Huelva Operations Centres is certified by an accredited organisation which carries out the pertinent annual audits. The system complies with the following international standards: The UNE-EN-ISO 9001 quality management standard, the UNE-EN-ISO 14001 environmental management standard and the OHSAS 18001 workplace health and safety standard.

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

Ence has also positioned itself as the benchmark Spanish player in forest sustainability matters thanks to its strategic focus on three key lines of initiative: environmental responsibility, management efficiency and social commitment. Ence uses internationally-recognised standards of excellence, such as the FSC (Forest Stewardship Council) and PEFC (Program for the Endorsement of Forest Certification) schemes, in managing its own forest tracts and fosters their adoption in the case of third-party forests. In addition, Ence aims to deliver continuous improvement in terms of its consumption of natural resources and works to promote its management criteria by collaborating actively on planning matters, pest control, plant issues and forest certification, among other aspects.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 89% and 63%, respectively in 2018.

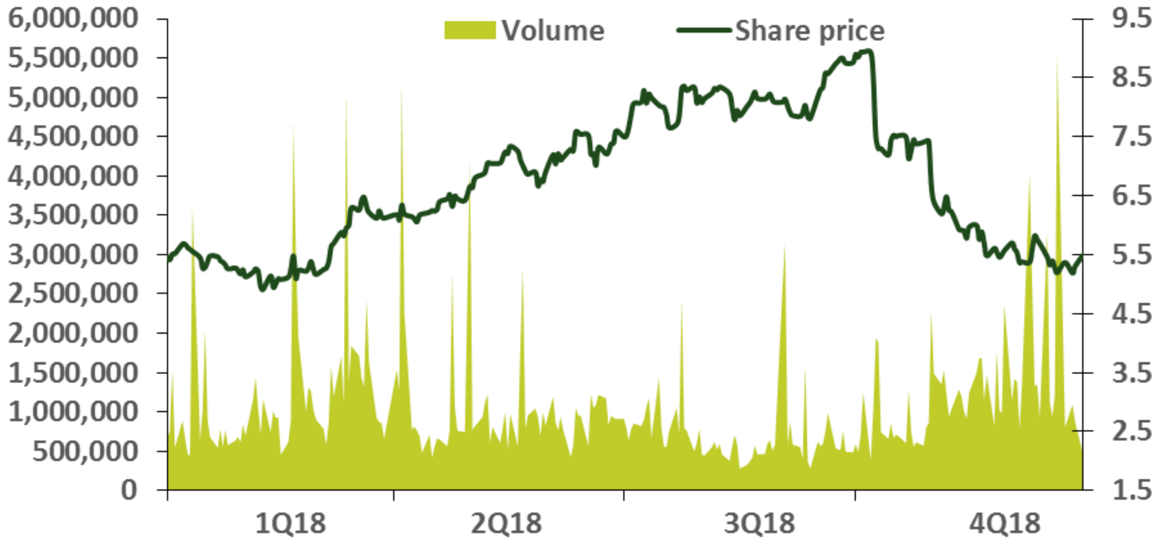
As for the sustainability of biomass as a fuel, Ence has once again emerged as a pioneer, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew from the biomass sustainability criteria established by some of Europe's leading environmentalist organisations.

Thanks to the company's environmental efforts, the pulp produced in Pontevedra and Navia carries the Nordic Swan seal. This is the official Scandinavian ecolabel, which was created in 1989 by the Nordic Council of Ministers with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers take purchasing decisions that respect environmental sustainability.

APPENDIX 3: SHARE PRICE PERFORMANCE

Ence's share capital consists of 246,272,500 shares with a unit par value of €0.90. They are represented by book entries and all carry identical voting and dividend rights. The Company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex-35 and Ibex Top Dividendo indices.

Ence's share price ended the year at €5.49/share, which was flat compared to year-end 2017, despite having gained over 59% during the first nine months of the year. Fears of a cyclical downturn and the temporary dip in pulp prices at the end of the year weighed on the sector players' share prices during the last quarter of the year.



Source: Bloomberg

SHARE	4Q17	1Q18	2Q18	3Q18	4Q18
Share price at the end of the period	5.50	6.12	7.60	8.75	5.49
Market capitalization at the end of the period	1354.5	1507.2	1871.7	2154.9	1350.8
Ence quarterly evolution	25.0%	11.3%	24.2%	15.1%	(37.3%)
Daily average volume (shares)	723,124	1,200,152	1,073,179	749,581	1,261,459
Peers quarterly evolution *	6.8%	33.0%	28.1%	(2.7%)	(18.9%)

(*) Altri, Navigator, Fibria and Suzano.

On 5 march 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the company, at the option of the bondholders, at an initial conversion price of €7.2635 per share. The convertible bonds are traded on the Frankfurt stock exchange.

CONVERTIBLE BOND	4Q17	1Q18	2Q18	3Q18	4Q18
Bond price at the end of the period	-	106.77	119.28	130.77	103.85
Yield to worst at the end of the period*	-	-0.123%	-2.603%	-4.892%	-0.107%

(*) The yield calculated by Bloomberg assumes that the bonds will be refinanced in November 2018.

The proceeds were used to partially fund the prepayment on 1 June 2018 of the €250m bond issue of 30 October 2015.

HY BOND	4Q17	1Q18	2Q18	3Q18	4Q18
Share price at the end of the period	106.41	105.25	-	-	-
Yield to worst at the end of the period*	0.83%	0.87%	-	-	-

(*) Yield to maturity.

Both Moody's and Standard & Poor's raised the Company's corporate ratings by one notch in 2018.

	RATING	OUTLOOK	DATE
Moody's	**Ba2**	**Stable**	**28/05/2018**
S&P	**BB**	**Stable**	**27/04/2018**

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

CASH COST

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

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

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

EBITDA

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

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

EBITDA is an indicator used by management to track the Company's recurring profitability over time. Against this backdrop and with the aim of bringing measurement of this metric in line with the method used by its peers, Ence updated its definition during the third quarter of 2018, in keeping with customary market practice, it proceeded to exclude one-off items of income and expense that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

CASH FLOW STATEMENT

The Cash Flow in sections 1, 2.7 and 3.4 of this report differs from the Cash Flows Statement included in section 4.3, as well as the one presented in the annual accounts.

While Cash Flow in sections 1, 2.7 and 3.4 of this report explains the variations that occur in the Free Cash Flow starting from the EBITDA, the Cash Flow Statement included in section 4.3 as well as the one presented in the annual accounts explains the variations that occur in the Group's treasury starting from the profit before tax, following the indirect method.

For this reason, the items "Other collections / payments" and "Non-cash expenses / (income)" of the Cash Flow do not coincide with the items "Adjustments to profit" and "Other collection / (payments)" of the Cash Flows Statement, arriving in both cases at the same operating cash flow.

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, 2.7 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

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

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

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

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

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

FREE CASH FLOW

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

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

NET DEBT

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

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

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

DISCLAIMER

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

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.

These forward-looking statements are based on numerous assumptions regarding Ence's current and future business strategy and the environment it expects to encounter in the future. A series of material factors could cause Ence's situation and results to differ materially from those reflected in these forward-looking statements, including fluctuations in pulp and/or timber prices, business seasonality, exchange rate fluctuations, financial risks, strikes or other action taken by Ence's employees, the competitive landscape, environmental risks and any of the other factors detailed in this document. The forward-looking statements are made only as of the date of this presentation. Ence disclaims any obligation or undertaking to update or revise these statements, whether as a result of any change in Ence's expectations or the conditions or circumstances underlying these statements, or any other information or data contained in this presentation.

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Earnings Report
4Q18