ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated financial statements for 2018 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

Consolidated financial statements for 2018

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018 AND 2017

Thousands of euros	Note	Year-end 2018	Year-end 2017
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	2 & 14	5.675	2.488
Other intangible assets	14	54.438	13.484
Property, plant and equipment	15	987.136	692.673
Biological assets	16	82.557	81.692
Non-current financial assets			
Hedging derivatives	25 & 26	268	2.501
Other financial assets	25	13.458	4.120
Deferred tax assets	27	56.477	59.783
		1.200.009	**856.741**
CURRENT ASSETS:			
Non-current assets held for sale	17	4.000	-
Inventories	18	43.545	39.126
Trade and other receivables	19 & 25	106.922	106.771
Tax receivables	27	15.485	6.945
Income tax receivable	27	1.363	1.022
Current financial assets			
Hedging derivatives	25 & 26	-	13.525
Other financial assets	25	2.224	6.375
Cash and cash equivalents	25	348.623	270.528
Other current assets		2.056	2.063
		524.218	**446.355**
TOTAL ASSETS		**1.724.227**	**1.303.096**
EQUITY:			
Share capital	21	221.645	221.645
Share premium	21	170.776	170.776
Parent company reserves	21	161.266	158.479
Parent company retained earnings (prior-period losses)		(71.196)	(92.436)
Reserves in fully-consolidated companies	21	83.208	61.210
Interim dividend		(51.309)	(29.623)
Translation differences		13	47
Own shares - parent company shares	21	(4.352)	(4.016)
Valuation adjustments	21	25.778	51.680
Other equity instruments	21	14.065	2.783
Profit/(loss) for the period attributable to owners of the parent		129.130	91.786
Equity attributable to owners of the parent		**679.024**	**632.331**
Non-controlling interests	21	**18.272**	**9.903**
TOTAL EQUITY		**697.296**	**642.234**
NON-CURRENT LIABILITIES:			
Borrowings:			
Bonds and other marketable securities	25	236.162	293.558
Bank borrowings	25	218.164	101.722
Other financial liabilities	25	43.758	19.595
Derivative financial instruments	25 & 26	4.673	3.619
Grants	23	7.840	9.196
Deferred tax liabilities	27	40.017	23.823
Non-current provisions	24	12.287	4.167
Non-current accruals and deferred income		1.470	-
Other non-current liabilities	25	18.965	-
		583.336	**455.680**
CURRENT LIABILITIES:			
Borrowings:			
Bank borrowings	25	152.651	13.731
Other financial liabilities	25	4.934	1.457
Derivative financial instruments	25 & 26	18.976	2.193
Trade and other payables	20 & 25	235.024	168.636
Income tax payable	27	1.828	437
Taxes payable	27	7.825	11.642
Current provisions	24	22.357	7.086
		443.595	**205.182**
TOTAL EQUITY AND LIABILITIES		**1.724.227**	**1.303.096**

The accompanying notes 1 to 31 and Appendices are an integral part of the consolidated statement of financial position at 31 December 2018.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR YEAR-ENDS 2018 AND 2017

Thousands of euros	Note	Year ended 2018	Year ended 2017
Continuing operations:			
Revenue	9	831.982	740.322
Gain/(loss) on hedging transactions	26	3.734	(465)
Changes in inventories of finished goods and work in progress	18	7.386	(5.211)
Cost of sales	10	(300.297)	(285.524)
GROSS PROFIT		**542.805**	**449.122**
Own work capitalised	15 & 16	6.423	4.301
Other operating income		2.743	5.888
Grants taken to income	23	2.287	1.900
Employee benefits expense	11	(77.672)	(74.366)
Depreciation and amortisation charges	14 & 15	(69.829)	(70.412)
Depletion of forest reserve	16	(5.821)	(5.025)
Impairment of and gains/(losses) on disposal of fixed assets	14, 15 & 16	10.040	9.060
Other operating expenses	12	(201.410)	(170.819)
OPERATING PROFIT		**209.566**	**149.649**
Finance income		985	1.001
Change in fair value of financial instruments	13 & 26	(1.682)	(1.617)
Finance costs	13	(38.380)	(22.755)
Net exchange gains/(losses)		2.991	(6.283)
Impairment of and gains/(losses) on disposal of financial assets		(249)	(124)
NET FINANCE COST		**(36.335)**	**(29.778)**
PROFIT BEFORE TAX		**173.231**	**119.871**
Income tax	27	(41.560)	(26.206)
CONSOLIDATED PROFIT FOR THE PERIOD (*)		**131.671**	**93.665**
Profit attributable to non-controlling interests	21	2.541	1.879
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**129.130**	**91.786**
Earnings per share attributable to owners of the parent		**€/share**	
Basic	21	**0,53**	**0,37**
Diluted	21	**0,48**	**0,37**

The accompanying notes 1 to 31 and Appendices are an integral part of the 2018 consolidated income statement.

(*) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR-ENDS 2018 AND 2017

Thousands of euros	Note	Year ended 2018	Year ended 2017
CONSOLIDATED PROFIT FOR THE PERIOD (I)		**131.671**	**93.665**
Income and expense recognised directly in consolidated equity			
- Cash-flow hedges (*)		(31.376)	29.791
- Translation differences (*)		(34)	(39)
- Tax effect		7.844	(7.448)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**21**	**(23.566)**	**22.304**
Amounts transferred to the consolidated income statement			
- Cash-flow hedges (*)		(3.126)	4.212
- Tax effect		782	(1.053)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**21**	**(2.344)**	**3.159**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		**105.761**	**119.128**
Attributable to:			
Owners of the parent		**103.220**	**117.249**
Non-controlling interests		**2.541**	**1.879**

The accompanying notes 1 to 31 and Appendices are an integral part of the 2018 consolidated statement of comprehensive income

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR-ENDS 2018 AND 2017

2018 (thousands of euros)	Balance at 01/01/2018	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed	Issuance/ (cancellation) of shares	Trading in own shares	Other movements	Balance at 31/12/2018
Issued capital	221.645	-	-	-	-	-	-	221.645
Share premium	170.776	-	-	-	-	-	-	170.776
Legal reserve	45.049	-	-	-	-	-	-	45.049
Cancelled capital reserve	10.566	-	-	-	-	-	-	10.566
Capitalisation reserve	1.848	-	2.695	-	-	-	-	4.543
Voluntary reserves	101.016	-	16.256	(16.004)	-	(160)	-	101.108
Parent company retained earnings (prior-period losses)	(92.436)	-	21.240	-	-	-	-	(71.196)
Reserves in fully-consolidated companies	61.210	26	21.972	-	-	-	-	83.208
Interim dividend	(29.623)	-	29.623	(51.309)	-	-	-	(51.309)
Translation differences	47	(34)	-	-	-	-	-	13
Own shares	(4.016)	-	-	-	-	(336)	-	(4.352)
Valuation adjustments	51.680	(25.902)	-	-	-	-	-	25.778
Other equity instruments	2.783	-	-	-	-	-	11.282	14.065
Consolidated profit for the period	91.786	129.130	(91.786)	-	-	-	-	129.130
Total equity attributable to owners of the parent	**632.331**	**103.220**	**-**	**(67.313)**	**-**	**(496)**	**11.282**	**679.024**
Non-controlling interests	**9.903**	**2.541**	**-**	**(2.787)**	**-**	**-**	**8.615**	**18.272**
Total equity	**642.234**	**105.761**	**-**	**(70.100)**	**-**	**(496)**	**19.897**	**697.296**

2017 (thousands of euros)	Balance at 01/01/2017	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed	Issuance/ (cancellation) of shares	Trading in own shares	Other movements	Balance at 31/12/2017
Issued capital	225.245	-	-	-	(3.600)	-	-	221.645
Share premium	170.776	-	-	-	-	-	-	170.776
Legal reserve	45.049	-	-	-	-	-	-	45.049
Cancelled capital reserve	6.966	-	-	-	3.600	-	-	10.566
Capitalisation reserve	-	-	1.848	-	-	-	-	1.848
Voluntary reserves	109.254	-	11.601	(11.578)	(8.552)	291	-	101.016
Parent company retained earnings (prior-period losses)	(109.117)	-	16.681	-	-	-	-	(92.436)
Reserves in fully-consolidated companies	59.615	1.075	520	-	-	-	-	61.210
Interim dividend	(7.825)	-	7.825	(29.623)	-	-	-	(29.623)
Translation differences	86	(39)	-	-	-	-	-	47
Own shares	(11.963)	-	-	-	8.552	(605)	-	(4.016)
Valuation adjustments	27.253	24.427	-	-	-	-	-	51.680
Other equity instruments	517	-	-	-	-	-	2.266	2.783
Consolidated profit for the period	38.475	91.786	(38.475)	-	-	-	-	91.786
Total equity attributable to owners of the parent	**554.331**	**117.249**	**-**	**(41.201)**	**-**	**(314)**	**2.266**	**632.331**
Non-controlling interests	7.234	1.879	-	-	-	-	790	9.903
Total equity	**561.565**	**119.128**	**-**	**(41.201)**	**-**	**(314)**	**3.056**	**642.234**

The accompanying notes 1 to 31 and Appendices are an integral part of the 2018 consolidated statement of changes in equity

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR-ENDS 2018 AND 2017

Thousands of euros	Note	Year ended 2018	Year ended 2017
OPERATING ACTIVITIES:			
Consolidated profit/(loss) for the period before tax		173.231	119.871
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	15	69.829	70.412
Depletion of forest reserve	16	5.821	5.025
Changes in provisions and other deferred expense (net)		22.869	11.582
Impairment of and gains/(losses) on disposals of intangible assets and PP&E		(9.728)	(8.732)
Net finance cost		36.786	28.830
Subvenciones transferidas a resultados	23	(1.362)	(1.353)
		124.215	**105.764**
Changes in working capital:			
Inventories	18	(6.502)	4.117
Trade and other receivables	19	(4.064)	(25.780)
Financial and other current assets	25	4.151	3.266
Trade payables, other payables and other liabilities	20	(3.730)	11.654
		(10.145)	**(6.743)**
Other cash flows from operating activities:			
- Interest paid (net)	13 & 25	(29.909)	(22.957)
- Interest received		0	-
- Dividends received		-	-
- Income tax received (paid)	27	(28.807)	(19.630)
- Other receipts / (payments)		(1.321)	-
		(60.037)	**(42.587)**
Net cash from operating activities (I)		**227.264**	**176.305**
INVESTING ACTIVITIES:			
Investments:			
Property, plant and equipment	15	(163.759)	(50.843)
Intangible assets	14	(24.234)	(1.621)
Business combinations	2	(124.852)	(28.463)
Other financial assets		2.417	7.192
		(310.428)	**(73.735)**
Proceeds:			
Property, plant and equipment	15	1.355	3.392
		1.355	**3.392**
Net cash used in investing activities (II)		**(309.073)**	**(70.343)**
FINANCING ACTIVITIES:			
Proceeds from and payments for equity instruments			
Proceeds from issuance of convertible bonds, net of arrangement fees		14.551	-
Buyback of own equity instruments	21	(63.864)	(34.872)
Disposal of own equity instruments	21	63.368	34.640
		14.055	**(232)**
Proceeds from and repayments of financial liabilities:			
Proceeds from issuance of bonds, net of arrangement fees	25	184.290	48.947
Repayment of bonds and other marketable securities	25	(250.000)	-
Increase/(decrease) in bank borrowings, net of issuance costs	25	255.462	(59.758)
Increase/(decrease) in other borrowings	25	25.878	-
Grants received		115	7
		215.745	**(10.804)**
Dividend payments			
Dividends	21	(69.896)	(39.837)
		(69.896)	**(39.837)**
Translation differences		-	-
Net cash from/(used in) financing activities (III)		**159.904**	**(50.873)**
NET INCREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		**78.095**	**55.089**
Cash and cash equivalents - opening balance		270.528	209.864
Cash obtained as a result of a business combination		-	5.575
Cash and cash equivalents - closing balance		348.623	270.528

The accompanying notes 1 to 31 and Appendices are an integral part of the 2018 consolidated statement of cash flows

Notes to the 2018 consolidated financial statements

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

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ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2018 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter “ENCE”, 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 sub-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 subsidiaries (hereinafter, the "Group" or the "ENCE Group") has articulated its activities around two businesses:

The Pulp business:

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

To carry out this activity, the Group has two biofactories in Spain (located in Asturias and Pontevedra) with combined nominal capacity of approximately 1,100,000 tonnes per annum.

These mills use the kraft process to produce pulp. This 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 biofactories) is 112 megawatts (MW).

The Group also manages 63,673 hectares of productive forest in Spain, 43,372 hectares of which it owns.

The Renewable Energy business:

ENCE has developed and acquired several power generation facilities that are fuelled by biomass obtained from agricultural and forestry sub-products. It also owns a solar thermal power plant. These plants operate on a standalone basis, separately to the pulp business. Aggregate operational power-generating capacity currently stands at 220 MW, broken down as follows:

Location	Capacity MW	Regulatory useful life
Huelva	50	2037
Huelva	41	2028
Merida	20	2039
Jaen	16	2027
Ciudad Real	16	2027
Cordoba	14	2031
Cordoba	13	2030
Ciudad Real	50	2034

The Group is also finalising the construction of two new biomass power plants in Spain, specifically in Huelva (capacity: 46 MW) and Puertollano, Ciudad Real (50 MW). Both facilities are expected to be commissioned during the fourth quarter of 2019.

Listing of shares-

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.

2. Scope of consolidation and business combinations

2.1 Business combinations

2018 acquisitions

On 30 November 2018, Ence Energía Solar, S.L.U., 100% owned by the Renewable Energy business's holding company, Ence Energía, S.L.U., acquired 90% of the share capital and control of Ence Energía Termollano, S.A. from the Iberdrola Group. Ence Energía Termollano, S.A. owns a 50-MW solar thermal power plant located in Puertollano (Ciudad Real).

The Group paid €72.3 million for the shares of the entity acquired and €109 million for the credit claim held by the Iberdrola Group against the acquiree. In December 2018, the acquiree repaid some of that loan, specifically €41.4 million.

In addition, the share purchase agreement contemplates a contingent payment, an earnout, of up to €6.3 million, conditional upon the 'reasonable rate of return' established by the energy sector watchdog for the regulatory period 2020-2025. That condition is expected to be clarified in 2020. That liability has been recognised within "Other non-current liabilities" in the consolidated statement of financial position at 31 December 2018.

The ENCE Group has recognised the assets acquired and liabilities assumed at their estimated acquisition date fair values. Those estimates were arrived at by discounting the cash flows forecast for this facility to present value at a rate of between 6.5% and 7.5%. Input was obtained from independent experts in making those estimates. The breakdown of the net assets acquired and their fair value at the acquisition date, including the goodwill generated by the transaction, are provided below:

Thousands of euros	Note	Fair value	Carrying amount in target's financial statements(*)
Goodwill	14	1.436	-
Intangible assets	14	20.428	
Property, plant and equipment	15	148.560	148.560
Non-current financial assets		11.787	-
Deferred tax assets	27	5.989	5.989
Cash and cash equivalents		56.449	56.449
Other current assets		7.089	7.089
Total assets		**251.738**	**218.087**
Deferred tax liabilities	27	17.004	11.897
Non-current borrowings from group		109.001	109.001
Non-current provisions	24	9.141	9.141
Other current liabilities		29.411	29.011
Total liabilities		**164.557**	**159.050**
NET ASSETS ACQUIRED		**87.181**	**59.037**

(*) Data corresponding to 100% of the acquiree's net assets

This business combination has been accounted for provisionally as the prescribed 12-month period - starting from the acquisition date - has yet to elapse; although the accounting treatment would be revised if necessary, no significant additional adjustments are anticipated.

Had the acquisition taken place on 1 January 2018, Group revenue would have been €23,758 thousand higher in 2018 and profit after tax would have been €333 thousand lower.

Under the terms of the share purchase agreement, the seller would have to indemnify the buyer in the event of certain circumstances that could have an adverse effect on the acquiree. "Non-current financial assets" includes the claim against the seller (indemnification asset) with respect to certain obligations recognised by Energía Termollano, S.A. In February 2019, the investee cancelled the large part of its obligation and ENCE received the corresponding indemnification asset.

The transaction costs totalled €0.5 million and have been expensed in the accompanying 2018 consolidated income statement.

2017 acquisitions

On 2 August 2017, Ence Energía, S.L.U., a 100%-owned subsidiary of Ence Energía y Celulosa, S.A. and the holding company for the Group's Renewable Energy Business, acquired 70% of the share capital of Bioenergía Santamaría, S.A. from EDF Energies Nouvelles for €2,163 thousand, along with the credit claim the latter held over that investee in the amount (face value) of €26,300 thousand. The transaction gave Ence Energía, S.L.U. control of this entity.

Bioenergía Santamaría, S.A. owns a power plant located in Lucena (Cordoba) which comprises two facilities: a gas-fired CHP plant with installed capacity of 12.8 MW which is used to dry olive pomace, the fuel subsequently use to power the second facility, a 14.3-MW power plant fed with agricultural biomass.

The breakdown of the net assets acquired is as follows:

Thousands of euros	Note	Carrying amount in target's financial statements(*)
Property, plant and equipment	15	17.682
Non-current financial assets		721
Deferred tax assets	27	2.996
Cash and cash equivalents		5.575
Other current assets		6.311
Total assets		**33.285**
Grants		594
Deferred tax liabilities	27	320
Non-current borrowings from group companies		26.382
Other current liabilities		2.900
Total liabilities		**30.196**
NET ASSETS ACQUIRED		**3.089**

(*) Data corresponding to 100% of the acquiree's net assets

There were no significant differences between the carrying amounts of the net assets acquired and their fair values; nor did the acquisition price included any contingent consideration.

The transaction costs totalled €0.2 million and were expensed in the 2017 consolidated income statement.

2.2 Scope of consolidation

The following subsidiaries, effectively controlled by the Parent, are fully consolidated in the accompanying 2018 consolidated financial statements:

2018

Investee	Registered office	Business activity	% ownership interest	Thousands of euros – Investee equity – Capital and other owner contributions	Share premium & reserves	Profit (loss) for the year
Pulp business:						
Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	37,863	96,845	66,548
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	19,800	20,749	5,782
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	280	(84)	331
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	2,464	6,310	(1,674)
Ence Investigación y Desarrollo, S.A.U. (a)	Marisma de Lourizán s/n (Pontevedra)	Research into and development of new materials, products and processes	100	6,208	(3,750)	374
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of timber	100	6,055	(5,615)	1,745
Renewable Energy business:						
Ence Energía, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	100	196,104	29,772	14,672
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	3,756	5,427	2,290
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	25,757	16,594	6,402
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	20,054	4,883	2,599
Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	3	-	(2)
Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	64.07	4,167	7,061	1,746
Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	68.42	280	9,420	4,334
Ence Energía Puertollano, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	3	-	(18)
Ence Energía Solar, S.L. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	45,503	-	(636)
Fuerzas Energéticas Sur Europa XXIX, S.L.	Beatriz de Bobadilla, 14 (Madrid)	Dormant	100	-	-	-
Ence Energía Termollano, S.A. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	90	55,000	4,037	167
Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Cordoba)	Generation and sale of electric energy	70	11,992	(11,928)	1,771

(a) Annual financial statements audited

2017

Investee	Registered office	Business activity	% ownership interest	Thousands of euros – Investee equity – Capital and other owner contributions	Share premium & reserves	Profit (loss) for the year
Pulp business:						
Celulosas de Asturias, S.A.U. (a)	Celulosas de Asturias, S.A.U. (a)	Pulp production and power generation	100	37,863	96,845	43,641
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	19,800	21,513	(764)
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	100	280	(93)	6
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	100	2,464	9,725	(3,416)
Ence Investigación y Desarrollo, S.A.U. (a)	Marisma de Lourizán s/n (Pontevedra)	Research into and development of new materials, products and processes	100	6,208	(3,787)	37
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of timber	100	6,055	(4,768)	(848)
Renewable Energy business:						
Ence Energía, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Holding company and biomass management	100	116,136	28,549	5,391
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	3,756	901	4,525
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	25,757	15,810	7,835
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	20,054	4,529	3,543
Ence Energía Huelva Dos, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	100	3	-	-
Energía de la Loma, S.A. (a)	Villanueva del Arzobispo (Jaen)	Generation and sale of electric energy	64.07	4,167	7,061	1,574
Energías de la Mancha Eneman, S.A. (a)	Villarta de San Juan (Ciudad Real)	Generation and sale of electric energy	68.42	280	9,420	3,189
Bioenergía Santamaría, S.A. (a)	Camino Viejo de Benamejí, s/n, Lucena (Cordoba)	Generation and sale of electric energy	70	11,992	(13,044)	5,161

(a) Annual financial statements audited

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: Sierras Calmas, S.A. (Uruguay), Maderas Aserradas del Litoral, S.A. (Uruguay), Las Pléyades Uruguay, S.A. – Sucursal en Argentina, Las Pléyades Uruguay, S.A. (Uruguay), Ence Servicios Corporativos, S.L.U. (Spain), Ence Energía Solar, 2, S.L.U. (Spain), Ence Energía la Loma 2, S.L.U. (Spain), Ence Energía Este, S.L.U. (Spain), Ence Energía Extremadura 2, S.L.U. (Spain), Sostenibilidad y Economía Circular, S.L.U. (Spain), Ence Energía Celta, S.L.U. (Spain), Ence Energía Castilla y León, S.L.U. (Spain), Ence Energía Castilla y León Dos, S.L.U. (Spain) and Ence Energía Pami, S.L.U. (Spain).

The Group also has non-controlling interests in certain companies that have not been consolidated on account of their scant materiality: Imacel, A.E.I.E., a dormant company that is 50%-owned by the Parent, and Electroquímica de Hernani, S.A., in which it owns a 5% shareholding, among others.

2.3 Other changes in the scope of consolidation

In 2018, the Group added Ence Energía Solar, S.L.U., the subsidiary of Ence Energía, S.L. which acquired the shares of Ence Energía Termollano, S.A. and the credit claim the Iberdrola Group had against this investee, to its consolidation scope.

In 2018, it also consolidated Ence Energía Puertollano, S.L.U., an entity incorporated by Ence Energía, S.L., for the first time. This new investee is building and will operate a biomass power plant with installed capacity of 50 MW in Puertollano-Ciudad Real (note 15).

Ence Energía Huelva Dos, S.L.U. was added to the consolidation scope in 2017. That entity was set up in 2009 but it wasn't until 2017 that it embarked on its development work, specifically the planning for construction and subsequent operation of a biomass power generation plant with installed capacity of 40 MW in Huelva (note 15).

3. Basis of preparation and consolidation

3.1 Basis of preparation

Ence Energía y Celulosa, S.A.'s 2018 consolidated annual financial statements were prepared from its accounting records and annual financial statements and those of its Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament, and Spanish Law 62/2003 (30 December 2003) on tax, administrative and corporate measures, to give a true and fair view of the Group’s financial position at 31 December 2018 and of its financial performance and cash flows for the year then ended.

Note 4 summarises the most significant accounting policies and measurement criteria used to prepare the accompanying consolidated financial statements.

The Group’s consolidated financial statements for 2018, which have been authorised for issue by the Parent’s directors, will be submitted for shareholder approval at the Annual General Meeting, at which they are expected to be ratified without modification. The Group’s consolidated financial statements for 2017 were approved at the Annual General Meeting held by the Parent on 22 March 2018.

The euro is the Group's functional and presentation currency. The consolidated financial statements and accompanying notes are therefore expressed in euros.

3.2 Principles of consolidation

Subsidiaries

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. 'Subsidiaries' are investees over which the Parent has the power to exercise effective control; this power is presumed to exist, in general albeit not exclusively, when it owns, either directly or indirectly, at least 50% of the voting rights of the investee. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All of the Group subsidiaries report as of 31 December.

All material inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

The share of non-controlling interests in the fully-consolidated subsidiaries' equity and earnings is presented in "Non-controlling interests" within equity on the accompanying consolidated statement of financial position and in "Profit (loss) attributable to non-controlling interests" in the accompanying consolidated income statement, respectively.

In the accompanying consolidated financial statements for 2018 and 2017, all the companies comprising the scope of consolidation itemised in note 2 are accounted for using the full consolidation method.

Adjustments to conform with the Group's accounting policies

The consolidation of the entities comprising the scope of consolidation was carried out on the basis of their respective separate financial statements, which are prepared under the Spanish General Accounting Plan for companies resident in Spain and local accounting standards for the other investees. The directors have made all the material adjustments needed to adapt those separate financial statements for IFRS and to align their financial information with the Group's accounting policies as part of the consolidation process.

Financial statement translation

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at each reporting date; equity items are translated at historical rates; and income and expenses are translated at average rates for the period in which they accrued. The resulting exchange differences are recognised in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed of. None of the Group companies is located in a hyperinflationary economy.

3.3 Comparison of information and transaction seasonality

The information provided in these financial statements in respect of 2017 is presented to enable a reader comparison with the equivalent 2018 disclosures.

When making such a comparison, the reader should note the changes in the scope of consolidation disclosed in note 2.

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 energy requires annual stoppages of between 10 and 15 days for maintenance purposes.

3.4 Key IFRS-related decisions

In presenting the consolidated financial statements and accompanying notes, the Group took the following decisions: 1) the presentation of the consolidated statement of financial position distinguishes between current and non-current amounts and the consolidated income statement is presented using the nature-of-expense method; and 2) the consolidated statement of cash flows is presented using the indirect method.

3.5 Changes in accounting estimates and policies and correction of fundamental errors

The impact of any change in accounting estimates is accounted for prospectively in the same income statement heading in which the previously estimated item of expense or income is recognised.

Meanwhile, changes in accounting policies and the correction of fundamental errors are accounted for as follows insofar as material: the accumulated impact at the beginning of the year is adjusted in reserves and the impact in the year of the restatement is recognised in profit or loss for the year. In these instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

No significant changes in accounting estimates or policies, except as indicated in note 3.6 below, or corrections of errors affect either the 2018 or the 2017 consolidated financial statements.

3.6 New and amended standards taking effect during the reporting period

The following new and amended standards took effect in 2018 and were applied in preparing the accompanying consolidated annual financial statements:

Standard	Contents	Applicable in annual periods beginning on or after
New standards:		
IFRS 15 - Revenue from contracts with customers and related clarifications.	Replaces prevailing IAS 18 and IAS 11 as well as the current revenue recognition interpretations. The new standard is based on the principle that revenue should be recognised when control of a good or service is transferred to the customer	1 January 2018
Amended standards:		
Amendments to IFRS 2 - Share-based payments	Amendments designed to clarify specific issues such as the effects of vesting conditions on the measurement of a cash-settled share-based payment	1 January 2018
Amendments to IFRS 4 - Insurance contracts	Gives entities falling under the scope of IFRS 4 the choice of applying a temporary exemption from application of IFRS 9	1 January 2018
Amendments to IAS 40 - Transfers of investment property	These amendments clarify that an investment may only be reclassified in or out of investment property if there is an evident change of use	1 January 2018
Annual Improvements to IFRSs, 2014-2016 Cycle	Narrow-scope amendments to a series of standards	1 January 2018
IFRIC 22 - Foreign currency transactions and advanced consideration	This Interpretation prescribes how to determine the date of the transaction which in turn determines the exchange rate to be used to account for advances received or paid for in foreign currency	1 January 2018

These standards and amendments have not had a significant impact on the accompanying financial statements.

In relation to IFRS 15 - Revenue, management analysed the main contracts with customers on an individual and disaggregated basis. That analysis factored in the specifics of each contract in relation to the performance obligations assumed by ENCE in each (returns, discounts, etc.). As a result of that analysis, it was concluded that application of this new standard has not had a significant impact on ENCE's consolidated financial statements.

Elsewhere, ENCE decided to apply IFRS 9 - Financial instruments, early, from 1 January 2017.

3.7 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying 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 of the accompanying statements, are the following:

Standard	Contents	Applicable in annual periods beginning on or after
New standards:		
IFRS 16 - Leases	Replaces IAS 17 and associated interpretations. The new standard puts forward a single accounting model for all leases (with limited exemptions), which will be recognised on the balance sheet in a manner similar to how finance leases are currently treated	1 January 2019
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2021. Pending adoption
Amended standards:		
IFRIC 23 - Uncertainty over income tax treatments	Clarifies the application of the recognition and measurement requirements in IAS 12 - Income taxes when there is uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRSs, 2015-2017 Cycle	Narrow-scope amendments to a series of standards	1 January 2019
Amendments to IFRS 9 - Prepayment features with negative compensation	These amendments allow reporters to measure certain financial assets that are prepayable at an amount that could be less than the unpaid amounts of principal and interest at amortised cost.	1 January 2019
Amendments to IAS 28 - Long-term interests in associates and joint ventures	These amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture if the equity method is not used.	1 January 2019. Pending adoption
Amendments to IAS 19 - Plan amendment, curtailment or settlement	These amendments clarify how to calculate the current service cost and net interest for the remainder of the annual reporting period when a defined benefit plan amendment, curtailment or settlement occurs during that period.	1 January 2019. Pending adoption
Amendments to IFRS 3 - Definition of a business	Clarification of the definition of a business	1 January 2020. Pending adoption
Amendments to IAS 10 and IAS 8 - Definition of 'material'	Aligns the definition of 'material' with that provided in the Conceptual Framework	1 January 2019. Pending adoption

The Group is in the process of analysing what impact these new and amended standards could have on its consolidated financial statements, if adopted. With the exception of the first-time application of IFRS 16 - Leases, from January 2019, the rest of the amendments are not expected to have a significant impact.

IFRS 16 - Leases.

Application of this new standard on 1 January 2019, its date of effectiveness, is expected to have the following impact with respect to the leases outstanding at 31 December 2018 (distinguishing between the various types of assets leased by ENCE):

	Thousands of euros					
	01/01/2019	**31/12/2019**	**31/12/2020**	**31/12/2021**	**31/12/2022**	**31/12/2023**
Statement of financial position						
Assets:						
Pontevedra biofactory concession	33.351	32.607	31.863	31.119	30.375	29.631
Forest leases	11.088	9.687	8.657	7.851	7.058	6.277
Other (offices, vehicles etc.)	8.910	7.595	6.572	6.030	5.694	5.438
	53.349	**49.889**	**47.092**	**45.000**	**43.127**	**41.346**
Liabilities:						
Pontevedra biofactory concession	33.351	33.069	32.776	32.471	32.154	31.825
Forest leases	11.088	9.824	8.906	8.193	7.473	6.744
Other (offices, vehicles etc.)	8.910	7.701	6.762	6.297	6.035	5.850
	53.349	**50.594**	**48.444**	**46.961**	**45.662**	**44.419**
Income statement:						
Depreciation		3.460	2.797	2.092	1.873	1.781
Finance costs		1.877	1.810	1.757	1.715	1.676
Lease payments		(4.632)	(3.960)	(3.240)	(3.014)	(2.919)
		705	**647**	**609**	**574**	**538**

The lease liability will be determined at the start of the contract at the present value of the outstanding lease payments, for the most part discounted using ENCE's incremental borrowing cost. That rate has been estimated, based on available market information, at 2.5%-2.7% for contacts with a term of between one and five years; at 2.9%-3.2% for contracts with a term of between 10 and 20 years; and at 3.3%-4.2% for leases with longer terms.

When applying IFRS 16, ENCE will avail of the following alternatives and practical expedients: 1) short-term leases (with terms of less than 12 months) and low-value leases will be expensed directly as accrued; 2) on first-time application, the Group will not restate the comparative information, recognising the cumulative effect of the first-time application of the new standard as an adjustment to the opening balance of equity on that date.

Application of IFRS 16 is not expected to have a significant impact on performance of the obligations and compliance with the financial ratios covenanted in the agreements with the Group's current lenders.

4. Summary of significant accounting policies

The main accounting policies used to prepare the Group's consolidated financial statements, as provided in the International Financial Reporting Standards adopted by the European Union, are summarised below:

4.1 Business combinations

Business combinations in which the Group acquires control of one or more businesses are accounted for using the acquisition method, in keeping with the provisions of IFRS 3 - Business combinations.

As a general rule, the acquisition method implies recognising, on the acquisition date, the identifiable assets acquired, liabilities assumed, equity instruments issued and any contingent consideration that depends on future events or delivery of certain conditions, at their acquisition-date fair values, insofar as they can be measured reliably.

Acquisition-related costs are expensed as incurred.

The difference between the consideration transferred and the net assets acquired, coupled with the fair value of any previously held equity interest in the business acquired, is recognised under “Goodwill”.

Goodwill is not amortised. Rather, it is tested for impairment annually. The Group recognises a goodwill impairment loss if the recoverable amount falls below the initially recognised amount. The recoverable amount is determined on the basis of the present value of the projected future cash flows of the cash-generating units to which each goodwill balance is assigned, discounted at a rate that factors in the risks specific to each asset. Goodwill impairment losses cannot be reversed in subsequent years. Goodwill is tested in-house; the related calculation methodology is detailed in note 4.5.

The goodwill allocated to the renewable energy power plants is expected to be recovered over the remaining regulatory useful lives of those plants. The goodwill balance is written down for impairment to reflect the reduction in the plants' remaining regulatory useful lives with the passage of time.

The Group recognises any non-controlling interest in the acquiree at such shareholders' proportionate share of the identifiable net assets acquired.

4.2 Other intangible assets

Intangible assets, mainly software and capitalised development costs, are initially recognised at acquisition or production cost. Subsequent to initial recognition, they are measured at acquisition cost less accumulated amortisation and any impairment losses.

The Group’s intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over those estimated useful lives.

R&D expenditure:

Research expenditure is recognised as an expense in the year it is incurred.

Development costs are capitalised when their cost is separately identifiable at the project level and it is probable that the project will be technically feasible and commercially viable (externally and internally). Development costs that do not meet these criteria are recognised as an expense in the year in which they are incurred.

To the extent capitalised, these costs are amortised on a straight-line basis over five years or over the period of time for which they are expected to generate revenue, up to a limit of 10 years.

Computer software:

The Group recognises the cost of acquiring software programmes and multi-year licences under this heading. Software maintenance costs are expensed currently.

Costs that are directly associated with the internal development of software are recognised as intangible assets insofar as there is a clearly defined project whose cost is separately identifiable and it is deemed probable that the developments will generate future economic benefits for the Group. All other internal and external costs associated with software maintenance and development are charged to profit and loss in the year incurred.

Software is amortised on a straight-line basis over five years from when each programme is brought into use.

Electricity generation rights:

These assets are recognised at their acquisition cost and are amortised over the regulatory useful lives of the renewable energy generation facilities in which they are used.

4.3 Property, plant and equipment

These assets are measured at purchase or construction cost, net of accumulated depreciation and any impairment losses (note 4.5).

Cost can include the following items:

- Borrowing costs corresponding to external financing accrued during the asset construction period (to the extent more than one year, i.e., qualifying assets) prior to readying the assets for their intended use when such expenses have been invoiced by the supplier or correspond to specific or general borrowings or other external financing directly attributable to the acquisition or production of the asset, including the settlement of financial derivatives arranged as cash flow hedges to mitigate the interest rate risk associated with such financing.

  The interest rate used for this purpose is either that corresponding to the specific borrowings financing the asset or, if there is no such funding, the Group's average borrowing cost (note 25).

- The cost of employee benefits and other operating costs directly related with the construction of the item of property, plant or equipment.

- Purchase or construction cost is reduced by any proceeds obtained during asset testing phase.

- In the event the Group is obliged to dismantle its facilities or restore the sites on which they are located, the present value of the amount of such costs are added to the carrying amount of those assets with a balancing entry under "Provisions" in the consolidated statement of financial position. ENCE reviews its estimates of those present values periodically and writes the carrying amounts of the assets up or down as warranted. Any subsequent changes in estimated dismantling costs are accounted for by increasing or decreasing the corresponding assets' carrying amounts in the year in which the estimates change.

  In light of the terms on which the concession for the use of the site on which the Pontevedra biofactory is located were granted, the number of years for which the concession has been extended and the potential realisable value of the assets at the time of dismantling, management has estimated that dismantling costs will not be material, which is why no provision has been recognised in this respect on the accompanying statement of financial position.

- Prior to its transition to IFRS-EU (on 1 January 2004), the ENCE Group revalued the forest land recognised within "Property, plant and equipment" on the consolidated statement of financial position to its market value at the time (note 15); that revalued amount was deemed part of the cost of those assets, as provided for in IFRS 1.

The Group transfers work in progress to property, plant and equipment when the corresponding test period is finished.

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Elsewhere, preservation and maintenance expenses incurred during the year are recognised in profit and loss. In addition, certain facilities require periodic inspections. In this respect, the parts requiring replacement at regular intervals that meet the criteria for recognition are recognised specifically and depreciated during the time remaining until the next inspection.

Investment in buildings erected on land used under a concession arrangement is recognised under "Buildings". That cost, coupled with that corresponding to the rest of the permanent facilities located on the land held under concession, is depreciated over the buildings' remaining useful lives, limited by the remaining concession term. The same treatment is applied to investments in remunerated power generation facilities, in this case the limit being the useful life assigned for regulatory remuneration purposes.

Depreciation and impairment charges

The Group depreciates property, plant and equipment using the straight-line method, distributing the cost of the assets over their estimated useful lives, broken down as follows:

	Estimated years of useful life
Buildings	25-60
Plant and machinery	8-25
Other fixtures, tools and furniture	5-12
Other items of PP&E	5-10

Land is recognised separately from the buildings or facilities that may reside on it and is deemed to have an indefinite useful life; accordingly it is not depreciated.

Any impairment losses on land are recognised in the reporting period in which it is determined that its recoverable amount is below its carrying amount with a charge against "Impairment of and gains/(losses) on disposal of fixed assets".

4.4 Biological assets

The Group grows several species of trees, mainly the Globulus and Nitens species of eucalyptus. The timber is used as the raw material for producing pulp or sold to third parties. Against this backdrop, the trees in a forest plantation - or forest cover - are considered a biological asset. Forest land is measured in keeping with IAS 16 - Property, plant and equipment and is recognised within the corresponding heading of the statement of financial position (note 4.3).

The Group measures it biological assets at purchase or production cost, net of forest depletion charges and any impairment losses.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site clearing and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. In addition, because these assets take more than one year to ready for use, borrowing costs accrued until the time the trees are felled are capitalised in respect of the portion of the investment funded with external borrowings (currently not very material). The interest rate used is the Group's average borrowing cost (note 25).

The time elapsing from when a eucalyptus grove is planted in the Iberian Peninsula until it is economically advisable to extract the stumps and subsequently replant varies by species. For the Globulus species, which accounts for the majority of the Group's forest cover, that period is approximately 30-40 years (if cut properly the stumps grow back at least three more times). Against this backdrop, the costs incurred to develop biological assets are grouped into two categories: (i) cycle costs, which include the incurred costs, mainly associated with the plantation process, that will contribute to development of the biological assets over the entire 35-40 year cycle; and (ii) yield/harvest costs, which are those that contribute to development of the biological assets in the harvest in question. For the Nitens species, however, this period is 11-15 years as there is no regrowth, such that all development costs are considered cycle costs in this instance.

When the plantations are harvested, the value of the forest cover is reduced with a charge to "Biological assets – Depletion of forest reserve" along with recognition of a corresponding expense under "Depletion of forest reserve" in the income statement at incurred production costs. The amount of that charge corresponds to 100% of incurred harvest costs and the proportional share of cycle costs calculated on the basis of the number of harvests per cycle. In addition, when forest cover comes to the end of its productive cycle, the amount of recognised forest cover net of accumulated depletion is derecognised.

There is no 'quoted price' for eucalyptus plantations in Spain and the characteristics of the related transactions have not to date enabled the identification of valid market price references. Elsewhere, the use of the alternative methods contemplated in IFRS 13 for determining fair value does not enable a reliable quantification of the fair value of these biological assets due to the vast amount of assumptions and estimates required and their impact on the results of the estimation, among other factors. As a result, the Group does not measure its biological assets at fair value.

ENCE has developed a model for valuing its forest assets based on discounted cash flow methodology which it does not consider sufficiently reliable to use as a proxy for the fair value of its biological assets. However, consistent use of this model over time does provide valuation ranges and enable the identification of trends that are considered when testing its biological assets for potential impairment.

The carrying amounts of the biological assets recognised in ENCE's 2018 consolidated financial statements are not significantly different from the fair values that would result from valuing the assets using that discounted cash flow methodology, specifically that outlined in note 4.5, assuming timber prices in line with current sales prices in the case of the timber earmarked for sale to third parties and the prices at which the pulp biofactories procure timber in the case of forest cover earmarked for pulp-making.

4.5 Impairment of non-financial assets

At least at the end of each reporting period, the ENCE Group assesses the value of its non-current assets to determine whether there are any indications of impairment, namely any indications that the amount recoverable through use has fallen below their carrying amount.

Whenever it detects indications of impairment, it tests them for impairment by estimating their recoverable amount, which is the higher of their fair value less costs to sell and value in use. The methodology used to estimate the recoverable amount is, in general, the 'value in use' methodology, calculated by discounting the future cash flows expected to result from operating the assets to present value.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in “Impairment of and gains/(losses) on disposal of fixed assets” in profit or loss. When an impairment loss subsequently reverts, the carrying amount of the asset is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversal of an impairment loss is recognised in the income statement. Goodwill impairment losses cannot be reversed in subsequent reporting periods.

The procedure used by the ENCE to test for impairment is as follows:

Recoverable amounts are determined for each asset or for each cash-generating unit (CGU) when those assets, individually considered, do not generate cash flows that are largely independent of those generated by other assets within the CGU. Goodwill is allocated to each of the CGUs expected to benefit from the synergies arising from the business combination in question. The ENCE Group's CGUs are each of the pulp biofactories and electricity generation plants it operates, as well as the biological assets it earmarks for sale to third parties.

Each year, the Group prepares a business plan for each CGU which generally covers at least a three-year projection period. The business plan materialises in financial projections that are prepared using the best available estimates with respect to macroeconomic variables, forecast sector developments, regulations and regulatory developments, expected changes in sales prices and the cost of the main raw materials, capital expenditure, working capital trends and discount rates. Sensitivity analyses are conducted to determine the impact of changes in all the key inputs that could have a significant impact on asset valuations.

Terminal value is calculated as a function of normalised cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 1% and 2%. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business’s continuity.

In the case of assets associated with the Renewable Energy business, for which cash flows during the construction and operating phases can be estimated with a certain degree of reliability, the recoverable amount is calculated using estimated cash flows projected until the end of each plant’s regulatory useful life; no terminal value is modelled. For biological assets, projected cash flows encompass a productive cycle of up to 40 years and, again, no terminal value is factored in.

To calculate value in use, the cash flows so estimated are discounted to present value using a specific rate for each business that factors in the time value of money and the specific risks associated with each cash-generating unit. The discount rates applied in the Pulp business range between 6% and 8%; in the Renewable Energy business a pre-tax discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used.

There were no indications that ENCE's cash-generating units were impaired at either year-end 2018 or 2017 with the exception of its biological assets (refer to note 16).

4.6 Leases

The Group holds certain assets under lease. All of the lease arrangements entered into by the Group are classified as operating leases under IAS 17: based on the substance of the leases, none of the agreements transfers ownership of the leased assets nor the risks and rewards incidental to ownership.

Payments on operating leases are expensed in the income statement in the year in which they accrue.

4.7 Financial assets and liabilities

ENCE measures its financial instruments in keeping with IFRS 9 - Financial instruments.

Financial assets

ENCE classifies its financial assets into the following categories subsequent to initial recognition: 1) at fair value through either other comprehensive income or profit or loss; and 2) at amortised cost.

Classification depends on the business model used by ENCE to manage the financial assets and the characteristics of their contractual cash flows. The Group reclassifies its financial assets if and only if its business model for managing them changes.

Initial measurement -

Upon initial recognition, the Group measures its financial assets at fair value, which includes the transaction costs directly attributable to their acquisition. Exceptionally, transactions costs associated with financial assets at fair value through profit or loss are expensed in the income statement.

Subsequent measurement -

ENCE classifies its financial assets into the following categories:

i. Amortised cost using the effective interest rate method: assets that are held in order to collect their contractual cash flows and whose contractual cash flows represent solely payments of principal and interest are classified into this category.

   A gain or loss on an investment in a fixed-income instrument measured at amortised cost that is not part of a hedging relationship is recognised in profit or loss in the year in which the asset is derecognised or written down for impairment. Interest income from these financial assets is recognised in finance income in profit and loss as accrued.

   This category mainly includes the Group's "Trade and other receivables", “Loans extended”, “Deposits, guarantees and other” and “Cash and cash equivalents”. "Other cash equivalents" include short-term, highly-liquid investments readily convertible into cash within a maximum of three months, the value of which is not subject to significant risks.

ii. Fair value through other comprehensive income: assets that are held in order to achieve an objective by both collecting the contractual cash flows and selling the assets and whose contractual cash flows represent solely payments of principal and interest are classified into this category.

   Gains or losses on these instruments are recognised in "Other comprehensive income", other than impairment losses or reversals thereof, which are recognised in profit and loss within operating profit, and interest income, dividends and exchange gains or losses, all of which are recognised in profit or loss within finance income or costs.

   When a financial asset is derecognised, the gain or loss previously deferred in "Other comprehensive income" is reclassified from equity to profit or loss, except in the case of equity investments classified in this category.

iii. Fair value through profit or loss: The financial assets that do not meet the criteria for classification within either of the first two headings are recognised at fair value through profit or loss (FVPL). A gain or loss on a fixed-income investment measured at FVPL that does not form part of a hedging relationship is recognised in profit or loss and presented within operating profit.

Impairment losses -

The Group tests its financial assets at amortised cost and at FVOCI for impairment on an expected credit loss basis. Note 6 details how ENCE determines whether a 'significant increase in credit risk' has occurred since initial recognition.

For trade receivables, the Group uses the simplified approach allowed under IFRS 9, which requires the recognition in one step of a loss allowance based on lifetime expected credit losses at the time of initial recognition.

To this end it has its own credit risk assessment and expected loss estimation models which are based on probability of default, exposure and loss given default parameters and the information available for each customer, including the credit scores provided by ENCE's credit underwriter. The general threshold built into this model is that there is objective evidence of impairment when a payment is past due by more than 180 days. Those criteria are applied in the absence of other objective evidence of non-performance such as bankruptcy proceedings, etc.

Derecognition of financial assets -

Financial assets are derecognised when the contractual rights to the related cash flows have expired or when the risks and rewards incidental to ownership of the asset have been substantially transferred.

Against this backdrop, the Group derecognises discounted trade and other receivables insofar as all of the risks and rewards associated with these assets have been substantially transferred.

In contrast, the Group does not derecognise financial asset transfers in which it retains substantially all the risks and rewards of ownership, recognising instead a financial liability in the amount of any consideration received.

Financial liabilities

Financial liabilities are trade and other accounts payable by the Group deriving from the purchase of goods and services in its ordinary course of business and other liabilities that are not commercial in origin and that cannot be considered derivatives (bank borrowings, issued bonds, etc.).

ENCE classifies its financial liabilities into the following categories subsequent to initial recognition: 1) amortised cost; and 2) fair value through profit or loss. The latter category essentially includes the contingent payments associated with business combinations and financial derivatives that are not designated as hedging instruments.

Debentures, bonds and bank borrowings

Loans, bonds and other liabilities are initially recognised at fair value, which usually coincides with the amount of cash received, net of any transaction costs incurred. All those liabilities are subsequently measured at amortised cost using the effective interest rate method.

Finance costs are recognised on an accrual basis in the income statement using the effective interest rate method. The cost of issuing these liabilities is recognised as finance cost applying the same effective interest rate method.

When issuing convertible bonds, ENCE analyses whether the instruments constitute a compound financial instrument or a liability. When issuing compound financial instruments with liability and equity components, the equity component is measured as the difference between the fair value of the instrument as a whole less the amount of the liability component. The liability component is determined by estimating the fair value of a similar standalone liability at the date of issuance with no equity component. Transaction costs associated with the issuance of compound financial instruments are allocated between the equity and liability components in proportion to their relative carrying amounts at the time of classification.

Trade and other payables

Trade and other accounts payable as a result of the Group's operations are financial liabilities that do not explicitly accrue interest. They are recognised initially at fair value and measured subsequently at amortised cost.

Equity instruments

An equity instrument is a contract that evidences a residual interest in the Parent's assets after deducting all of its liabilities.

The equity instruments issued by ENCE are recognised in equity at the amount received net of any issuance costs.

Own shares acquired by ENCE are recognised at their acquisition cost and are presented as a deduction from equity. The gains and losses resulting from the purchase, sale, issuance or cancellation of own equity instruments are recognised directly in equity and are not reclassified to profit or loss under any circumstances.

Interim dividends declared against profits for the year and final dividends are deducted from equity when their payment is authorised.

4.8 Derivative financial instruments

The Group's activities expose it mainly to financial and market risks deriving from: (i) variability in the dollar/euro exchange rate (which affects its revenue as benchmark pulp prices are quoted internationally in dollars); (ii) other exchange rate fluctuations insofar as they affect currency-denominated sales; (iii) changes in the prices of pulp, fuel-oil, gas and electricity, whether bought or sold; and (iv) movements in interest rates. The Group uses derivative financial instruments to hedge these exposures.

They are recognised under "Hedging derivatives" on the liability side of the consolidated statement of financial position if they present a negative balance and similarly under "Hedging derivatives" within current assets on the asset side if they present a positive balance.

Gains and losses resulting from fair value changes are recognised as finance income or cost in the income statement, unless the derivative, or a portion thereof, has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

1. Fair value hedges: the hedged item is measured at fair value, as is the hedging instrument, and the changes in the fair value of both the hedged item and the hedging instruments are recognised, net, in the same income statement heading.

2. Cash flow hedges: the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in "Valuation adjustments" within equity. The gains or

losses associated with the ineffective portion are recognised immediately in profit or loss under "Change in the fair value of financial instruments".

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the option contract as a hedging instrument. Changes in the time value of options that are related with the hedged item are recognised in "Other comprehensive income".

For these instruments to qualify for hedge accounting they are designated as hedges from the outset and the hedging relationship is documented in detail. The Group establishes its risk management objectives and strategies in entering into hedging transactions at the inception of each hedging relationship and tests its hedges for effectiveness at both inception and regularly throughout the hedging relationship, i.e., it verifies that it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) will be reasonably offset by the changes in the fair value/cash flows of the hedging instrument.

The amounts deferred in "Other comprehensive income" as a result of hedge accounting are reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Hedge accounting is discontinued when a hedge ceases to be highly effective. If hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognised directly in equity is retained in equity until the commitment or forecast transaction materialises, at which time it is reclassified to profit or loss. When a hedged commitment or forecast transaction is no longer expected to materialise, any net cumulative gain or loss that was recognised in equity is immediately reclassified to profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives when the Group believes that their characteristics and risks are not closely related to those of the host contracts, so long as the financial instrument in question as a whole is not being accounted for at fair value through profit or loss.

Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; that price may be directly observable or estimated using other valuation techniques. The fair value of the various financial instruments is determined in accordance with the hierarchy established in IFRS 13 as follows:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs, namely valuation techniques.

The valuation techniques used vary by instrument type. ENCE uses discounted cash flow analysis to value interest and exchange rate hedges and the Black & Scholes model to value foreign exchange options. It uses the Monte Carlo model for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model to value American options in stock option plans.

Fair value is determined for the main financial instruments used as follows:

- Interest rate swaps: Fair value is determined by discounting the instruments' estimated future cash flows. The estimated cash flows from floating-rate instruments are based on quoted swap rates, futures prices and interbank lending rates. The future cash flows estimated are discounted using the zero coupon yield curve, an observable market input. The resulting fair value is adjusted for own and counterparty credit risk.

- Forward currency contracts and tunnels are valued using forward exchange rates for the respective currencies and the associated volatility matrices. The resulting fair value is adjusted for own and counterparty credit risk.

The fair values of these financial instruments are obtained from studies compiled by experts in these kinds of instruments using information provided by agencies or official data organisms and they are cross-checked with the financial institutions with which the Group arranges them.

The fair value of the various derivative financial instruments is obtained using level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all instances, as they are benchmarked to observable variables other than quoted prices.

4.9 Distinction between current and non-current

In the statement of financial position, assets and liabilities are classified by maturity, i.e. as current if they mature within 12 months of the reporting date and as non-current if they mature in more than 12 months.

4.10 Inventories

Raw material inventories are measured at purchase cost, which includes the amount invoiced plus all costs incurred until the goods are located within ENCE's facilities. Inventories of finished products and work in progress are measured at production cost, which includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.

The Group values its inventories using the weighted average cost method.

The Group writes its inventories down for impairment, with a charge to profit and loss, using the methodology outlined in note 4.5. Inventory impairment charges are reversed whenever the originating circumstances dissipate.

Greenhouse gas emission allowances for own use-

Emission allowances acquired are recognised as inventories, initially at the lower of their acquisition cost, calculated using the weighted average cost method, or recoverable amount.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2013-2020 are recognised at their market value at the start of the year for which they are allocated (deemed cost), recognising a grant in the same amount as the balancing entry; the grant is reclassified to profit and loss as the corresponding tonnes of carbon are consumed.

An expenditure is recognised under "Other operating expenses" in the income statement for emissions made during the year by means of a provision whose amount is calculated as a function of the tonnes of carbon emitted, valued at their acquisition cost, which is their carrying amount in the case of allowances held at year-end and the purchase price stipulated in the corresponding forward contracts for the remaining allowances.

When trading allowances are delivered to the authorities for the tonnage of carbon emitted, both the inventories and the provision corresponding to their consumption are derecognised.

4.11 Grants

Non-repayable grants awarded to subsidise investment in productive assets (grants related to assets) are measured at the fair value of the amount awarded, net of any costs incurred to secure the grants, when all the conditions attaching to their grant have been met. They are recognised in profit or loss over the periods and in the proportions in which depreciation expense on the related subsidised assets is recognised or, when appropriate, when the asset is derecognised or written down for impairment.

Grants related to income are credited to the income statement at the time of grant unless they are granted to finance specific expenses, in which case they are deducted in reporting the related expense.

Government assistance taking the form of interest-free loans or loans at below-market rates, granted primarily to fund R&D projects, is recognised at fair value in "Other financial liabilities" in the statement of financial position. The difference between the loan proceeds received and their fair value is recognised initially in “Grants” in the statement of financial position and is reclassified to profit and loss as the assets financed by the loan are depreciated.

4.12 Provisions and contingencies

ENCE recognises provisions for present obligations, whether legal or constructive, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, the amount of which can be estimated reliably (note 24).

Provisions are recognised when the liability or obligation arises, with a charge to the relevant heading of profit or loss, depending on the nature of the obligation, discounted to present value when the effect of the time value of money is material. The unwinding of the discount is recognised every year within "Finance costs" in the income statement.

In accordance with prevailing labour regulations, ENCE is required to pay benefits to employees whose contracts are terminated under certain circumstances. The provisions recognised in this regard were not significant at either year-end.

Contingent liabilities are possible obligations with third parties and present obligations that are not recognised either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is considered remote.

4.13 Activities with an environmental impact

Environmental activities are those undertaken with the aim of protecting, enhancing or repairing damage caused to the environment.

Environmental-protection expenses incurred are recognised in the income statement in the year incurred regardless of when the monetary/financial outflow occurs.

Capital expenditure deriving from environmental activities is measured at cost and capitalised in the year incurred, following the measurement rules described in sections 4.2 and 4.3 above.

4.14 Post-employment benefits

Certain Group companies have defined benefit commitments to employees who have been in active service for more than two years and remain in employment at year-end consisting of the contribution by the Group company and the employee of a pre-defined percentage of his or her pensionable salary to the “Joint Contribution Pension Plan” offered by the ENCE Group under the provisions of article 40 d) of Spain’s Pension Plan and Pension Fund Regulations (defined contribution). This pension plan is part of the SERVIRENTA II F.P. pension plan and provides retirement benefits as well as permanent disability cover and life insurance.

Certain Group executives are beneficiaries of an executive pension plan that complements the standard plan; the executive plan, structured as a group insurance policy, covers beneficiaries’ retirement and the risks of permanent disability and death. ENCE makes defined contributions based on a percentage of plan holder salaries.

Elsewhere, a group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. This commitment was externalised through an insurance company in 2014.

Contributions to the defined contribution post-employment pension plans are recognised in "Employee benefits expense" in the income statement as the contributions are accrued.

4.15 Employee benefits - Long-term bonus plans

ENCE measures its commitments to employees in the form of share-based payments at the fair value of the ENCE shares it is expected, at the grant date, will be necessary to discharge the commitment assumed.

Those commitments are recognised under "Employee benefits expense" in the income statement on a straight-line basis during the plan's vesting period; the balancing entry varies depending on the manner of settlement. Specifically, for commitments that are settled in ENCE shares, the expense accrued is recognised in "Equity - Other equity instruments" in the consolidated statement of financial position. For commitments settled in cash, the accrued expense is recognised with a credit to "Provisions" on the liability side of the consolidated statement of financial position.

The estimates made to measure the commitments assumed with employees are reviewed at the end of each reporting period and the impact of any estimate changes are recognised in profit and loss.

The equity instruments withheld to cover payment of the tax obligations incumbent upon the employees do not alter the plan's classification as an equity-settled share-based payment plan.

4.16 Income and expense recognition

Revenue from contracts with customers represents the amounts received or receivable in exchange for the goods delivered and services rendered in the ordinary course of the Group’s activities, net of returns and discounts and amounts received but due to third parties, such as value added tax. Revenue is recognised when it can be measured reliably and it is probable that the economic benefits embodied by the transaction will flow to ENCE. It is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when control of the goods has been transferred to the buyer, which in the case of pulp sales is determined on the basis of the Incoterms (international commerce terms) applied to each transaction and in the case of timber sales is when the goods are delivered at the customer's facilities. ENCE's performance obligations to its customers are met when the goods are delivered; it is not customary for goods delivered to be returned.

Revenue from the generation of power includes the pool price received in the market plus the legally-established premiums applicable to power generated from renewable sources and is recognised when it is generated and dispatched to the national power grid.

Revenue from the rendering of services - scantly material for ENCE - is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably.

Interest income is recognised using financial criteria with reference to the principal outstanding, the remaining term to maturity and the applicable effective interest rate.

Dividend income is recognised when the right to receive payment is established.

In the power generation business, prevailing regulations establish that any deviations between the variables estimated by the regulator for the purpose of calculating certain generation premiums, most important of which estimated pool prices, and those that ultimately materialise will be compensated for in the tariff assigned in future years (adjustments for tariff shortfall/surplus). These deviations are recognised as revenue or expense in the year they arise only if their collection has been committed to by the regulator.

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This means that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

An expense is recognised immediately when an expenditure produces no future economic benefits or when future economic benefits do not qualify for recognition as an asset.

4.17 Current and deferred income tax

Income tax expense for the year comprises current and deferred tax.

The Parent and the rest of the Group subsidiaries with tax domicile in Spain in which the Parent holds an equity interest of 75% or more file their income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act.

Tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate to their profit before tax.

Income tax expense is accounted for using the balance sheet liability method. That method consists of determining deferred tax assets and deferred tax liabilities, including unused tax losses and unused tax credits, on the basis of the differences between the carrying amounts of the assets and liabilities and their tax bases, using the tax rates objectively expected to be prevailing when the assets and liabilities are realised and incurred, albeit only to the extent that it is considered probable that the consolidated entities will generate sufficient taxable profit in the future against which those assets can be utilised. Deferred tax assets and liabilities relating to transactions charged or credited directly in equity are similarly recognised in equity.

Income tax and changes in deferred tax assets and deferred tax liabilities that do not arise from business combinations are recognised in the income statement or within equity in the statement of financial position depending on where the gains or losses giving rise to their recognition were initially recognised. Variations in deferred taxes arising on business combinations that are not recognised upon change of control due to the lack of sufficient certainty as to their utilisation are recognised by reducing the carrying amount of any goodwill recognised in accounting for the business combination or following the above criterion if there is no goodwill.

As a general rule, deferred tax liabilities are recognised for all taxable temporary differences, except where the Parent can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to check that they still qualify for recognition and the appropriate adjustments are made on the basis of the outcome of the analyses performed.

4.18 Related-party transactions

The Group conducts all related-party transactions on an arm's length basis.

4.19 Foreign currency transactions and balances

The Group's financial statements are presented in euros, which is both its functional and presentation currency.

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date, until they are cancelled, as function of exchange rate trends.

The exchange differences resulting from the collection and payment of loans and debts in currencies other than the euro and those deriving from the measurement of accounts receivable and payable denominated in foreign currency at each reporting date at prevailing exchange rates are recognised in profit or loss in the reporting period in which they arise.

4.20 Statement of cash flows

The consolidated statement of cash flows was prepared using the indirect method and the following definitions:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term (< 3 months), highly liquid investments which are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable and the asset is available for immediate sale in its present condition.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale. Management tests that their carrying amount does not exceed their fair value less costs to sell every year. If this occurs, any required impairment losses are recognised in “Impairment of and gains/(losses) on disposals of fixed assets” in the income statement.

Non-current assets held for sale are presented in the accompanying statement of financial position as follows: the assets are presented in a single line item called “Non-current assets held for sale”, while the related liabilities are similarly presented in a single line item called “Liabilities associated with non-current assets held for sale”.

In addition, the Group classifies any component (cash-generating units or groups of cash-generating units) that either represents a separate major line of business or geographical area of operations, has been sold or otherwise disposed of or qualifies for classification as held for sale as discontinued operations.

The after-tax results of discontinued operations are presented in a single line item in the income statement called “Profit/(loss) after tax for the period from discontinued operations”.

4.22 Segment information

An operating segment is any significant business activity from which the Group may earn revenue and incur expenses, whose operating results are reviewed regularly by the Board of Directors and senior management and for which discrete and reliable financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Committee and the Board of Directors.

4.23 Earnings per share

Basic earnings per share is calculated by dividing profit or loss for the reporting period by the weighted average number of ordinary shares outstanding during the period (not including the average number of Parent shares held as treasury stock by the Group companies).

Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year.

5. Energy sector regulations

This section attempts to summarise the most noteworthy highlights of prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:

Law 24/2013 (26 December 2013), the Electricity Sector Act, establishes the economic and financial stability of the electricity system, limiting structural tariff deficits, as its governing principle.

Framed by the overriding principle of ensuring the electricity system's economic and financial sustainability, any regulatory measure that drives an increase in system expenditure or reduction in its revenue must be associated with a balancing measure to reduce other cost items or boost income by an equivalent amount in order to ensure the system's equilibrium. As a result, the possibility of a new tariff deficit is ruled out, to which end the Act introduces the obligation to automatically revise, from 2014 onwards, system tolls and royalties if the temporary mismatches between revenue and expenses in the electricity system exceed 2% of estimated system revenue in a given year or the debt accumulated in prior years exceeds 5% of the system revenue estimated for a given year.

Royal Decree 413/2014 was published on 10 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to compete with the rest of the generation technologies on an even footing, establishing remuneration comprised of:

1. "Remuneration on investment", which is designed to cover any investment costs that cannot be recouped by selling electricity in the market. It is set in euros per MW;

2. "Remuneration on operations", which is designed to cover any shortfall between operating costs and the revenue obtained in the electricity market. It is also set in euros per MW.

The new remuneration system is calculated on the basis of a standard facility throughout its useful life for regulatory purposes and benchmarked against the activities of an efficient and well-managed company articulated around the following parameters: 1) the revenue derived from the sale of energy; 2) the operating expenses needed to run the business; and 3) the amount of upfront investment.

The premise underpinning this remuneration system is the provision of a reasonable return on investment, which is defined on the basis of the yield on 10-year Spanish government bonds in the secondary market during the 24 months prior to the month of May before the start of the regulatory period plus a spread, initially set at 300 basis points for the first regulatory period, which ends on 31 December 2019 (i.e., a pre-tax ROI of 7.398%).

The draft legislation establishing the reasonable return on the generation of electric power using renewable sources of energy for the next regulatory period - from 2020 until 2025 - was published on 28 December 2018. If that draft legislation is enacted without modification, the reasonable return would be set in general terms at 7.09%; in the case of facilities that had been awarded the then-called special remuneration regime when Royal Decree 9/2013 took effect, the reasonable return would remain at 7.398% for 2020-2031. All of the plants currently operated by ENCE are entitled to apply that special regime.

The regime establishes regulatory periods of six years and stub periods of three years. The remuneration parameters related with pool price forecasts can be revised every three years, factoring in any mismatches arising during the stub period in question. Every six years the authorities can revise the standard facility parameters other than the amount of initial investment and the facilities’ regulatory useful lives, which shall remain unchanged throughout. The regime also envisages the possibility of revising the interest rate used for remuneration purposes every six years, albeit only prospectively. The remuneration provided for operating a given technology depends on fuel prices and can be adjusted at least once a year.

The table below sets out the remuneration applicable to the facilities managed by ENCE at 31 December 2018:

Facility	b.1.2	b.6	b.8	Gas	c.2	Remuneration on operations (€/Mw)
	Remuneration on operations (€/MWh)					
Renewable Energy business:	-					
50-MW Huelva	-	61,42	43,07	-	-	270.576
41-MW Huelva	-	68,78	-	-	-	253.401
20-MW Merida	-	59,76	-	-	-	296.811
16-MW Jaen	-	68,4	47,28	-	-	266.896
16-MW Ciudad Real	-	68,4	47,28	-	-	266.896
14-MW Cordoba - Biomass	-	64,7	44,68	-	-	234.455
13-MW Cordoba - Gas	-	-	-	68,24	-	4.634
50-MW Puertollano - Solar therr	48,11	-	-	-	-	452.513
The Pulp business:						
37-MW Navia	-	63,18	43,99	-	-	234.672
40-MW Navia	-	-	-	-	37,28	10.671
35-MW Pontevedra (*)	-	63	43,62	-	37,28	64.475

(*) Uses vapour from the two furnaces that use c.2 and b6/b8 fuel

Elsewhere, the Pulp Business facilities are listed for the 'Interruptibility Service' which consists of reducing their power consumption in response to orders from the system operator. This is allocated using a competitive auction mechanism managed by the system operator, as stipulated in Ministerial Order IET/2013/2013, thereby guaranteeing effective provision of the service and its provision at the lowest cost for the system.

In addition, certain power generation facilities within the Renewable Energy business participate in the 'Electricity System Adjustment Services' regulated in the TSO's Operating Procedures No. 7.2 and 7.3.

Lastly, Royal Decree-Law 15/2018 (5 October 2018) on urgent measures related to energy transition and consumer protection includes two measures that have an impact on ENCE: 1) exoneration from the electricity generation levy for a period of six months (October 2018 - March 2019); and 2) amendments to Spanish Law 38/1992 on excise duty to exempt energy products earmarked for use in the generation of electricity from the excise duty on hydrocarbons.

6. Financial risk management

ENCE's activities exposure it to a range of financial risks: (i) market risk; (ii) credit risk; and (iii) liquidity risk.

ENCE has a series of rules, procedures and systems aimed at identifying, measuring and managing the various categories of risk. Specifically, it has defined the following basic principles in this respect:

- Ensuring that the most important risks are correctly identified, assessed and managed.
- Segregating at the risk-taking areas from the risk management function.
- Ensuring that the level of exposure to a given risk in the course of carrying out its business activities is consistent with the overall target risk profile.

Through the Audit Committee and with the assistance of the senior management team, the Board of Directors defines the Group's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the probability and impact of occurrence of the risk events so defined within established risk tolerance levels.

Each corporate department is responsible for identifying, assessing and hedging risks with a financial statement impact. The internal audit department verifies that the risk management principles and policies defined by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

6.1 Market risk

Market risk is the risk of a loss due to adverse changes in market prices. The Group is exposed to different classes of market risk: pulp sales price risk; interest rate risk; and commodity price risk.

ENCE monitors its exposure to market risk via ongoing sensitivity analysis. It complements that analysis with other risk measures when the nature of the exposures so warrants; those measures include the establishment of maximum exposure limits measured in terms of value-at-risk, which are defined by the Management Committee and supervised by an independent area tasked with risk management.

For each of the sources of market risk described below, sensitivity analysis is provided, showing the potential impact on profit and loss and on equity.

Pulp prices

BEKP prices are formed in an active market. The trend in pulp prices is a significant driver of the Group's revenue and profitability. Changes in pulp prices affect the cash flows generated by pulp sales.

In addition, pulp prices tend to be markedly cyclical in nature and have exhibited substantial volatility in recent years. Price trends are primarily dictated by shifts in supply and demand and the financial situation of the various sector players.

To mitigate this risk, in recent years the Group has invested significantly in reducing its production costs, increasing productivity and enhancing the quality of the products it sells. Management also continually monitors the scope for using derivatives to hedge pulp prices on future sales, although the availability of these hedging instruments is limited.

Based on the Group's 2018 revenue, a 5% change in international pulp prices in euros would have an impact on revenue of approximately 3.6%.

Note that on 23 June 2016, voters in the United Kingdom voted in favour of withdrawing their country from the European Union ("Brexit"). ENCE's exposure to Brexit-related risks is very low. The UK accounted for just 3.2% of its pulp sales in 2018 and 2017.

Supply of timber

Eucalyptus timber is the main raw material used in making pulp and its price can fluctuate as a result of changes in the balance of supply and demand in the regions in which the pulp-making biofactories are located.

The risk of a shortfall in supply in the regions in which the Group's factories are located is mitigated mainly by means of inventory management, diversification of supply sources and, when deemed appropriate, purchases from alternative international markets, usually at higher logistics costs.

Based on the Group's timber purchases in 2018, a 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would have decreased operating income by approximately €9.8 million.

Exchange rate risk

Although the Group sells its pulp primarily in Europe, revenue from pulp sales is affected by the USD/EUR exchange rate as sales prices are linked to benchmark international pulp prices quoted in USD/tonne. Since the Group's cost and financial structure is mainly denominated in euros, changes in the rate of exchange with the dollar can affect the Group's earnings significantly.

To mitigate this risk, the Group's risk management policy contemplates the possibility of arranging exchange rate hedges to complement the pulp price hedging strategy, to which end management continually monitors the advisability of using such instruments (note 26).

Based on the Group's 2018 revenue, dollar appreciation against the euro of 5% would have increased revenue before hedges by approximately 3.6%.

Interest rate risk

Fluctuations in the interest rates earned and borne by the Group's financial assets and financial liabilities expose it to adverse impacts on its profits and cash flows.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure and mix of floating and fixed rates that minimises interest expense over the medium and long term while mitigating related earnings volatility.

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates. Eighty-three per cent of the Group's exposure to floating-rate borrowings, which are concentrated mainly in the Renewable Energy business, is hedged using interest rate swaps. Moreover, the debt raised in the capital markets carries fixed rates, thereby minimising interest rate risk (notes 25 and 26).

After factoring in the hedges arranged, the sensitivity of earnings and equity (via valuation adjustments) to changes in interest rates is as follows: a 50 basis point increase in rates would increase finance costs by approximately €1,030 thousand.

Regulations

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the premiums set by the Spanish government (note 5).

Based on the Group's 2018 revenue and the average price for the year, a 5% change in the tariffs that determine the revenue generated by the Renewable Energy business would have impacted revenue by approximately 1.3%.

Elsewhere, environmental regulations in the European Union have focused in recent years on tightening restrictions on wastewater discharges, greenhouse gas emissions, etc. Future changes in environmental regulations could result in higher investments and expenditure to comply with new requirements.

6.2 Credit risk

Credit risk is the risk of a loss if any of the counterparties with which the Group transacts fails to meet its contractual obligations. This risk is measured and controlled at the individual level.

After the Group recognises a financial asset, it checks regularly for objective indications of impairment. If it determines a financial asset to be impaired, it recognises the corresponding impairment allowance. The criteria used for recognising such allowances generally include: i) the age of the debt; ii) the existence of bankruptcy proceedings; and iii) analysis of the customer's ability to repay the amounts owed.

Trade and other receivables

ENCE has its own systems for constantly assessing the credit risk of all of its debtors and determining exposure limits by third party. Those systems are based on available internal information and the credit scoring analysis conducted by prestigious credit underwriters.

In the Pulp business, ENCE trades with customers with good credit histories. Moreover, this risk is covered by a credit insurance policy that covers approximately 90% of outstanding balances. Credit risk is also mitigated by demanding irrevocable letters of credit in certain transactions.

The revenue generated by the Renewable Energy business stems from the electricity system which is ultimately backed by the Spanish state.

The Group uses the simplified approach to impairment allowed under IFRS 9 to provide for expected credit losses. To this end it has regrouped its trade receivables based on their credit risk characteristics and the number of days they are past due. Applying that approach, the allowances for the impairment of trade receivables at 31 December 2018 and 2017 were determined as follows:

1. Trade receivables - Pulp business. Business transactions arranged on credit are covered by a credit insurance policy. As a result, management estimates that expected losses will not exceed the aggregate annual deductible, which is the amount that has been provided for.
2. Trade receivables - Renewable Energy business. As these balances are ultimately backed by the Spanish state, the expected loss is considered to be nil.
3. Other balances. These are typically associated with the sale of forest assets and tend to be insignificant. Provisions for the impairment of receivables are recognised whenever there are indications that they might not be collected; all balances outstanding by more than 6-12 months not covered by the credit insurance policy are written down for impairment.

The ageing analysis of the "Trade and other receivables" past due but not impaired at year-end 2018 and 2017 is provided below:

	Thousands of euros
Less than 90 days	1,638
90 - 180 days	90
More than 180 days	-
	1,728

Elsewhere, using the credit ratings assigned by our credit risk underwriter, 60% of the balances outstanding correspond to customers classified as low risk; 24% to customers classified as medium risk; 11% to medium-high risk customers; and 5% to high-risk customers.

Other financial assets

The credit risk affecting liquid funds, derivatives and other financial instruments is, as a general rule, more limited relative to trade receivables because the counterparties are bank or insurance entities with strong credit ratings.

At any rate, ENCE establishes limits on the amounts that can be invested or deposited per entity and those limits are reviewed regularly.

The breakdown of impaired financial assets, along with the impact on the consolidated income statement, is provided notes 19 and 25.

6.3 Liquidity and capital risk

Adverse conditions in the debt and capital 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 business plan.

ENCE's liquidity management policy is designed to guarantee the availability of the funds needed to ensure fulfilment of the obligations assumed and the ability to execute its business plans, keeping an optimal amount of liquid assets at all times and striving to manage its financial resources as efficiently as possible. This is one of the risk factors monitored most closely by ENCE. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteeing solvency and business continuity in any pulp price scenario.

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

3. Establishing leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage ceiling set for the Pulp business is 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4 times. Those ratios were as follows in 2018 and 2017:

	2018	2017
Pulp	0.6	0.7
Renewable Energy	3.5	0.7

4. Diversifying sources of financing (banks and capital markets) and tailoring the mix for each business. Against this backdrop, the Group actively searches the market for the sources of financing that best suit its business requirements.

Each of ENCE'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.

ENCE monitors and controls the financing needs of each unit to this end. That work includes drawing up short-term liquidity forecasts and financial plans to accompany the annual budget and business plan. It strives to maintain stable and diversified sources of financing that permit tapping the financial markets efficiently, all framed by a financial structure that is compatible with its credit ratings.

In keeping with this prudent financial policy, ENCE holds sufficient cash and cash equivalents and undrawn credit lines to fully cover its short-term obligations.

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.

The contractual maturity analysis in respect of the financial liabilities referred to in IFRS 7 is provided in note 25.

7. Critical accounting estimates and judgements

The preparation of these consolidated annual 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 at the reporting date and the amounts of income and expense recognised during the reporting period. Actual results may differ significantly from these estimates.

The accounting policies and transactions that incorporate assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

The useful lives of property, plant and equipment and intangible assets

The tangible and intangible assets held by ENCE tend to be used for very extended periods of time. The Group estimates their useful lives for accounting purposes based on the technical specifications of each asset and the period of time for which they are expected to generate benefits for the Group, additionally factoring in applicable legislation as warranted.

Recoverable amount of non-financial instruments

As detailed in note 4.5, ENCE tests its cash-generating units for indications of impairment annually. In the event it detects indications of impairment, it carries out specific impairment tests. Those impairment tests imply estimating the future performances of the various business and the most appropriate discount rates to be applied. ENCE believes its estimates are appropriate and consistent with the current economic climate and its investment plans and that they adequately reflect the risks specific to each cash-generating unit.

Fair value of assets and liabilities acquired in business combinations

ENCE accounts for business combinations in which it acquires control of one or more businesses using the acquisition method. That method implies recognising, on the acquisition date, the identifiable assets acquired, liabilities assumed, equity instruments issued and any contingent consideration that depends on future events or delivery of certain conditions, at their acquisition-date fair values, insofar as they can be measured reliably (note 4.1).

Provisions for liabilities and charges

ENCE recognises provisions for present obligations arising from past events, mainly lawsuits and claims, as well as certain facility dismantling obligations. To do so it has to evaluate, using the best information available, the outcome of certain legal, tax and other proceedings that are not final at the date of authorising its consolidated annual financial statements for issue (note 24).

Calculation of income tax, tax credits and deferred tax assets

The correct measurement of income tax expense depends on several factors, including estimates regarding the ability to utilise the benefits of tax credits and deferred tax assets and estimates as to the timing of the tax payments. Actual receipts and payments may differ materially from these estimates as a result of changes in the outlook for the Company's businesses or in tax regulations or the interpretation thereof and also as a result of unforeseen future transactions with an impact on the Company's tax assets and liabilities (note 27).

Assets held for sale and discontinued operations

ENCE regularly reviews whether there are specific assets or cash-generating units that should be classified as assets held for sale or discontinued operations.

The assumptions and estimates made in this regard factor in historical experience, the advice received from independent experts, forecasts and other circumstances and expectations at year-end. Nevertheless, events occurring after the date of authorising these financial disclosures could make it necessary to revise these estimates (upwards or downwards) in the future; any such changes in accounting estimates would be accounted for prospectively in accordance with IAS 8.

8. Operating segments

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

The Pulp business:

This business line encompasses the following reportable segments:

- Pulp. This segment includes the pulp production and sale activities carried out at the biofactories located in Pontevedra and Asturias and the power co-generation and generation activities related to the production of pulp and integrated therein, making use of the parts of timber that cannot be transformed in pulp, essentially lignin and biomass, as inputs.
- Forest Management. This operating segment essentially includes the forest cover that supplies raw materials that are used in the pulp production process or sold to third parties.
- Forest Services & Other. This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

The Renewable Energy business:

This business line/segment includes the plants that generate and sell electric power using agricultural and forestry biomass and solar thermal power; they are developed and operated separately and independently from the Pulp business.

This segment encompasses the power generation facilities that are independent of the Pulp business (note 1).

In order to expand on the disclosures provided in this note, the Appendices include the consolidated statement of financial position at 31 December 2018 and 2017 and the consolidated income statement and consolidated statement of cash flows for the years then ended broken down between the Pulp and Renewable Energy businesses.

8.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2018 and 2017, based on the management information reviewed regularly by senior management:

31 December 2018	Thousands of euros							
	PULP business							
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	690.482	2.732	-	-	693.214	138.768	-	831.982
Inter-segment revenue	1.574	10.840	850	(9.495)	3.769	149	(3.918)	-
Total revenue	**692.056**	**13.572**	**850**	**(9.495)**	**696.983**	**138.917**	**(3.918)**	**831.982**
Earnings:								
EBITDA	**237.998**	**7.294**	**1.277**	**(979)**	**245.590**	**45.286**	**-**	**290.876**
Operating profit	**173.574**	**9.474**	**792**	**-**	**183.840**	**25.772**	**(46)**	**209.566**
Finance income	13.958	34	84	(3.605)	10.471	489	(9.975)	985
Finance costs	(30.878)	(3.524)	(82)	3.605	(30.879)	(10.902)	3.401	(38.380)
Hedging derivatives	(1.682)	-	-	-	(1.682)	-	-	(1.682)
Net exchange gains/(losses)	3.053	-	(24)	-	3.029	(38)	-	2.991
Impairment of financial instruments	-	(32)	(217)	-	(249)	-	-	(249)
Income tax	(36.972)	(1.092)	(220)	-	(38.284)	(3.708)	432	(41.560)
Profit for the year	**121.053**	**4.860**	**333**	**-**	**126.246**	**11.613**	**(6.188)**	**131.671**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	2.541	-	2.541
Profit attributable to owners of the parent	**121.053**	**4.860**	**333**	**-**	**126.246**	**9.072**	**(6.188)**	**129.130**
Capital expenditure	84.915	5.641	-	-	90.556	147.772	-	238.328
Accumulated depreciation and depletion of forest reserves	(872.750)	(57.905)	(2.054)	-	(932.709)	(278.495)	-	(1.211.204)
Provision and impairment charges	(27.749)	(9.872)	(2.856)	-	(40.477)	(2.335)	-	(42.812)

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as 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 Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

31 December 2018	Thousands of euros							
	PULP business							
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Assets								
Non-current	877.420	172.909	3.711	(129.555)	924.485	571.330	(354.283)	1.141.532
Current	294.832	8.335	2.462	(3.182)	302.447	244.860	(23.089)	524.218
Total assets (a)	**1.172.252**	**181.244**	**6.173**	**(132.737)**	**1.226.932**	**816.190**	**(377.372)**	**1.665.750**
Liabilities								
Non-current	303.969	76.494	2.515	(78.246)	304.732	313.764	(75.177)	543.319
Current	218.033	3.837	854	(3.268)	219.456	247.228	(23.089)	443.595
Total liabilities (a)	**522.002**	**80.331**	**3.369**	**(81.514)**	**524.188**	**560.992**	**(98.266)**	**986.914**

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

31 December 2017	Thousands of euros							
	PULP business							
Statement of profit or loss	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	605.541	2.969	-	-	608.510	131.812	-	740.322
Inter-segment revenue	1.916	5.101	850	(4.736)	3.131	1.231	(4.362)	-
Total revenue	**607.457**	**8.070**	**850**	**(4.736)**	**611.641**	**133.043**	**(4.362)**	**740.322**
Earnings:								
EBITDA	**167.287**	**3.867**	**591**	**(1.154)**	**170.591**	**45.435**	**-**	**216.026**
Operating profit	**122.169**	**(909)**	**110**	**-**	**121.370**	**28.279**	**-**	**149.649**
Finance income	14.598	-	-	(3.163)	11.435	534	(10.968)	1.001
Finance costs	(17.627)	(3.005)	(158)	3.163	(17.627)	(8.096)	2.968	(22.755)
Hedging derivatives	2.093	-	-	-	2.093	(3.710)	-	(1.617)
Net exchange gains/(losses)	(6.255)	(1)	(14)	-	(6.270)	(13)	-	(6.283)
Impairment of financial instruments	-	(124)	-	-	(124)	-	-	(124)
Income tax	(25.033)	738	(6)	-	(24.301)	(1.905)	-	(26.206)
Profit for the year	**89.945**	**(3.301)**	**(68)**	**-**	**86.576**	**15.089**	**(8.000)**	**93.665**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	1.879	-	1.879
Profit attributable to owners of the parent	**89.945**	**(3.301)**	**(68)**	**-**	**86.576**	**13.210**	**(8.000)**	**91.786**
Capital expenditure	25.485	4.867	76	-	30.428	16.925	-	47.354
Accumulated depreciation and depletion of forest reserves	(874.839)	(56.550)	(1.563)	-	(932.952)	(177.714)	3.404	(1.107.262)
Provision and impairment charges	(46.986)	(23.246)	(2.853)	-	(73.085)	(2.183)	-	(75.268)

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as 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 Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

31 December 2017	Thousands of euros							
	PULP business							
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Assets								
Non-current	770.657	169.473	4.183	(132.931)	811.382	259.351	(273.775)	796.958
Current	326.357	3.746	2.965	(3.433)	329.635	150.357	(33.637)	446.355
Total assets (a)	**1.097.014**	**173.219**	**7.148**	**(136.364)**	**1.141.017**	**409.708**	**(307.412)**	**1.243.313**
Liabilities								
Non-current	296.480	78.501	3.192	(81.527)	296.646	210.387	(75.176)	431.857
Current	192.146	1.981	1.750	(3.804)	192.073	46.746	(33.637)	205.182
Total liabilities (a)	**488.626**	**80.482**	**4.942**	**(85.331)**	**488.719**	**257.133**	**(108.813)**	**637.039**

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

The adjustments and eliminations between the various segments and businesses correspond to the elimination of inter-segment balances and transactions. The Group does not have significant amounts of non-financial assets outside of Spain.

8.2 Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp biofactory and energy generation plant:

31 December 2018	Thousands of euros						
	Pontevedra biofactory	Navia biofactory	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	437.505	530.463	-	-	967.968	-	967.968
Pulp sales volume (ADt)	429.633	517.833	-	-	947.466	-	947.466
Energy sales volume (MWh)	230.660	519.327	-	-	749.987	-	749.987
Continuing operations:							
Revenue	298.264	390.062	-	180.134	868.460	(32.744)	835.717
Cost of sales and other costs	(112.114)	(144.388)	-	(67.670)	(324.173)	31.262	(292.911)
GROSS PROFIT	**186.150**	**245.674**	**-**	**112.464**	**544.287**	**(1.482)**	**542.806**
Employee benefits expense	(18.058)	(23.274)	(28.357)	(7.983)	(77.672)	-	(77.672)
Other operating expenses	(53.876)	(58.144)	(11.030)	(52.690)	(175.739)	1.482	(174.258)
Overhead passed on	(15.620)	(18.974)	39.387	(4.792)	-	-	-
EBITDA	**98.596**	**145.282**	**-**	**46.999**	**290.876**	**-**	**290.876**
Asset depreciation/amortisation and impairment	(8.261)	(31.807)	-	(25.542)	(65.610)	-	(65.610)
Other non-recurring operating expenses	(5.000)	(10.700)			(15.700)		(15.700)
OPERATING PROFIT	**85.335**	**102.775**	**-**	**21.457**	**209.566**	**-**	**209.566**
Net finance cost	(5.350)	(3.080)		(27.905)	(36.335)	-	(36.335)
PROFIT BEFORE TAX	**79.985**	**99.695**	**-**	**(6.448)**	**173.232**	**-**	**173.232**
Income tax	(19.189)	(23.918)		1.547	(41.560)	-	(41.560)
PROFIT FOR THE YEAR	**60.796**	**75.777**	**-**	**(4.901)**	**131.672**	**-**	**131.672**
Profit/(loss) attributable to non-controlling interests				2.542	2.542	-	2.542
Profit attributable to owners of the parent	**60.796**	**75.777**	**-**	**(7.443)**	**129.130**	**-**	**129.130**

(a) Includes the forestry and energy crop activities, the Renewable Energy business, companies that are virtually inactive and the Group's subsidiaries in Uruguay.

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets. This metric is not defined in IFRS.

31 December 2017	Pontevedra biofactory	Navia biofactory	Corporate	Other (a)	Subtotal	Eliminations	Total
	Thousands of euros						
Business metrics:							
Pulp output (ADt)	434.654	523.297	-	-	957.951	-	957.951
Pulp sales volume (ADt)	447.487	527.816	-	-	975.303	-	975.303
Energy sales volume (MWh)	217.441	527.884	-	885.840	1.631.165	-	1.631.165
Continuing operations:							
Revenue	257.868	334.271	-	196.334	788.473	(48.151)	740.322
Cost of sales and other costs	(112.220)	(137.688)	-	(88.453)	(338.361)	47.161	(291.200)
GROSS PROFIT	**145.648**	**196.583**	**-**	**107.881**	**450.112**	**(990)**	**449.122**
Employee benefits expense	(18.823)	(21.892)	(26.577)	(7.074)	(74.366)	-	(74.366)
Other operating expenses	(52.052)	(56.046)	(7.023)	(44.599)	(159.720)	990	(158.730)
Overhead passed on	(13.190)	(16.190)	33.600	(4.220)	-	-	-
EBITDA	**61.583**	**102.455**	**-**	**51.988**	**216.026**	**-**	**216.026**
Asset depreciation/amortisation and impairment	(10.797)	(32.301)	-	(23.279)	(66.377)	-	(66.377)
OPERATING PROFIT	**50.786**	**70.154**	**-**	**28.709**	**149.649**	**-**	**149.649**
Net finance cost	(8.539)	(6.725)		(14.514)	(29.778)	-	(29.778)
PROFIT BEFORE TAX	**42.247**	**63.429**	**-**	**14.195**	**119.871**	**-**	**119.871**
Income tax	(9.236)	(13.867)		(3.103)	(26.206)	-	(26.206)
PROFIT FOR THE YEAR	**33.011**	**49.562**	**-**	**11.092**	**93.665**	**-**	**93.665**
Profit/(loss) attributable to non-controlling interests	-	-		**1.879**	**1.879**	-	**1.879**
Profit attributable to owners of the parent	**33.011**	**49.562**	**-**	**9.213**	**91.786**	**-**	**91.786**

(a) Includes the forestry and energy crop activities, the Renewable Energy business, companies that are virtually inactive and the Group's subsidiaries in Uruguay.

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets. This metric is not defined in IFRS.

9. Revenue

The breakdown of Group revenue by segment in 2018 and 2017 is as follows:

Thousands of euros	2018 Pulp	2018 Renewable Energy	2018 Consolidated Group	2017 Pulp	2017 Renewable Energy	2017 Consolidated Group
Business metrics						
Pulp sales volume (tonnes)	947.466	-	947.466	975.303	-	975.303
Energy sales volume (MWh)	749.988	923.935	1.673.923	745.325	885.840	1.631.165
Revenue						
Pulp	601.744	-	601.744	515.184	-	515.184
Electric energy	82.837	137.935	220.772	76.845	131.696	208.541
Timber and forestry services	8.633	833	9.466	16.481	116	16.597
Inter-segment sales	3.769	149	-	3.131	1.231	-
	696.983	**138.917**	**831.982**	**611.641**	**133.043**	**740.322**

(*) The difference between the figures presented under "Consolidated Group" for 2018 and 2017 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2018 and 2017 in the amounts of €3,918 thousand and €4,362 thousand, respectively.

The revenue associated with the generation of electricity includes an estimate of the 'adjustment for tariff shortfall/surplus' concept contemplated in electricity sector regulations in order to correct the impact of deviations between the variables estimated by the regulator, for the purpose of calculating remuneration on operations, most important of which estimated pool prices, and those that ultimately materialise. That adjustment is made every three years and settlement of the differences is usually allocated over the remaining useful life of each facility for regulatory purposes. Accrual of that adjustment had the effect of reducing revenue by €13,168 thousand in 2018 (by €7,400 thousand in 2017).

In 2018, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €309 million (2017: €243 million).

9.1 Geographic revenue split

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

Percentage of pulp sales	2018	2017
Germany	28.2	23.4
Spain	14.8	14.6
Poland	10.3	9.0
France	8.4	6.9
Italy	7.2	12.6
Turkey	6.1	8.0
Austria	4.0	2.1
United Kingdom	3.3	3.2
Greece	2.6	2.1
Portugal	3.1	3.3
Netherlands	2.0	1.2
Slovenia	1.9	1.8
Other	8.1	11.8
	100	**100**

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

One customer generated sales volumes which accounted for over 10% of Group revenue from pulp sales in 2018, specifically 11%.

10. Cost of sales

Consumption of raw materials and other consumables breaks down as follows in 2018 and 2017:

Thousands of euros	2018			2017		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Purchases	234,884	35,903	268,104	222,073	37,604	256,965
Change in raw materials and other inventories	248	3,325	3,573	1,696	(1,441)	256
Other external expenses	25,132	4,723	28,620	24,366	5,587	28,303
	260,264	**43,951**	**300,297**	**248,135**	**41,750**	**285,524**

(*) The difference between the figures presented under "Consolidated Group" for 2018 and 2017 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2018 and 2017 in the amounts of €3,918 thousand and €4,361 thousand, respectively.

This heading mainly includes timber, chemical products, fuel and other variable costs.

11. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in 2018 and 2017 is provided below:

Thousands of euros	2018			2017		
	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Wages and salaries	53,160	6,383	59,543	48,220	5,282	53,502
Social Security	12,103	1,687	13,790	11,500	1,243	12,743
Contributions to pension plans (note 4.14)	1,887	122	2,009	1,736	132	1,868
Other benefit expense	1,358	52	1,410	1,185	47	1,232
	68,508	8,244	76,752	62,641	6,704	69,345
Long-term remuneration plans	652	49	701	3,976	342	4,318
Termination benefits	214	5	219	675	28	703
	69,374	**8,298**	**77,672**	**67,292**	**7,074**	**74,366**

11.1 Headcount figures

The average Group headcount in 2018 and 2017:

	Average headcount during the year					
	2018			2017		
Job category	Men	Women	Total	Men	Women	Total
Executives	6	2	8	6	1	7
Individual job contracts	244	93	337	226	73	299
Collective bargaining agreements	448	68	516	417	60	477
Temporary workers	102	35	137	84	42	126
	800	**198**	**998**	**733**	**176**	**909**

The breakdown of the year-end Group headcount by job category and gender:

	Year-end headcount					
	2018			2017		
Job category	Men	Women	Total	Men	Women	Total
Executives	8	2	10	6	2	8
Individual job contracts	255	102	357	235	79	314
Collective bargaining agreements	460	77	537	425	64	489
Temporary workers	111	33	144	81	40	121
	834	**214**	**1.048**	**747**	**185**	**932**

At year-end 2018, 13 employees had a disability of a severity of 33% or higher.

The Board of Directors was made up of 14 directors at year-end 2018 (13 at year-end 2013). Twelve of them are men and three represent legal person directors.

11.2 Long-term remuneration plans

ENCE's shareholder-ratified "Long-term bonus plan for 2016-2018" aims to align the management team with delivery of the targets set by the Board of Directors for the term of the remuneration plan and to help retain talent.

The bonus payment contemplated in this plan consists of a percentage of average annual fixed remuneration in 2016-2018 and will vest depending on delivery of three weighted objectives:

1. 50% is tied to the level of delivery of the Synthetic EBITDA targets (determined using a pulp sales price of $720/tonne, an exchange rate of $1.25/€ and a discount rate of 22%) set down in the 2016 - 2020 Business Plan for 2018.
2. 30% is tied to outperformance by ENCE's shares relative to a basket of pulp sector stocks between 2016 and 2018.
3. 20% is tied to the level of delivery by each beneficiary of the bonus scheme of the targets related to talent development in the team directly under him or her, to be assessed after year-end 2018.

The accrual period began on 1 January 2016 and ends on 30 June 2019. To qualify for the benefits, in addition to delivery of the above targets, the beneficiaries must remain in the employment of ENCE at 30 June 2019.

The bonuses will be paid 30% in cash and 70% in ENCE shares. The number of shares to be delivered will be determined considering a benchmark price for ENCE's shares of €2.851 (the share price at the close of 2015). The CEO and members of the Management Committee who are beneficiaries of the plan have committed to holding a portion of the shares received for at least three years: a sum equivalent to two times his fixed remuneration in the case of the CEO and one times in the case of the committee members.

Delivery of the objectives has been assessed at 79.65%, such that the size of the plan amounts to €7,224 thousand: €2,167 thousand to be settled in cash and €5,057 thousand to be settled in shares (equivalent to 1,774 shares). Of that total, 60% corresponds to key management personnel (note 28).

The charge accrued in this respect in 2018, factoring in that level of delivery, amounted to €701 thousand (€4,318 thousand in 2017) and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares, in the amount of €491 thousand before the related tax effect (€3,023 thousand in 2017); and ii) "Non-current provisions" in the consolidated statement of financial position (note 24) in respect of the portion to be settled in cash, in the amount of €211 thousand (€1,295 thousand in 2017).

12. Other operating expenses

The breakdown of this consolidated income statement heading in 2018 and 2017 for the businesses carried on by ENCE was as follows:

	2018			2017		
Thousands of euros	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
External services	134.667	35.523	166.494	125.897	28.510	149.420
Use of emission allowances (note 24)	2.342	718	3.060	1.897	220	2.117
Taxes other than income tax and other management charges	2.832	985	3.817	3.218	1.502	4.720
Electricity generation levy	4.316	7.521	11.837	5.482	8.544	14.026
Change in trade and other provisions	428	74	502	312	224	536
Other non-recurring operating expenses (note 24)	15.700	-	15.700	-	-	-
	160.285	**44.821**	**201.410**	**136.806**	**39.000**	**170.819**

(*) The difference between the figures presented under "Consolidated Group" for 2018 and 2017 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2018 and 2017 in the amounts of €3,696 thousand and €4,987 thousand, respectively.

"Other non-recurring operating expenses" in the table above includes the costs accrued in 2018 in relation to the Environmental Pact entered into with the environment department of the regional government of Galicia (note 30) and the estimated costs of terminating certain contracts with third parties (note 24).

12.1 External services

The breakdown of "External services" in 2018 and 2017 is as follows:

	31/12/2018			31/12/2017		
Thousands of euros	Pulp	Renewable Energy	Consolidated Group	Pulp	Renewable Energy	Consolidated Group
Transport, freight and business expenses	35.861	1.142	37.003	34.321	191	34.512
Utilities	42.069	1.417	43.485	37.949	1.261	39.209
Repairs and upkeep	13.592	14.187	27.779	13.689	11.756	25.445
Rent and fees	4.862	346	5.145	6.174	548	6.596
Insurance premiums	2.991	850	3.841	3.212	839	4.051
Independent professional services	10.339	1.657	11.099	6.075	747	6.822
Banking and similar services	785	159	945	956	217	1.173
Advertising, publicity and public relations	3.741	13	3.755	3.118	3	3.121
Research and development costs	704	-	704	665	-	665
Other services	19.723	15.752	32.738	19.738	12.948	27.826
	134.667	**35.523**	**166.494**	**125.897**	**28.510**	**149.420**

(*) The difference between the figures presented under "Consolidated Group" for 2018 and 2017 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2018 and 2017 in the amounts of €3,696 thousand and €4,987 thousand, respectively.

ENCE has arranged civil liability insurance which covers its directors and executives against damages caused by acts or omissions in the course of discharging their duties. The cost of that insurance was €35 thousand in 2018 (2017: €28 thousand).

12.2 Audit fees

The fees paid for financial statement audit work and other services to the Group's auditor, Pricewaterhousecoopers Auditores, S.L., and entities related to the latter in 2018 and 2017 are shown in the next table:

Thousands of euros	2018	2017
Audit services	166	164
Other services (*)	6	2

(*) In 2018 and 2017, this concept included other services related with the audit: (i) the review over the internal control over financial reporting system; (ii) the provision of a report containing the financial ratios needed to comply with covenants under financing agreements; and (iii) the agreed-upon procedures report in relation to the interim financial information.

In addition, the network to which the auditor belongs invoiced the Group €12 thousand for audit services performed outside of Spain and €131 thousand for other non-recurring services.

12.3 Leases

At year-end, the Group's future minimum payments under non-cancellable leases, without factoring in costs to be reimbursed by the lessor, inflation-related adjustments or contractually-agreed rent increases, are as follows:

Thousands of euros	31/12/2018	31/12/2017
Within 1 year	3,062	2,113
Between one and five years	6,854	6,053
More than five years	17,764	9,650
	27,680	**17,816**

At year-end 2018, the Group managed 20,301 hectares of forest assets earmarked for the production of biological assets under leases and via consortia (22,824 hectares at year-end 2017). The average term of these lease agreements is 30 years.

The annual royalty associated with the concession granting the Group the right to use the site where the Pontevedra biofactory is located amounts to €1,559 thousand (note 15.2).

13. Finance costs

The breakdown of this consolidated income statement heading in 2018 and 2017 was as follows:

Thousands of euros	2018 Pulp	2018 Renewable Energy	2018 Total	2017 Pulp	2017 Renewable Energy	2017 Total
High-yield / convertible bonds	8.409	-	8.409	13.440	-	13.440
Senior notes	-	1.893	1.893	-	-	-
Project finance facilities	-	-	-	-	2.389	2.389
Credit, factoring and reverse factoring lines	2.296	2.659	4.955	2.132	601	2.733
Fees and other charges	1.333	2.407	3.740	2.055	467	2.522
Inter-business finance costs	-	3.401	-	-	2.968	-
	12.038	10.360	18.997	17.627	6.425	21.084
Costs associated with refinancing work:						
Interest due on €250m high yield bonds	6.741	-	6.741	-	-	-
Penalty for prepaying €250m high yield bonds	6.982	-	6.982	-	-	-
Fair value of IR swaps reclassified to profit or loss	-	-	-	-	3.631	3.631
Derecognition of arrangement fees	5.052	-	5.052	-	1.554	1.554
	18.775	-	18.775	-	5.185	5.185
Derivatives:						
Settlement of IR swap	66	542	608	-	117	117
Fair value of IR swaps reclassified to profit or loss	1.682	-	1.682	(2.093)	79	(2.014)
	1.748	542	2.290	(2.093)	196	(1.897)
	32.561	**10.902**	**40.062**	**15.534**	**11.806**	**24.372**

(*) The difference between the figures presented under "Consolidated Group" for 2018 and 2017 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in 2018 and 2017 in the amounts of €3,401 thousand and €2,968 thousand, respectively.

2018

On 22 February 2018, the Board of Directors of ENCE resolved to issue bonds convertible into new-issue ordinary shares or exchangeable for existing shares with a face value of €160 million (note 25). The proceeds were used primarily to voluntarily prepay the €250 million of high-yield bonds issued by ENCE in 2015.

The cancellation costs, i.e., the interest due until 30 November 2018 (the first prepayment date contemplated in the offering terms and conditions) and cancellation penalty, totalled €13,723 thousand. In addition, the unamortised arrangement fees associated with the prepaid issue - €5,052 thousand - were reclassified to the profit and loss in 2018.

2017

The bank debt funding the Renewable Energy business was refinanced on 24 November 2017 (note 25) as a result of which the project finance facilities and other loans that had been financing several power generation plans were prepaid and the interest rate swaps arranged to hedge the interest rate risk on the repaid borrowings were restructured.

As a result, the arrangement fees still pending amortisation at the time - €1,554 thousand euros - were recognised in profit and loss, along with the fair value loss on the interest rate swaps - €3,631 thousand - that was recognised in equity at the time of the restructuring (note 25).

14. Goodwill and other intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation and impairment in 2018 and 2017 is as follows:

	Thousands of euros				
2018 (thousands of euros)	Balance at 01/01/2018	Changes in consol. scope (note 2)	Additions/ (charges)	Transfers (notes 15 and 16)	Balance at 31/12/2018
Goodwill	2.737	3.436	-	-	6.173
Software	20.324	231	364	1.662	22.581
Development costs	18.432	-	20	-	18.452
Prepayments	535	-	2.849	(1.503)	1.881
Other intangible assets	3.167	20.428	21.000	-	44.595
Total cost	**45.195**	**24.095**	**24.233**	**159**	**93.682**
Software	(13.688)	(231)	(2.808)	(1)	(16.728)
Development costs	(10.348)	-	(1.036)	-	(11.384)
Other intangible assets	(1.338)	-	(21)	-	(1.359)
Total amortisation	**(25.374)**	**(231)**	**(3.865)**	**(1)**	**(29.471)**
Goodwill	(249)	-	(249)	-	(498)
Development costs	(2.854)	-	-	-	(2.854)
Other intangible assets	(746)	-	-	-	(746)
Total impairment	**(3.849)**	**-**	**(249)**	**-**	**(4.098)**
Total	**15.972**				**60.113**

2017 (thousands of euros)	Thousands of euros Balance at 01/01/17	Additions/ (charges)	Transfers (note 15)	Balance at 31/12/2017
Goodwill	2.697	40	-	2.737
Software	19.060	513	751	20.324
Development costs	17.092	141	1.199	18.432
Prepayments	1.448	942	(1.855)	535
Other intangible assets	3.167	-	-	3.167
Total cost	**43.464**	**1.636**	**95**	**45.195**
Software	(11.171)	(2.517)	-	(13.688)
Development costs	(9.437)	(911)	-	(10.348)
Other intangible assets	(1.317)	(21)	-	(1.338)
Total amortisation	**(21.925)**	**(3.449)**	**-**	**(25.374)**
Goodwill	-	(249)		(249)
Development costs	(2.854)	-	-	(2.854)
Other intangible assets	(746)	-	-	(746)
Total impairment	**(3.600)**	**(249)**	**-**	**(3.849)**
Total	**17.939**			**15.972**

14.1 Additions and other movements

The Group continues to strategically upgrade the IT systems supporting its key business processes framed by the SAP platform.

In addition, on 7 May 2018, Ence Energía, S.L.U. acquired power generation rights awarded via a public auction held in 2016 to allocate the renewable remuneration regime to new generation facilities, securing the right to build 58.5 MW of capacity entitled to this regime for €21.0 million. Those rights are going to be used primarily at the biomass power generation plants currently under construction in Puertollano and Huelva.

The Group did not capitalise any own work within intangible assets in 2018 or 2017.

At 31 December 2018, there were fully-amortised intangible assets still in use with an original cost of €17,143 thousand (year-end 2017: €16,668 thousand).

14.2 Goodwill

Goodwill at 31 December 2018 includes €2,737 thousand deriving from the acquisition by ENCE of interests in Energía de la Loma, S.A. and Energías de la Mancha ENEMAN, S.A., the cash-generating units to which it has been allocated, and €3,436 thousand arising on the acquisition of the 50-MW Termollano solar thermal plant (note 2).

The goodwill will be amortised over the remaining regulatory useful lives of the power plants and assets to which it has been allocated. The goodwill balance is written down for impairment to reflect the reduction in the plants' remaining regulatory useful lives with the passage of time. Factoring in those impairment charges, the recoverable amounts of the cash-generating units to which the goodwill has been allocated are in line with their carrying amounts.

15. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2018 and 2017 is as follows:

	Thousands of euros						
2018 (thousands of euros)	Balance at 01/01/2018	Changes in consol. scope (note 2)	Additions/ (charges)	Derecognitions or decreases	Transfers (note 14)	Translation differences	Balance at 31/12/2018
Forest land	83.853	-	-	(34)	(25)	-	83.794
Other land	10.533	-	-	-	35	12	10.580
Buildings	111.591	-	1.064	(4.839)	4.475	-	112.291
Plant and machinery	1.486.020	232.553	3.413	(65.259)	27.772	1	1.684.500
Other PP&E	57.275	1.195	1.365	(267)	(5.503)	-	54.065
Prepayments and PP&E in progress	28.961	216	204.839	(1.859)	(26.901)	-	205.256
Cost	**1.778.233**	**233.964**	**210.681**	**(72.258)**	**(147)**	**13**	**2.150.486**
Buildings	(66.982)	-	(2.060)	2.781	-	-	(66.261)
Plant and machinery	(938.585)	(84.594)	(60.215)	50.994	-	(2)	(1.032.402)
Other PP&E	(31.041)	(810)	(3.689)	159	-	-	(35.381)
Depreciation	**(1.036.608)**	**(85.404)**	**(65.964)**	**53.934**	**-**	**(2)**	**(1.134.044)**
Land and buildings	(1.985)	-	-	-	-	-	(1.985)
Plant and machinery	(45.388)	-	(2.746)	21.964	-	-	(26.170)
Other PP&E	(1.579)	-	-	428	-	-	(1.151)
Impairment	**(48.952)**	**-**	**(2.746)**	**22.392**	**-**	**-**	**(29.306)**
Carrying amount	**692.673**						**987.136**

2017 (thousands of euros)	Balance at 01/01/17	Changes in consol. scope (note 2)	Additions/ (charges)	Derecognitions or decreases	Transfer to held-for-sale (note 17)	Transfers (note 14)	Balance at December 31, 2017
	Thousands of euros						
Forest land	82.865	-	955	(97)	130	-	83.853
Other land	9.422	821	-	(64)	-	354	10.533
Buildings	107.679	936	92	(299)	-	3.183	111.591
Plant and machinery	1.400.642	27.485	1.980	(842)	37.453	19.302	1.486.020
Other PP&E	43.377	9.169	598	-	-	4.131	57.275
Prepayments and PP&E in progress	17.598	28	38.397	5	-	(27.067)	28.961
Cost	**1.661.583**	**38.439**	**42.022**	**(1.297)**	**37.583**	**(97)**	**1.778.233**
Buildings	(60.787)	(276)	(1.768)	209	-	(4.360)	(66.982)
Plant and machinery	(832.973)	(18.549)	(61.637)	512	(30.300)	4.362	(938.585)
Other PP&E	(25.551)	(1.932)	(3.558)	-	-	-	(31.041)
Depreciation	**(919.311)**	**(20.757)**	**(66.963)**	**721**	**(30.300)**	**2**	**(1.036.608)**
Land and buildings	(1.985)	-	-	-	-	-	(1.985)
Plant and machinery	(52.409)	-	-	10.039	(3.018)	-	(45.388)
Other PP&E	(1.579)	-	-	-	-	-	(1.579)
Impairment	**(55.973)**	**-**	**-**	**10.039**	**(3.018)**	**-**	**(48.952)**
Carrying amount	**686.299**						**692.673**

15.1 Additions

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

	Thousands of euros	
	2018	2017
Pulp business:		
Pontevedra	39,631	14,399
Navia	42,431	10,068
Other	2,324	1,263
Renewable Energy business:		
46-MW Huelva (*)	53,236	9,600
16-MW Ciudad Real	1,379	755
16-MW Jaen	1,148	673
50-MW Huelva	4,727	667
41-MW Huelva	7,642	1,835
50-MW Puertollano (*)	55,753	-
Other	2,410	2,762
	210,681	**42,022**

(*) Plants currently under construction

Renewable Energy

Through Ence Energía Puertollano, S.L.U., on 25 April 2018, the Group signed an EPC contract for the construction of a 50-MW renewable energy power plant fuelled by biomass. The plant is being built in Puertollano and it is expected to be commissioned during the fourth quarter of 2019. That project is expected to entail investments totalling €120.6 million.

In addition, through Ence Energía Huelva Dos, S.L.U., on 8 November 2017, the Group signed an EPC contract for the construction of a 46-MW renewable energy power plant fuelled by biomass. That plant is being built in Huelva on the site of the Huelva 50-MW and Huelva 41-MW plants (note 1) and is expected to be commissioned during the fourth quarter of 2019. That project is expected to entail investments totalling €97 million.

Pulp business

Elsewhere, in 2018, the Group completed the project for adding 30,000 tonnes of pulp production capacity at the Pontevedra biofactory and started the project for adding 80,000 tonnes of capacity at the Navia biofactory. The latter investment is slated for completion during the first half of 2019 and is expected to entail a total investment of €110 million.

Other capital commitments

In the Pulp business, in addition to the undertakings detailed in note 15.2 in exchange for the 10-year extension of the concession term in Pontevedra, the Group was contractually committed to investing €93.4 million at the reporting date. The biggest capital commitment - €65 million at 31 December 2018 - relates to the plan to add 80,000 tonnes of capacity at the Navia biofactory.

Capital commitments in the Renewable Energy business, in addition to the commitments outlined above in connection with the ongoing construction of two biomass power plants in Huelva and Puertollano, amounted to €15.2 million at 31 December 2018.

15.2 Public-domain concession - Pontevedra biofactory

The Pontevedra biofactory is located on public-domain coastal land for which ENCE holds the corresponding domain concession, to which end it is subject to the legal regime contemplated in Law 22/1988, of 28 July of Coasts, Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014).

That concession was granted to ENCE by Ministerial Order on 13 June 1958 and was due to terminate on 29 July 2018. On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession for 60 years, i.e., until 8 November 2073.

Of the agreed-upon 60-year extension, 10 years are conditional upon ENCE making certain investments totalling €61.2 million at the biofactory between 2017 and 2019, as follows: 1) €30.2 million earmarked to increasing the biofactory's capacity and efficiency; 2) €27 million for environmental upgrades; and 3) €4 million earmarked to blending the biofactory into its surroundings.

Of this total, €39.6 million has already been invested and the Group is contractually committed to investing another €7.5 million.

These investment undertakings in Pontevedra have been similarly factored into the Environmental Pact entered into with the Environmental Department of the regional government of Galicia (note 30), along with other commitments such as the installation of three bioenergy centres and one biomass CHP facility in Galicia entailing an estimated investment of up to €94 million.

15.3 Fully depreciated assets and assets out of service

The breakdown at year-end of the original cost of fully-depreciated items of property, plant and equipment still in use is shown in the next table:

Thousands of euros	2018	2017
Buildings	34,815	35,051
Machinery & equipment	411,257	409,573
Tools	1,694	1,456
Furniture & fittings	5,511	4,946
Other	61,108	59,848
	514,385	**510,874**

The lack of competitiveness of the industrial complex in Huelva caused, among other factors, by the impact of the regulatory reforms undertaken in the Spanish energy sector, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva complex and to cease the production of pulp, which meant that some of its industrial assets were no longer used for productive purposes. Those assets' carrying amount at year-end 2018 (which is not significantly different from their recoverable amount) comprised: an original cost of €202 million; accumulated depreciation of €163 million; and impairment losses of €23 million. In 2018, some of those assets - carried at €15,370 thousand before impairment losses - were derecognised; the assets derecognised had been fully written down for impairment.

15.4 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation amounted to €54,102 thousand at year-end 2018 (€54,132 thousand at year-end 2017) and is included in “Valuation adjustments” in equity.

15.5 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 these policies at the reporting date is sufficient.

16. Biological assets

“Biological assets” exclusively comprises the Group’s forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land”. The movement in this heading 2018 and 2017:

2018	Balance at 01/01/2018	Additions/ (charges)	Derecognitions	Transfer to held-for-sale (note 17)	Transfers (note 14)	Balance at 31/12/2018
	Thousands of euros					
Pulp business:						
Forest cover	147.987	3.273	(9.532)	(5.072)	(10)	136.646
Depletion of forest reserve	(45.048)	(5.699)	4.987	-	-	(45.760)
Provision for impairment	(21.442)	(1.655)	13.547	1.072	-	(8.478)
	81.497	**(4.081)**	**9.002**	**(4.000)**	**(10)**	**82.408**
Renewable Energy business:						
Forest cover	4.859	141	(1.993)	-	-	3.007
Depletion of forest reserve	(3.639)	(122)	1.833	-	-	(1.928)
Provision for impairment	(1.025)	-	95	-	-	(930)
	195	**19**	**(65)**	**-**	**-**	**149**
	81.692					**82.557**

2017	Balance at 01/01/2017	Additions/ (charges)	Derecognitions	Transfers	Balance at 31/12/2017
	Thousands of euros				
Pulp business:					
Forest cover	158.956	3.431	(14.400)	-	147.987
Depletion of forest reserve	(45.464)	(4.033)	4.449	-	(45.048)
Provision for impairment	(30.724)	(256)	9.538	-	(21.442)
	82.768	**(858)**	**(413)**	**-**	**81.497**
Renewable Energy business:					
Forest cover	8.754	265	(4.160)	-	4.859
Depletion of forest reserve	(4.304)	(764)	1.429	-	(3.639)
Provision for impairment	(3.807)	-	2.782	-	(1.025)
	643	**(499)**	**51**	**-**	**195**
	83.411				**81.692**

In 2018, the Group planted 223 hectares of land (2017: 292 hectares) and carried out forest preservation and protection work encompassing 3,263 hectares (2017: 2,299 hectares).

The Group also capitalised €35 thousand of borrowing costs under forest cover in 2018 (€72 thousand in 2017).

In 2017, the Group derecognised forest cover affected by forest fires that autumn, albeit without a significant impact on the 2017 consolidated financial statements.

16.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2018 and 2017 is provided below:

2018	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Hectares	Carrying amount in € '000	Hectares	Carrying amount in € '000
> 17	1,161	2,282	-	-
14 - 16	1,889	6,420	-	-
11 - 13	10,159	32,512	-	-
8 - 10	11,840	27,183	-	-
4 - 7	11,967	14,783	494	727
0 - 3	10,085	7,706	432	352
Impairment of biological assets	-	(8,478)	-	(930)
	47,101	**82,408**	**926**	**149**

2017	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Hectares	Carrying amount in € '000	Hectares	Carrying amount in € '000
> 17	1,263	3,262	-	-
14 - 16	1,240	4,349	-	-
11 - 13	10,103	34,294	-	-
8 - 10	12,517	30,495	-	-
4 - 7	14,636	23,162	1,430	1,035
0 - 3	11,295	7,377	591	185
Impairment of biological assets	-	(21,442)	-	(1,025)
	51,054	**81,497**	**2,021**	**195**

In addition, the land under management includes 2,594 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the ENCE Group, at market prices, of the timber produced from the land sold for a period of 20 years.

16.2 Derecognitions and impairment

In 2018, ENCE entered into several long-term agreements for the sale of timber produced at its forest plantations in southern Spain. As a result, ENCE has reviewed the impairment charges recognised against those assets in prior years in light of the prices set in those agreements, triggering the reversal of €9,252 thousand of impairment losses. At 31 December 2018, after those reversals, the Group recognised impairment losses against its biological assets totalling €9,408 thousand (€22,467 thousand at year-end 2017).

An increase in market timber prices of 1% would have the effect of reducing the impairment charges recognised by approximately €1.6 million. Conversely, a drop in the market sales price would have the effect of increasing the impairment loss by the same amount.

17. Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale within the next 12 months is considered highly probable. The breakdown of "Non-current assets held for sale" at 31 December 2018 and 2017 is as follows:

Thousands of euros - 2018	Balance at 01/01/2018	Transfers (note 16)	Balance at 31/12/2018
Biological assets	-	4.000	4.000
Total	**-**	**4.000**	**4.000**

Thousands of euros - 2017	Balance at 01/01/2017	Assets consumed and other	Sales	Transfers (note 15)	Impairment	Balance at 31/12/2017
Huelva industrial complex (note 15)	4.262	-	(29)	(4.135)	(98)	-
Forest land and cover	2.621	(228)	(2.263)	(130)	-	-
Total	**6.883**	**(228)**	**(2.292)**	**(4.265)**	**(98)**	**-**

During the fourth quarter of 2018, ENCE launched the sale of its forest assets in Portugal. Those assets are measured at fair value, in line with non-binding bids received.

18. Inventories

The breakdown of the Group's inventories at 31 December 2018 and 2017 is as follows:

Thousands of euros	31/12/2018	31/12/2017
Timber and biomass	9,703	16,084
Other raw materials	2,758	1,771
Spare parts (*)	8,830	7,593
Greenhouse gas emission allowances	2,692	1,713
Finished goods and work in progress	18,720	11,336
Prepayments to suppliers	842	629
	43,545	**39,126**

(*) Presented net of impairment allowances of €13,897 thousand and €13,653 thousand at 31 December 2018 and 2017, respectively.

There are no restrictions on title to inventories.

At 31 December 2018, the Group had entered into agreements with suppliers for the purchase, during the next three years, of 2.3 million tonnes of biomass for use at the power plants constituting the Renewable Energy business.

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 coverage at year-end is adequate.

18.1 Greenhouse gas emission allowances

The reconciliation of the opening and year-end Group-owned emission allowance balances for 2018 and 2017 is provided in the next table:

	2018		2017	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	143.136	1.713	101.389	1.263
Changes in scope (note 2)	-	-	34.815	204
Allocations (note 27)	119.444	924	89.558	547
Delivered (*)	(221.938)	(2.323)	(163.626)	(1.586)
Purchased	150.000	2.378	81.000	1.285
Closing balance	**190.642**	**2.692**	**143.136**	**1.713**

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

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 119,444 tonnes of carbon emissions, valued at €924 thousand, in 2018 (89,558 tonnes valued at €547 thousand in 2017).

"Current provisions" on the liability side of the consolidated statement of financial position includes €3,089 thousand in this respect at 31 December 2018 (€2,136 thousand at year-end 2017) corresponding to the liability derived from the consumption of 215,531 tonnes of carbon in 2018 (184,409 tonnes in 2017) (note 24).

Elsewhere, the Group has contractually committed to the forward purchase of allowances covering a total of 320,000 tonnes of carbon at a price of €16.02/tonne, exercisable in 2019. It is estimated that a portion of the allowance purchases committed to, approximately 52 thousand allowances, will not be consumed within the term of the current 2013-2020 Plan. At year-end 2018, the market value of the allowances was above the forecast purchase price. At 31 December 2017, ENCE recognised a €491 thousand provision because at that reporting date the market value was below the carrying amount; that charge was recognised in "Current provisions" in the consolidated statement of financial position (note 24).

19. Trade and other receivables

The breakdown at year-end of "Trade and other receivables" on the asset side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2018	31/12/2017
Trade receivables:		
Pulp	74.121	67.070
Renewable Energy	33.663	35.797
Other items	893	3.451
Sundry receivables	1.380	3.701
Provision for impairment	(3.135)	(3.248)
	106.922	**106.771**

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €14,906 thousand at 31 December 2018 (€12,098 thousand at 31 December 2017).

The credit period on pulp sales averages between 63 and 68 days. The fair value of pulp receivables does not differ significantly from their carrying amount.

At year-end, the Group had €31 million of US dollar-denominated accounts receivable (year-end 2017: €32 million).

19.1 Factoring facilities

The Group has drawn down €49,287 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €95,000 thousand at 31 December 2018 (€49,287 thousand and €85,000 thousand, respectively, at 31 December 2017). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1% and 1.25% on the receivables discounted under those agreements.

20. Trade and other payables

The breakdown at year-end of "Trade and other payables" on the liability side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2018	31/12/2017
Trade and other payables	161.258	147.898
Payable to fixed-asset suppliers	65.195	12.453
Employee benefits payable	8.571	8.285
	235.024	**168.636**

The average payment period on goods and services purchased ranges between 63 and 70 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group had drawn down €79,097 thousand under non-recourse reverse factoring agreements with an aggregate limit of €147,000 thousand at 31 December 2018 (€67,005 thousand and €125,000 thousand, respectively, at 31 December 2017). The reverse factoring agreements arranged by ENCE do not contemplate the provision of guarantees.

At 31 December 2018, the Group had €29 thousand of US dollar-denominated accounts payable (year-end 2017: €50 thousand).

Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2018 and 2017 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2018	2017
Average supplier payment term (days)	63	63
Paid transactions ratio (days)	64	64
Outstanding transactions ratio (days)	42	49
	Thousands of euros	
Total payments made	628,296	524,664
Total payments outstanding by more than the legally-stipulated term	34,482	44,101

21. Equity

21.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2018 was represented by 246,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

The table below depicts the Company's shareholder structure at 31 December 2018 and 2017:

	%	
Shareholder	31/12/2018	31/12/2017
Juan Luis Arregui / Retos Operativos XXI, S.L.	29,28	27,96
Víctor Urrutia / Asúa Inversiones, S.L.	6,34	6,34
Corporación Financiera Alcor, S.A. / Imvernelin Patrimonio S.L.	-	4,97
Jose Ignacio Comenge / La Fuente Salada, S.L. / Mendibea 2002, S.L.	6,01	5,68
Systematica Investments, Limited	1,02	-
Norges Bank (*)	N/A	3,09
Own shares	0,64	0,61
Directors with ownership interest of < 3%	0,43	0,50
Free float	56,28	50,85
Total	**100,00**	**100,00**

(*) This shareholder has reported that it has reduced its shareholding to below the 3% threshold

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

Capital reduction

The Company's Board of Directors agreed on 26 April 2017 to execute the capital decrease ratified at the Annual General Meeting held on 30 March 2017, reducing share capital by 3,600,000 euros by cancelling 4 million own shares, with a unit par value of €0.90, held as treasury stock.

The capital reduction stemmed from the Share Buyback Programme authorised by the Board of Directors on 23 June 2016 with the aim of remunerating shareholders by reducing the Parent's share capital.

For the purposes of the capital reduction, the Company created a reserve for cancelled shares, with a charge against unrestricted reserves, of €3,600,000, which is subject to the same requirements as are set forth for reducing capital, pursuant to article 335.c of Spain's Corporate Enterprises Act.

21.2 Legal reserve

In accordance with the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital. The Parent's legal reserve of €45,049 thousand covers the stipulated 20% of share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

21.3 Share premium

The Consolidated Text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital and provides no specific limitation with respect to the availability of this reserve.

21.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by the various companies comprising the ENCE Group at 31 December 2018 and 2017:

Thousands of euros	31/12/2018	31/12/2017
Pulp business:		
Celulosas de Asturias, S.A.U.	125.232	125.232
Norte Forestal, S.A.U.	770	3.338
Silvasur Agroforestal, S.A.U.	6.802	7.566
Iberflorestal, S.A.U.	(6.348)	(5.500)
Ibersilva, S.A.U.	(18.166)	(18.172)
Ence Investigación y Desarrollo, S.A.U.	(5.087)	(5.124)
Maderas Aserradas del Litoral, S.A.	(5.311)	(5.315)
Las Pléyades, S.A. (SAFI)	1.919	1.902
Sierras Calmas, S.A.	5.776	5.838
Renewable Energy business:		
Celulosa Energía, S.A.U.	30.377	25.852
ENCE Energía, S.L.U.	(32.798)	(42.483)
ENCE Energía Huelva, S.L.U.	(10.533)	(11.317)
ENCE Energía Extremadura, S.L.U.	(12.165)	(12.519)
Bioenergía Santamaría, S.A.	(2.118)	
Consolidation and other adjustments	4.858	(8.088)
	83.208	**61.210**

(*) Dividends paid out are considered additions to reserves at the receiving companies.

The balance of reserves in consolidated companies that is restricted stood at €19,334 thousand at year-end (year-end 2017: €15,454 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

21.5 Proposed appropriation of the Parent's profit

The Company's directors have resolved to submit the following appropriation of the Parent's 2017 profit of €96,668 thousand for shareholder approval at the upcoming Annual General Meeting (note that consolidated profit amounted to €129,130 thousand):

	Thousands of euros
Basis of appropriation:	
Profit for the year	96,668
Appropriation:	
Interim dividend - paid out in September 2018 (note 22)	25,452

Interim dividend - paid out in December 2018 (note 22)	25,699
Final dividend (*)	13,299
Capitalisation reserve	4,691
Retained earnings (prior-year losses)	27,527

(*) Maximum dividend. The amount not distributed on account of own shares held as treasury stock will be earmarked to "Voluntary reserves".

21.6 Earnings per share

The basic and diluted earnings per share calculations are shown below:

Earnings per share	2018	2017
Group profit attributable to owners of the parent (€ 000)	129,130	91,786
Weighted average ordinary shares outstanding (*)	244,706,211	244,776,438
Weighted average diluted shares (**)	263,097,948	244,776,438
Basic earnings per share (€)	**0.53**	**0.37**
Diluted earnings per share (€)	**0.48**	**0.37**

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

(**) Average number of ordinary shares outstanding plus potential issuable shares associated with financial instruments convertible into shares

The diluted earnings per share calculations use the Group's profit for the year attributable to owners of the Parent less the expense accrued in respect of the convertible financial instruments, net of the related tax effect.

21.7 Own shares

The reconciliation of "Own shares" at the beginning and end of 2018 and 2017 is as follows:

	2018		2017	
	Number of shares	Thousands of euros	Number of shares	Thousands of euros
Opening balance	1.496.062	4.016	5.508.463	11.963
Purchases	9.462.282	63.864	10.010.217	34.957
Sales	(9.392.055)	(63.528)	(10.022.618)	(34.352)
Closing balance	**1.566.289**	**4.352**	**1.496.062**	**4.016**

The own shares held by the Company at 31 December 2018 represent 0.6% of its share capital (0.6% at year-end 2017) and were carried at €1,410 thousand (€1,346 thousand at 31 December 2017). These shares were acquired at an average price of €2.78 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the "Long-term 2016-2018 bonus plan" (note 11).

ENCE has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which the Company's shares are traded, within the limits established at the Annual General Meeting and prevailing legislation, specifically, CNMV Circular 1/2017 on liquidity agreements.

21.8 Valuation adjustments

The breakdown of "Valuation adjustments" at year-end is provided below:

	31/12/2018			31/12/2017		
Thousands of euros	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve (note 15.4)	54.102	13.509	40.593	54.132	13.517	40.615
Hedging transactions (note 26)						
IR swap	(2.853)	(713)	(2.139)	409	102	307
Exchange rate	(16.901)	(4.225)	(12.676)	14.344	3.586	10.758
	34.348	**8.571**	**25.778**	**68.885**	**17.205**	**51.680**

There was no significant movement in the land revaluation reserve during 2018. The changes in the fair value of the hedging transactions recognised directly in equity are recognised in the consolidated statement of comprehensive income in 2018 and 2017.

21.9 Other equity instruments

The reconciliation of the carrying amount of "Other equity instruments" at the beginning and end of 2018 and 2017 is as follows:

Thousands of euros	Balance at 31/12/2017	Additions	Reclassified to profit or loss	Tax effect	Balance at 31/12/2018
Convertible bonds (note 25)	-	14.551	-	(3.638)	10.913
Long-term Bonus Plan (note 11)	2.783	-	491	(122)	3.152
	2.783	**14.551**	**491**	**(3.760)**	**14.065**

Thousands of euros	Balance at 31/12/2016	Reclassified to profit or loss	Tax effect	Balance at 31/12/2017
Long-term Bonus Plan (note 11)	517	3.023	(757)	2.783
	517	**3.023**	**(757)**	**2.783**

21.10 Non-controlling interests

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2018 and 2017 is as follows:

Year-end 2018 Company	Thousands of euros Balance at 01/01/2018	Profit/(loss) attributable to NCI	Dividend payments	Changes in consolidation scope (note 2)	Balance at 31/12/2018
Energía de la Loma, S.A.	4.600	627	(566)	-	4.661
Energías de la Mancha Eneman, S.A.	4.070	1.366	(1.007)	-	4.429
Bioenergía Santamaría, S.A.	1.233	531	(1.214)	-	550
Ence Energía Termollano, S.A.	-	17	-	8.615	8.632
Total	**9.903**	**2.541**	**(2.787)**	**8.615**	**18.272**

Year-end 2017 Company	Thousands of euros Balance at 01/01/2017	Profit/(loss) attributable to NCI	Adjustment to acquisition price	Changes in consolidation scope (note 2)	Balance at 31/12/2017
Energía de la Loma, S.A.	4.122	566	(88)	-	4.600
Energías de la Mancha Eneman, S.A.	3.112	1.007	(49)	-	4.070
Bioenergía Santamaría, S.A.	-	306	-	927	1.233
Total	**7.234**	**1.879**	**(137)**	**927**	**9.903**

22. Shareholder remuneration

ENCE's dividend policy contemplates the distribution to its shareholders of an amount equivalent to approximately 50% of Group profit after tax (PAT) for the year, structured into two interim dividends, one approved at the end of the first half and the other in November, and a final dividend, to be put before the its shareholders for approval at the Annual General Meeting. This dividend policy is conditional upon delivery of the financial discipline criteria laid down in the Business Plan as well as the Company's legal and contractual obligations.

The next table itemises the dividends declared in 2018:

	Dividend per share	Thousands of euros
Final - 2017 earnings	0.066	16,159
Interim - 2018 earnings - July	0.104	25,452
Interim - 2018 earnings - November	0.105	25,699
		66,910

At the Annual General Meeting held on 22 March 2018, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a final dividend against 2017 profits in the amount of €0.066 per Ence Energía y Celulosa, S.A. share (before withholdings). That dividend, which totalled €16,159 thousand, was paid out on 12

April 2018. ENCE had already paid out two interim dividend from 2017 profits of €0.061 and €0.060 per share as per board resolutions dated 26 July 2017 and 22 November 2017, respectively.

At a meeting held on 24 July 2018, the Board of Directors of the Parent resolved to pay an interim dividend from 2018 profits of €0.104 per share (before withholdings), in cash. That dividend implied an outlay of €25,452 thousand euros and was paid on 12 September 2018.

Then, at a meeting held on 27 November 2018, the Board of Directors of the Parent resolved to pay a second interim dividend from 2018 profits of €0.105 per share (before withholdings), similarly in cash. That dividend entailed the payment of €25,699 thousand on 18 December 2018.

The table below sets out the related forecast liquidity statements, as required under article 277 of the Consolidated Text of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity to justify payment of the above interim dividends:

Thousands of euros	**31/10/2018**	**30/06/2018**
Available liquidity at the resolution date		
Cash	129.598	138.961
	129.598	**138.961**
Interim dividend payment (maximum amount)	(25.856)	(25.612)
Forecast net cash flows until date of approval of interim dividend	-	-
Forecast liquidity as of date of approval of interim dividend	**103.742**	**113.349**

	31/10/2019	**30/06/2019**
Forecast cash receipts-		
Cash flows from operating activities (proceeds net of payments)	101.581	108.286
Dividends	70.000	40.000
Forecast cash payments-		
Capital expenditure & income tax	(75.704)	(66.258)
Financing transactions (principal repayment, interest and dividend payments)	(74.000)	(4.500)
Forecast liquidity at the resolution date	**125.619**	**190.877**

23. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2018 and 2017 is as follows:

Thousands of euros	Subsidised loans (note 25)	Grants relating to assets	Emission allowances (note 18.1)	Other	Total
Balance at 01/01/2017	**546**	**9.125**	**-**	**-**	**9.671**
Changes in consolidation scope	-	792	-	-	792
Emission allowances granted	-	-	547	-	547
Reclassified to profit or loss	(186)	(1.167)	(547)	-	(1.900)
Other	-	-	-	86	86
Balance at 31/12/2017	**360**	**8.750**	**-**	**86**	**9.196**
Additions, new grants (*)	-	92	-	-	92
Emission allowances granted	-	-	924	-	924
Reclassified to profit or loss	(147)	(1.215)	(924)	-	(2.286)
Other	-	-	-	**(86)**	(86)
Balance at 31/12/2018	**213**	**7.627**	**-**	**-**	**7.840**

(*) Net of expenses incurred in obtaining them

The Group has been granted non-repayable grants by several public bodies to finance investments earmarked to enhancing the productive structure with a significant impact on job creation, energy savings and efficiency and recovery of the energy generated.

In addition, the Group has been extended loans on advantageous rates of interest with terms of up to 10 years. These loans finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp biofactories as well as the Group's research and development work.

The difference between market rates and the subsidised rate as per the loan agreement is considered a grant and is recycled to the consolidated income statement over the life of the loans on a systematic financial basis (note 25).

In 2018, the Group was awarded €2,132 thousand of aid by IDEA (acronym in Spanish for the energy savings and diversification institute) to fund projects which lead to significant energy savings. That aid will be received once the related investments and projects have been executed.

24. Provisions, impairment charges, guarantees and contingent liabilities

24.1 Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions in 2018 and 2017 is as follows:

31 December 2018	Thousands of euros				
	Balance at 01/01/2018	Additions/ (charges)	Derecognitions or decreases	Changes to consolidation scope (note 2)	Balance at 31/12/2018
Non-current:					
Employee commitments (note 11.2)	1.590	277	-	-	-
Onerous contracts (note 18)	491	-	(491)	-	-
Discontinuation of pulp production in Huelva	453	-	(394)	-	59
Dismantling provision	-	14	-	9.141	9.155
Other provisions (note 12)	1.633	2.367	(927)	-	3.073
	4.167	**2.658**	**(1.812)**	**9.141**	**12.287**
Current					
Employee commitments (note 11.2)	-	(66)	-	-	1.801
Emission allowances (note 18)	2.351	3.089	(2.351)	-	3.089
Discontinuation of pulp production in Huelva	4.735	-	(2.968)	-	1.767
Pontevedra Environmental Pact (note 30)		5.000			5.000
Other provisions (note 12)	-	10.700	-	-	10.700
	7.086	**18.723**	**(5.319)**	**-**	**22.357**

31 December 2017	Thousands of euros				
	Balance at 01/01/2017	Additions/ (charges)	Derecognitions or decreases	Changes to consolidation scope (note 2)	Balance at 31/12/2017
Non-current:					
Employee commitments (note 11.2)	295	1.295	-	-	1.590
Emission allowances (note 18)	1.605	-	(1.605)	-	-
Onerous contracts (note 18)	2.190	-	(1.699)	-	491
Discontinuation of pulp production in Huelva	453	-	-	-	453
Other	1.624	591	(582)	-	1.633
	6.167	**1.886**	**(3.886)**	**-**	**4.167**
Current					
Emission allowances (note 18)	-	2.136	-	215	2.351
Discontinuation of pulp production in Huelva	4.626	1.466	(1.357)	-	4.735
	4.626	**3.602**	**(1.357)**	**215**	**7.086**

The solar thermal power generation plant consolidated by the ENCE Group for the first time in 2018 is located on a leased property where a series of dismantling costs are contemplated at the end of the plant's useful life. The line item “Dismantling provision” recognises the present value of the estimated cost of that work, discounted at a rate of 2% - 3%.

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

24.2 Guarantees extended to third parties

At 31 December 2018, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €67,199 thousand (€52,485 thousand at 31 December 2017), as broken down in the table below.

	Thousands of euros
Permitting of grid access for power plants	27.257
Subsidised loans	7.306
Receivables discounting lines	7.000
Participation in irrigation community works	5.074
Tax claims (note 24.3)	4.836
Execution of forest projects	3.674
Pontevedra concession	3.050
Electricity market security deposit	2.101
Environmental	1.598
Payments to suppliers	1.406
Puertollano works performance bond	1.241
Other	2.655
	67.199

The directors do not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

24.3 Contingent assets and liabilities

At year-end 2018, the Group is party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below:

<u>Energy sector regulations in Spain – Energy crops</u>

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.

These new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to abandon the management of its energy crop plantations in an orderly fashion, a process it concluded in 2015. Moreover, the regulatory changes were undertaken without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment and recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

On 14 and 31 July 2014, several Group companies filed a claim against the Spanish state, specifically seeking an award of €60,330 thousand for damages caused by the retroactive application of the new regulatory regime applicable to the generation of power using biomass obtained from energy crops. The claim was substantiated with an expert report which was presented on 5 December 2017.

The administration has yet to rule on the claim seeking damages from the state.

Energy sector regulations in Spain – Recovery of lignin

On 30 July 2014, a challenge was lodged before appeal court no. three of the Supreme Court against Royal Decree 413/2014 (6 June 2014), regulating the production of electric power using renewable sources, co-generation and waste, and 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.

On 19 May 2016, ENCE formally presented a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of its lignin, the fuel used in the Group's existing co-generation plants integrated within its pulp operations and, by extension, an update of the remuneration parameters in order to reflect these real costs.

The Supreme Court issued its ruling on 27 February 2018. Two of the five magistrates voted against the Company's interests, so that ENCE's appeals against the above-mentioned Royal Decree and Ministerial Order have been dismissed. Supreme Court rulings cannot be appealed.

Pontevedra public-domain concession

As a result of a Supreme Court ruling dated 11 July 2014 (upholding a ruling issued by the Appellate Court on 19 May 2011), the Pontevedra Provincial Coastal Service initiated proceedings seeking termination of the concession for the use of the public-domain coastal land on which ENCE's factory in this Spanish province sits.

This case was resolved by means of a resolution of the-then Ministry for Agriculture, Food and the Environment on 24 July 2015. That resolution declared the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant, the underwater discharge pipeline and the football pitch, enabling the continuation of ENCE's activities at the Pontevedra Operations Centre.

The 24 July 2015 resolution has been challenged by the town council of Pontevedra and a local association, *Asociación pola Defensa da Ría de Pontevedra*, before the National Appellate Court (Chamber for Contentious Administrative Proceedings), giving rise to two separate proceedings. In both cases ENCE is acting as co-defendant, upholding the legality of the Ministry's actions. The proceedings brought by *Asociación pola Defensa da Ría de Pontevedra* are ongoing. As for the second set of proceedings, appeal no. 85/2016, brought by the town council of Pontevedra, seeking a full concession termination declaration, was dismissed by section four of the National Appellate Court on 7 December 2018. That sentence can be appealed.

Subsequently, the Ministry issued another resolution on 20 January 2016 granting the extension of the concession for a total term of 60 years (10 years of which subject to the performance of specific investments in the energy efficiency, water savings and environmental areas). That resolution has also been challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two environmentalist associations: Green Peace Spain and *Asociación pola Defensa da Ría de Pontevedra*.

Those challenges have given rise to four consecutive court proceedings before the the National Appellate Court (Chamber for Contentious Administrative Proceedings), two of which have since been rolled into one, leaving three. ENCE has appeared in court in all the cases in its capacity as co-defendant, arguing the legality of the actions of the Ministry in extending the concession. Those proceedings remain ongoing.

The Group's legal services believe that there are no grounds for the appeals and that their resolution will not have a significant impact on these consolidated financial statements.

Tax contingencies

The Spanish tax authorities concluded several tax inspections encompassing several Group companies during the first half of 2013. As a result of that process, the income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-payment interest of €6,730 thousand (in the opinion of the inspection team, the object of the assessments is not subject to fine), were signed under protest; of this balance, just €4,037 thousand would result in an outflow of cash.

ENCE appealed the assessments before the National Economic-Administrative Court, which rejected its appeal on 16 June 2016. ENCE has since lodged a new appeal against this ruling before the National Appellate Court, which is still pending resolution.

In the opinion of ENCE and its tax advisors, there are solid arguments in favour of a positive ruling on the appeals lodged before the latter court, which is why it has not recognised any provision in this respect.

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

Several ENCE Group companies have paid and subsequently claimed (firstly before the tax authorities and subsequently before the National Economic-Administrative Court) the reimbursement of sums unduly paid in the returns corresponding to the generation levy in 2013-2017, based on the grounds that the tax in question is not environmental in purpose and the fact that the regulations governing the tax go against European Community law and the principles of legal certainty, equality, ability to pay and non-confiscatory taxation enshrined in the Spanish Constitution. The amount being sought amounted to €52.1 million at 31 December 2018.

25. Financial instruments

25.1 Financial instruments by category

The table below reconciles the Group’s financial instruments by category and the consolidated statement of financial position headings:

2018 Thousands of euros	Note	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total at 31/12/2018
Derivative financial instruments	26	-	268	-	268
Trade and other receivables	19	106.922	-	-	106.922
Other financial assets	25.6	15.682	-	-	15.682
Cash and cash equivalents	25.5	348.623	-	-	348.623
Total financial assets		**471.227**	**268**	**-**	**471.495**
Derivative financial instruments	26	-	23.649	-	23.649
Trade payables	20	235.024	-	-	235.024
Other accounts payable	25.4	12.665	-	6.300	18.965
Bonds and other marketable securities	25.2	236.162	-	-	236.162
Bank borrowings	25.2	370.815	-	-	370.815
Other financial liabilities	25.3	48.692	-	-	48.692
Total financial liabilities		**903.358**	**23.649**	**6.300**	**933.307**

2017 Thousands of euros	Note	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total at 31/12/2017
Derivative financial instruments	26	-	14.344	1.682	16.026
Trade and other receivables	19	105.852	-	919	106.771
Other financial assets	25.5	10.495	-	-	10.495
Cash and cash equivalents	25.4	270.528	-	-	270.528
Total financial assets		**386.875**	**14.344**	**2.601**	**403.820**
Derivative financial instruments	26	-	5.812	-	5.812
Trade payables	20	168.636	-	-	168.636
Bonds and other marketable securities	25.2	293.558	-	-	293.558
Bank borrowings	25.2	115.453	-	-	115.453
Other financial liabilities	25.3	21.052	-	-	21.052
Total financial liabilities		**598.699**	**5.812**	**-**	**604.511**

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable either directly or indirectly using valuation techniques (note 4.8).

The convertible bonds issued by ENCE in 2018 were trading at 105.669% of par at 31 December 2018. The fair value of the rest of the Group's financial assets and liabilities is not significantly different from their carrying amounts.

25.2 Bank borrowings and capital markets issues

The breakdown of bank borrowings at 31 December 2018 and 2017 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

			Maturity					
			Current	Non-current				
Year-end 2018 - Thousands of euros	Limit	Drawn	2019	2020	2021	2022	Beyond	Total non-current
Borrowings - Pulp business								
Notes issued	147.694	147.694	-	-	-	-	147.694	147.694
Revolving credit facility	70.000	-	-	-	-	-	-	-
Bank loans	110.000	110.000	-	4.075	22.925	35.574	47.426	110.000
Arrangement fees	-	(2.250)	-	(552)	(561)	(570)	(640)	(2.323)
Interest and coupons payable and other	-	892	892	-	-	-	-	-
	327.694	**256.336**	**892**	**3.523**	**22.364**	**35.004**	**194.480**	**255.371**
Borrowings - Renewable Energy business								
Notes issued	93.000	93.000	-	-	-	-	93.000	93.000
Revolving credit facility	20.000	-	-	-	-	-	-	-
Bank loans	285.500	264.000	153.000	16.100	22.400	22.400	50.100	111.000
Arrangement fees	-	(6.493)	(1.375)	(1.136)	(1.009)	(793)	(2.180)	(5.118)
Interest and coupons payable and other	-	134	134	-	-	-	-	-
	398.500	**350.641**	**151.759**	**14.964**	**21.391**	**21.607**	**140.920**	**198.882**
	726.194	**606.977**	**152.651**	**18.487**	**43.755**	**56.611**	**335.400**	**454.253**

Year-end 2017 - Thousands of euros	Limit	Drawn	Maturity - Current 2018	Non-current 2019	2020	2021	Beyond	Total non-current
Borrowings - Pulp Business								
High-yield bond	250.000	250.000	-	-	-	-	250.000	250.000
Revolving credit facility	90.000	-	-	-	-	-	-	-
Bank loans	25.714	25.714	4.286	19.286	2.143	-	-	21.429
Arrangement fees	-	(5.390)	-	(1.063)	(1.125)	(1.190)	(2.012)	(5.390)
Interest and coupons payable and other	-	2.415	2.415	-	-	-	-	-
	365.714	**272.739**	**6.701**	**18.223**	**1.018**	**(1.190)**	**247.988**	**266.039**
Borrowings - Renewable Energy business								
Notes issued	50.000	50.000	-	-	-	-	50.000	50.000
Revolving credit facility	20.000	-	-	-	-	-	-	-
Bank loans	150.000	90.000	7.000	14.000	17.000	26.000	26.000	83.000
Arrangement fees	-	(3.759)	-	(531)	(565)	(486)	(2.177)	(3.759)
Interest and coupons payable and other	-	30	30	-	-	-	-	-
	220.000	**136.271**	**7.030**	**13.469**	**16.435**	**25.514**	**73.823**	**129.241**
	585.714	**409.010**	**13.731**	**31.692**	**17.453**	**24.324**	**321.811**	**395.280**

Going forward, debt service payments in the Pulp business, assuming current borrowing levels, will be approximately €4.2 million to €4.7 million per annum. In the Renewable Energy business, those future payments are estimated at approximately €4.8 to €7.2 million (excluding the financing taken on fund the Termollano acquisition).

In addition, the Group has receivables factoring facilities with a limit of €95,000 thousand (note 19) and reverse factoring lines with a limit of €147,000 thousand (note 20).

The items necessary to reconcile the change in borrowings (bank borrowings, capital markets issues and other financial liabilities) presented in the statement of financial position at year-end 2018 and the consolidated statement of cash flows heading “Proceeds from and repayment of financial liabilities” are mainly arrangement fees recognised in profit and loss and interest accrued and outstanding.

Borrowings - Pulp business

Convertible bond issue and revolving credit facility

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

The main terms and conditions of the issue:

Issue size:	160.000.000 €
Face value:	100.000 €
Ranking:	Senior unsecured
Issue date:	05/03/2018
Maturity:	05/03/2023
Coupon:	1,25%
Effective interest rate:	1,58%
Conversion price:	7,2635
Conversion premium:	40%
Conversion ratio (shares / bond)	13.767
Maximum no. of shares to be iss	22.027.948
Potential dilution (% increase in	8,21%
Traded on:	Frankfurt stock exchange
ISIN:	XS1783932863
Issuance costs:	2.075.000 €

The bondholders are entitled to exercise their conversion rights at any time. ENCE, meanwhile, is entitled to prepay the issue at any time after 26 March 2021, so long as ENCE's share price exceeds €9.443 during a set period of time and at any time if 15% or less of the bonds remain outstanding.

The terms and conditions include, as is customary in convertible bond issues, a change of control clause (triggered in the event of the acquisition of 50% of more of the Company's voting shares or obtention of the right to appoint a majority of directors) entitling the bondholders to call the conversion of the bonds at a price that varies depending on the remaining term to maturity but subject to a minimum equivalent to par value. Other clauses have the effect of potentially adjusting the conversion price as a function of the dividends paid out by ENCE annually.

The convertible bonds are unsecured and imply no restrictions on the use of capital. The bonds rank *pari passu* with the rest of the Company's unsecured and unsubordinated borrowings. In July 2018, at the general meeting of bondholders, it was agreed, the required quorums having been met, to amend some of the terms and conditions in order to bring them in line with customary practice for issues of this kind in the euromarket.

Having analysed the terms and conditions, ENCE has concluded that it constitutes a compound instrument and measured the equity component at the time of issuance at €14,551 thousand and the liability component at €145,449 thousand, which is equivalent to an estimated coupon for a bond of similar characteristics with no conversion option of 3.25%. If the bondholders want to be repaid in cash they are only entitled to the bonds' par value plus any accrued and unpaid interest. All other cancellation options contemplate settlement in shares, applying the 'fixed-for-fixed' rule. This financing meets the requirements for recognition as new financing rather than the modification of existing financing.

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

The proceeds from the issue were used to prepay, on 1 June 2018, the €250 million of non-convertible bonds issued on 30 October 2015 and to cover general corporate needs in the Pulp Business.

Against this backdrop, on 1 June 2018, ENCE voluntarily prepaid 100% of the €250 million of high-yield bonds it had issued in 2015; those bonds accrued interest at 5.375% and were originally due on 22 November 2022. The costs associated with their prepayment totalled €18,775 thousand (note 13).

In parallel, ENCE cancelled the revolving credit facility arranged in conjunction with the high-yield bonds with a syndicate of Spanish and international banks. That facility had a limit of €90 million and was originally due in 2021.

Loans

ENCE arranged several loans during 2018. Their main terms and conditions:

	Loan A (*)	Loan B	Loan C	Loan D	Loan E
Grant	28/05/2018	09/05/2018	12/12/2018	21/12/2018	12/12/2018
Maturity	03/02/2023	09/05/2023	12/12/2023	21/12/2023	12/12/2023
Grace period (years)	3	2	3	4	3
Face value (€ 000)	20.000	25.000	25.000	20.000	20.000
Interest rate	Euribor + 1.35%	1,78%	1,80%	1,75%	1,90%

(*) The interest rate on the facility may vary annually as a function of the Sustainalytics environmental sustainability rating obtained by ENCE.

Several Group companies belonging to the Pulp business are guarantors on these loans.

The new loans were arranged to finance certain of the investments contemplated in the Group's 2019-2023 Business Plan and to repay two loans: the first presented an outstanding balance of €15,000 at 30 April 2018 and was due on 24 March 2019; the second presented an outstanding balance of €10,714 thousand and was due on 30 June 2020; they carried interest at Euribor plus 2.1% and at a fixed rate of 2.1%, respectively. Several Group companies belonging to the Pulp business were guarantors on those refinanced loans. That financing also meets the requirements for recognition as new financing rather than the modification of existing financing.

Borrowings - Renewable Energy business

Recourse borrowings

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

On 8 December 2018, Ence Energía, S.L., the holding company for the Renewable Energy business, arranged to increase the limit on that senior loan by €17 million and placed €43 million of notes in a private placement which was subscribed by two fixed-income funds. The size of that loan was increased in order to finance the new 50-MW biomass power facility being built by ENCE in Puertollano (note 15).

The breakdown of those loans is as follows:

	Thousands of euros			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	50.000	50.000	Dec. 2025 (ii)	3,45%
Tranche 1	77.000	77.000	Dec 2024	1.75% - 3.25%
Tranche 2	6.000	6.000	Dec. 2025 (ii)	3,45%
Tranche 3 (iii)	60.000	42.000	Dec 2024	1.75% - 3.25%
Tranche 4	20.000	-	Dec 2024	1.25% - 2.75%
Senior notes (iv)	43.000	43.000	Dec. 2025 (ii)	3,45%
Tranche 5	17.000	-	Dec 2025	1.75% - 3.25%
	273.000	**218.000**		

(i) Except for the bonds/notes that carry a fixed rate of interest, the rate is Euribor plus a spread which varies depending on the leverage ratio (net debt / EBITDA) in the Renewable Energy business.
(ii) Due in a single bullet payment on the date indicated.
(iii) Finances the ongoing construction of a 46-MW biomass power plant in Huelva.
(iv) Those notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).

This financing is secured mainly by pledges over the shares in ENCE Energía Huelva, S.L.U., ENCE Energía Extremadura, S.L.U., Ence Energía Huelva 2 S.L.U, Celulosa Energía S.L.U., Bioenergía Santamaría S.L.U., Energías de la Mancha ENEMAN, S.A. and Energía de La Loma S.A., as well as their current and future assets and credit claims. That means that the solar thermal plant acquired in October 2018 (note 2) is excluded from the Pulp business's guarantee structure.

The financing similarly includes certain obligations, which are customary in these types of facilities, mainly related to the disclosure of specific business and financial information, compliance with certain solvency and profitability financial ratios and a requirement to maintain a minimum biomass stock buffer (warehoused and supply agreements), equivalent to three months' consumption.

The covenants also stipulate a minimum cash sweep in the Renewable Energy business of €34.4 million, including any amounts drawn down under tranche 4, compliance with certain ratios related with the business's leverage, financial position and cash flow generation capabilities and certain restrictions regarding the payment of dividends and ability to secure additional financing.

The arrangement and other fees incurred in obtaining this financing totalled €2,059 thousand in 2018 (2017: €3,754 thousand).

In order to hedge the risk deriving from this floating-rate facility, ENCE has restructured the hedge agreements it had arranged for the purposes of its previous facilities. The new interest-rate swaps cover 83% of the financing drawn down and lock in an average rate of 1.34% (note 26).

Standard & Poor's has assigned the Renewable Energy business's loan - considered "green" finance, an E1 rating, the highest score on its Green Evaluation spectrum.

Bridge loan – Solar thermal plant in Puertollano

On 30 November 2018, Ence Energía Solar, S.L.U., 100% owned by ENCE Energía, S.L.U., arranged a €139 million loan due 30 November 2019 with a bank in order to temporarily finance the acquisition of a 50-MW solar thermal power plant located in Puertollano (Ciudad Real) (note 2). During the course of 2019, that bridge loan will be taken out by a new facility tailored in terms of size and maturity schedule to that plant's cash generation capabilities.

The breakdown of the bridge loan is as follows:

	Thousands of euros			Interest
	Undrawn	Drawn	Maturity	rate
Tranche 1	93.100	93.100	Nov 2019	1m Euribor + 1% - 2.5%
Tranche 2	45.900	45.900	Jan 2019	1m Euribor + 1%
	139.000	**139.000**		

(*) Tranche 2 was repaid in January 2019

The commissions paid in 2018 to arrange the bridge loan totalled €2,240 thousand.

The bridge loan includes guarantees related exclusively to the asset it finances, including a pledge over 90% of the shares of ENCE Energía Termollano, S.A. (the plant owner), over 100% of the shares of ENCE Energía Solar, S.L.U., and over its current and future assets and credit claims. Lastly, the bridge loan includes certain customary business and financial disclosure obligations.

Financing cancelled in 2017

The corporate financing obtained by the Renewable Energy business in 2018 was mainly used to cancel the business's existing borrowings:

- The syndicated loan in the form of a project finance facility in the amount of €135,018 thousand. That facility was structured into two tranches of €96,531 thousand and €38,487 thousand, which were assigned to the 50-MW Huelva and 20-MW Merida power plants, respectively. It was due on 30 December 2024 and accrued interest at a floating rate benchmarked to Euribor plus a spread ranging between 2.50% and 3.00%, depending on the years elapsing from the loan's arrangement. The arrangement fees paid in 2015 in connection with this facility amounted to €2,540 thousand.

- Two separate €7,500 thousand loans due 29 December 2021 and 2023, respectively, carrying interest at Euribor plus spreads of 1.9% and 2.25%, respectively.

25.3 Other financial liabilities

The breakdown of these liabilities at year-end:

		Maturity					
		Current	Non-current				
Year-end 2018 - Thousands of euros	Drawn down	2019	2020	2021	2022	Beyond	Total non-current
Other financial liabilities - Pulp business							
Financing granted by public organisms	39.600	2.408	3.340	3.392	5.848	24.613	37.192
Other	2.089	2.089					
	41.689	**4.497**	**3.340**	**3.392**	**5.848**	**24.613**	**37.192**
Other financial liabilities - Renewable Energy business							
Financing extended by NCI	7.002	437	437	437	437	5.254	6.566
	7.002	**437**	**437**	**437**	**437**	**5.254**	**6.566**
	48.692	**4.934**	**3.777**	**3.829**	**6.285**	**29.866**	**43.758**

		Maturity					
		Current	Non-current				
Year-end 2017 - Thousands of euros	Drawn down	2018	2019	2020	2021	Beyond	Total non-current
Other financial liabilities - Pulp business							
Financing granted by public organisms	21.052	1.457	1.185	3.340	3.392	11.678	19.595
	21.052	**1.457**	**1.185**	**3.340**	**3.392**	**11.678**	**19.595**

The line item "Financing granted by public organisms" corresponds mainly to loans obtained, usually at advantageous rates, to finance projects undertaken by ENCE to expand and upgrade the productive capacity of its pulp biofactories, as well as its research and development work.

Most are loans extended under the scope of the so-called Re-industrialisation and Manufacturing Competitiveness Stimulus Programme and the proceeds are being used to finance certain investments at the Pontevedra and Navia pulp biofactories. The loans are repayable over a 10-year term and bear interest at fixed rates ranging between 2.20% and 2.29%. There is a three-year grace period.

The line item "Financing extended by NCI" includes loans awarded by IDEA, a minority shareholder in Ence Energía Termollano, S.A., which is not eliminated upon consolidation. That loan falls due on 31 December 2034, is repayable in equal instalments throughout and accrues interest at Euribor plus a spread of 2%.

25.4 Other non-current liabilities

The breakdown of these liabilities at year-end:

Year-end 2018 - Thousands of euros	Drawn down	2020	2021	2022	Beyond
Other non-current liabilities - Pulp business					
Adjustments for tariff shortfall	2.608	104	111	119	2.274
	2.608	**104**	**111**	**119**	**2.274**
Other non-current liabilities - Renewable Energy business					
Adjustments for tariff shortfall	10.057	665	714	767	7.911
Other (note 2)	6.300	6.300	-	-	-
	16.357	**6.965**	**714**	**767**	**7.911**
	18.965	**7.069**	**825**	**886**	**10.185**

The line items "Other non-current liabilities" ("Other financial assets" at year-end 2017) and "Trade and other receivables" on the accompanying consolidated statement of financial position include the Group's payment obligation/credit claim vis-a-vis 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 'Adjustments for tariff shortfall/surplus' concept (notes 5 and 9).

As provided for in that piece of legislation, the balance corresponding to the 2014-2016 regulatory stub period will be collected, as a general rule, over the remaining useful lives, for regulatory purposes, of the power generation and co-generation plants, earning interest at a rate of 7.398%.

25.5 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. These assets earned an average rate of 0.01% in 2018 (0.01% in 2017).

The Group had €348,623 thousand of cash and cash equivalents at 31 December 2018 (€148,161 thousand of which corresponding to the Pulp business and €200,462 thousand to the Renewable Energy business).

In assessing the availability of the Group's cash, readers should note that the financing taken on by the Renewable Energy business requires it to maintain a minimum cash balance of €14.3 million, a sum that could rise to €34.4 million depending on the extent to which it uses the credit facility contemplated in tranche 4.

The year-end 2018 statement of financial position includes €3,459 thousand of cash denominated in US dollars (year-end 2017: €4,138 thousand).

25.6 Other financial assets

The breakdown of this consolidated statement of financial position heading at year-end:

Thousands of euros	31/12/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Adjustments for tariff shortfall/surplus (note 25.4)	-	-	-	2.479
Guarantee securing future purchase of emission allowances	-	-	4.028	-
ENCE's share liquidity agreement (note 21.7)	295	-	1.248	-
Account receivable from Iberdrola - Regulator claim (note 2)	-	11.787	-	-
Deposits, guarantees and other	1.929	1.671	1.099	1.641
	2.224	**13.458**	**6.375**	**4.120**

25.7 Corporate credit ratings

Standard & Poor's improved its long-term credit rating of ENCE to BB with a stable outlook (from BB-) on 27 April 2018. Moodys, meanwhile, improved its long-term credit rating to Ba2 on 28 May 2018 (from Ba3), similarly assigning a stable outlook.

26. Derivative financial instruments

In keeping with the financial risk management policy outlined in note 6, the Group arranges derivative financial instruments primarily to hedge its financial risks.

The breakdown of this consolidated statement of financial position heading at 31 December 2018 and 2017 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash flow hedges:								
IR swap	-	-	-	-	6.221	5.608	3.129	2.193
IR swap arrangement fee	-	-	-	-	(1.548)	(1.989)	-	-
Currency hedges	268	2.501	-	13.525	-	-	15.847	-
Total	**268**	**2.501**	**-**	**13.525**	**4.673**	**3.619**	**18.976**	**2.193**

These financial instruments have been measured subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

The changes in the fair value of the derivatives designated as hedging instruments that were reclassified to profit or loss in 2018 and 2017 are shown below:

Thousands of euros - gain/(loss)	2018	2017
Impact on operating profit		
Energy sale hedges	-	(2.411)
Currency hedges	3.734	1.946
Impact on net finance costs		
IR swap	(608)	(3.748)
Total	**3.126**	**(4.213)**

The derivatives arranged by ENCE generally qualify for hedge accounting under the prevailing standard. A residual portion of the derivatives arranged do not qualify for hedge accounting and are measured directly at fair value through profit or loss. These non-hedge derivatives implied an expense of €1,682 thousand in 2018 (2017: gain of 2,014 thousand), which is recognised under "Change in the fair value of financial instruments" in the income statement (note 13).

26.1 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). An analysis at year-end:

Underlying	Maturity	Strike price Call	Strike price Put	Notional amount (USD m)
EUR/USD	1Q18	1,175	1,228	111,6
EUR/USD	2Q18	1,186	1,265	135,6
EUR/USD	3Q18	1,188	1,269	134,5
EUR/USD	4Q18	1,184	1,257	104,0
				485,7
EUR/USD	1Q19	1,155	1,225	65,0
EUR/USD	2Q19	1,153	1,208	25,0
				90,0

The contracts in effect at 31 December 2018 cover approximately 68% and 40% of forecast pulp sales in 2019 and the first half of 2020, respectively, and lock in predictable cash flows in the context of a period of heavy investments by the Group.

These instruments presented a negative market value of €15,579 thousand at 31 December 2018 (a positive market value of €16,026 thousand at year-end 2017).

Considering the hedges arranged at year-end 2018, dollar depreciation of 5% relative to the spot price as at 31 December 2018 would imply a cash inflow of €1,694 thousand in 2019. In contrast, dollar appreciation against the euro of 5% would imply a cash outflow of €70 thousand in 2019.

26.2 Interest rate swaps:

The interest rate derivatives arranged by the Group and outstanding at year-end 2018 and 2017 are shown below:

Thousands of euros	Fair value	Notional amounts at reporting date: 2018	2019	2020	2021	2022	2023 and beyond
2018							
Pulp business	263		20.000	20.000	16.000	4.000	-
Renewable Energy business	9.088		183.550	178.450	158.900	136.800	114.700
2017							
Renewable Energy business	7.801	134.725	151.300	146.200	126.650	104.550	82.450

In order to hedge the interest rate risk associated with the floating-rate financing obtained by the Pulp business, ENCE has arranged an interest-rate swap over 100% of the amounts drawn down, €20 million, locking in a fixed rate of 0.375% (note 25).

In addition, it has arranged interest-rate hedges covering 83% of arranged floating-rate financing locking in a fixed rate of 1.34% (note 25).

The debt associated with the Renewable Energy business was refinanced on 24 November 2017 (note 25). The interest-rate swaps arranged to hedge the refinanced debt were cancelled and new swaps were arranged, tailored for the new facility's repayment regime. The cancellation costs were included in the new hedges' settlement interest rate.

That triggered the discontinuation of the hedge accounting applied up until that juncture. As a result, the fair value loss on those instruments (€3,631 thousand), which was recognised in equity at the time, was reclassified to profit and loss (the loss is recognised under "Change in the fair value of financial instruments") (notes 13 and 25).

Considering the hedges arranged at 31 December 2018, a 10% increase in the Euribor forward curve would imply a cash inflow of €49 thousand in 2019. In contrast, a 10% decline in the Euribor interest rate curve would result in a cash outflow of the same magnitude in 2019.

27. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2017 and 2017 are shown below:

	Thousands of euros			
	31/12/2018		31/12/2017	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	56.477	-	59.783	-
Deferred tax liabilities	-	40.017	-	23.823
Total	**56.477**	**40.017**	**59.783**	**23.823**
Current:				
VAT	14.669	2.789	6.282	3.278
Current tax on profits for the year	1.363	1.828	1.022	437
Electricity levy	357	16	-	4.178
Sundry other taxes	459	5.020	663	4.186
Total	**16.848**	**9.653**	**7.967**	**12.079**

27.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, ENCE Energía y Celulosa, S.A. files its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act, as the parent of Tax Group 149/02, created in 2002.

Application of this regime, on a perpetual basis unless expressly waived, means that the various companies included in this tax group (namely, all the Spanish companies itemised in note 2 in which ENCE has a shareholding of over 75%) do not file their taxes individually.

The statutory income tax rate in Spain is 25%.

Group companies resident in Uruguay and Portugal for tax purposes:

For income tax purposes, the Group companies located in Uruguay pay income tax under the general tax on income from economic activities regime at a statutory rate of 25% of accounting income adjusted for applicable prevailing deductions.

Group company Iberflorestal, S.A., meanwhile, pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 21%.

Tax consolidation group

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the aggregate of the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes, which are then restated for eliminations and adjustments.

27.2 Reconciliation of accounting profit/(loss) to taxable income/(tax loss)

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2018 and 2017 is provided below:

	Thousands of euros	
	2018	**2017**
Profit before tax (*)	173.231	119.871
Permanent differences:		
Arising in profit or loss	1.660	192
Arising in equity	(85)	(81)
Capitalisation reserve	(4.691)	(2.695)
Temporary differences:		
Arising during the current year	14.363	10.459
Arising in prior years	(15.397)	(12.129)
Consolidation adjustments	(2.147)	8.679
Utilisation of tax losses	(40.264)	(30.318)
Taxable income/(tax loss)	**126.670**	**93.978**

(*) Profit before tax was generated exclusively by continuing operations

The temporary differences arise from the recognition of income and expense in different periods due to differences between prevailing accounting and tax legislation. A breakdown of these differences by nature is provided in section 27.4.

27.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to tax income/(expense) in 2018 and 2017 is provided below:

	Thousands of euros	
	2018	**2017**
Profit before tax (*)	173.231	119.871
Permanent differences arising in profit or loss	1.660	192
Capitalisation reserve	(4.691)	(2.695)
Elimination of the accounting profit of entities not resident in Spain	847	944
Consolidation adjustments and eliminations	(3.812)	663
Taxable income/(tax loss)	**167.235**	**118.975**
Tax payable before deductions	**41.809**	**29.744**
Deductions and adjustments in respect of prior year	(292)	(3.555)
Tax corresponding to entities not resident in Spain	43	17
Income tax expense	**41.560**	**26.206**

(*) Profit before tax was generated exclusively by continuing operations

The breakdown of tax expense / (income) in 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Current tax and other	31.153	25.789
Deferred tax	10.407	417
Income tax expense	**41.560**	**26.206**

27.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2018 and 2017 is as follows:

Deferred tax assets

2018	Balance at 31/12/2017	Increases	Decreases	Transfers & other	Additions to scope (note 2)	Balance at 31/12/2018
	Thousands of euros					
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	6.912	-	(940)	(1.032)	616	5.556
Non-current asset impairment	11.304	934	(2.242)	(2.835)	-	7.161
Provisions	1.137	2.677	(561)	(337)	8	2.924
Employee commitments	2.022	175	-	(134)	-	2.063
Current-asset impairment	123	226	(149)	968	-	1.168
Other	-	-	(42)	310	-	268
Non-resident companies and consolidation adjustments	1.073	90	(1.545)	1.564		1.182
Unused tax losses	35.768	-	(10.066)	151	-	25.853
Unused tax credits	1.547	-	(327)	138	3.365	4.723
	59.886	**4.102**	**(15.872)**	**(1.207)**	**3.989**	**50.898**
Deferred tax assets recognised in equity:						
Hedging derivatives (note 26)	(103)	5.682	-	-	-	5.579
	(103)	**5.682**	**-**	**-**	**-**	**5.579**
Total	**59.783**					**56.477**

2017	Balance at 31/12/2016	Increases	Decreases	Transfers & other	Additions to scope (note 2)	Balance at 31/12/2017
	Thousands of euros					
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	7.267	25	(913)	18	515	6.912
Non-current asset impairment	12.682	896	(2.274)	-	-	11.304
Provisions	602	617	(58)	(24)	-	1.137
Employee commitments	694	1.103	(50)	275	-	2.022
Current-asset impairment	714	-	(590)	(1)	-	123
Non-resident companies and consolidation adjustments	1	1.076	(4)		-	1.073
Additions to consolidation scope	587	-	-	(587)	-	-
Unused tax losses	40.735	-	(7.295)	(155)	2.483	35.768
Unused tax credits	969	2.860	(3.165)	883	-	1.547
	64.251	**6.577**	**(14.349)**	**409**	**2.998**	**59.886**
Deferred tax assets recognised in equity:						
Hedging derivatives (note 26)	4.205	81	(102)	(4.287)	-	(103)
	4.205	**81**	**(102)**	**(4.287)**	**-**	**(103)**
Total	**68.456**					**59.783**

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised within a period of approximately 10 years. In making this judgement, management factored in the outlook for the Group's earnings, based on internal projections, as well as the tax rate expected to apply at the time of their realisation.

As provided in Spanish legislation, accredited unused tax losses can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe. Tax assets recognised in respect of unused tax credits, meanwhile, must be utilised within 15 years.

Deferred tax liabilities

2018	Thousands of euros					
	Balance at 31/12/2017	Increases	Decreases	Transfers & other	Additions to scope (note 2)	Balance at 31/12/2018
Deferred tax liabilities recognised in profit or loss:						
Accelerated depreciation	1.462	-	(186)	-	11.897	13.173
Finance costs	-	-	(16)	116	-	100
Consolidation and other adjustments	5.587	510	(1.808)	(304)	5.107	9.092
	7.049	**510**	**(2.010)**	**(188)**	**17.004**	**22.365**
Deferred tax liabilities recognised in equity:						
Revaluation of forest land (note 15)	13.518	-	(8)	-	-	13.510
Hedging derivatives (note 26)	3.271	3.638	(2.968)	-	-	3.941
Consolidation and other adjustments	(15)	340	(312)	188	-	201
	16.774	**3.978**	**(3.288)**	**188**	**-**	**17.652**
Total	**23.823**	**4.488**	**(5.298)**	**-**	**17.004**	**40.017**

2017	Thousands of euros					
	Balance at 31/12/2016	Increases	Decreases	Transfers & other	Additions to scope (note 2)	Balance at 31/12/2017
Deferred tax liabilities recognised in profit or loss:						
Accelerated depreciation	1.651	-	(189)	-	-	1.462
Additions to consolidation scope (note 2)	2.997	-	(260)	(2.737)	-	-
Consolidation and other adjustments	1.781	1.077	(311)	2.737	303	5.587
	6.429	**1.077**	**(760)**	**-**	**303**	**7.049**
Deferred tax liabilities recognised in equity:						
Revaluation of forest land (notes 16 & 22)	13.876	-	(358)	-	-	13.518
Hedging derivatives (note 22)	144	3.492	(189)	(176)	-	3.271
Consolidation and other adjustments	63	505	(1.096)	513	-	(15)
	14.083	**3.997**	**(1.643)**	**337**	**-**	**16.774**
Total	**20.512**	**5.074**	**(2.403)**	**337**	**303**	**23.823**

The Group did not recognise certain deferred tax assets in 2018 and 2017, mainly corresponding to tax losses generated in Uruguay, in the amount of €4 million, and in Portugal, in the amount of €1 million.

27.5 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying consolidated financial statements.

28. Director and key management personnel pay and other benefits

28.1 Compensation paid to the members of the Board of Directors

As stipulated in articles 42 and 43 of the Articles of Association, the directors, in their capacity as members of the Board and in exchange for discharging the supervisory and decision-making duties intrinsic to Board membership, are entitled to receive a fixed annual payment that may not exceed the ceiling established to this end at the Annual General Meeting or in ENCE's Director Remuneration Policy; it is up to ENCE's Board of Directors to determine the precise amount payable within that limit and its distribution among the various directors, factoring in the duties and responsibilities attributed to each, membership of the Board's various committees, the positions discharged by each within the Board and any other circumstances they deem pertinent.

The cap on annual remuneration payable to the directors as a whole in their capacity as such, as set down in the Director Remuneration Policy approved at the Annual General Meeting of 22 March 2018, is €1.9 million.

The remuneration accrued by the members of the Board of Directors in 2018 and 2017 in their capacity as directors:

		Thousands of euros		
2018 - Director	Class of director	Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo	Proprietary	135	107	242
Retos Operativos XXI, S.L.	Proprietary	44	41	85
Pedro Barato Triguero	Other external	44	77	121
Fernando Abril-Martorell Hernández	Other external	44	70	114
José Guillermo Zubía Guinea	Independent	44	96	141
José Carlos del Álamo Jiménez	Independent	44	61	105
Isabel Tocino Biscarolasaga	Independent	44	66	111
Javier Echenique Landiribar	Other external	44	70	115
Víctor de Urrutia Vallejo	Proprietary	44	40	85
Mendibea 2002, S.L.	Proprietary	11	12	23
Luis Lada Díaz	Independent	44	53	97
Rosa María García Piñeiro	Independent	33	30	64
La Fuente Salada, S.L.	Proprietary	33	37	70
Turina 2000, S.L.	Proprietary	44	63	107
Ignacio de Colmenares Brunet	Executive	44	-	44
		702	**823**	**1.525**

2017 - Director	Class of director	Thousands of euros		
		Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo	Proprietary	134	95	229
Retos Operativos XXI, S.L.	Proprietary	44	31	75
Pedro Barato Triguero	Independent	44	275	319
Fernando Abril-Martorell Hernández	Other external	44	59	103
José Guillermo Zubía Guinea	Independent	44	78	122
José Carlos de Álamo Jiménez	Independent	44	57	101
Pascual Fernández Martínez	Proprietary	44	45	89
Isabel Tocino Biscarolasaga	Independent	44	42	86
Javier Echenique Landiribar	Other external	44	51	95
Víctor de Urrutia Vallejo	Proprietary	44	35	79
Mendibea 2002, S.L.	Proprietary	44	33	77
Luis Lada Díaz	Independent	44	35	79
Ignacio de Colmenares Brunet	Executive	44	-	44
		662	**836**	**1.498**

The non-executive directors only receive the fixed remuneration and *per diems* indicated in the table above; 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 (the risk of permanent disability only covers directors up to the age of 75). In addition, it offers its directors and their spouses an annual medical check-up. It also has a health insurance policy in the name of the Chairman of the Board of Directors.

ENCE has not extended its directors any advances or loans.

The directors did not conclude any transactions with ENCE or any its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis in either 2018 or 2017.

ENCE has no pension or alternative insurance related obligations to its directors. However, the Chief Executive Officer (CEO), by virtue of his service agreement, enjoys certain company benefits, which are included in the corresponding pension contributions and payments.

28.2 Key management personnel and their pay

Key management personnel comprise the officers who report directly to the Company's CEO or sit on the Management Committee, as well as the head of the Internal Audit function and any other executives the Board of Directors deems as such. Below is a list of the Group's key management personnel:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Alfredo Avello de la Peña	Director of Finance and Corporate Development Officer
Jordi Aguiló Jubierre (*)	Pulp Operations Officer
Jaime Argüelles Álvarez (*)	Pulp Operations Officer
Felipe Torroba Maestroni (*)	Independent Energy Plants Officer
Alvaro Eza Bernaola	Supply Chain Officer
Reyes Cerezo Rodríguez-Sedano	General Secretary
Modesto Saiz Suárez (*)	Director of Pulp Sales and Logistics
María José Zueras Saludas	Human Capital Officer
Joaquín Bohórquez Crespi de Valldaura	Director of Strategic Forest Investments
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer
Ángel J. Mosquera López-Leyton	Internal Audit Director

(*) Joaquín Bohórquez Crespi de Valldaura joined as General Manager on 21 May 2018. It was decided to add Felipe Torroba Maestroni as Independent Energy Plants Officer (a position held until then by Jordi Aguiló Jubierre) and Modesto Saiz Suárez as Pulp Sales and Logistics Director to the Management Committee on 1 October 2018. Jordi Aguiló Jubierre was named Pulp Operations Officer on 8 October 2018, replacing Jaime Argüelles Álvarez, who left ENCE for personal reasons.

The total remuneration accrued by the members of the Management Committee in 2018, including that accrued for the vice-chairmanship and chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement, totalled €4,939 thousand (2017: €4,388 thousand). The breakdown of the remuneration received by the CEO in exchange for performance of his executive duties is provided in the Annual Report on Director Remuneration.

“Key management personnel” remuneration includes the fixed and variable remuneration corresponding to 2018. Elsewhere, the Company provides the members of its Management Committee with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up. The contracts with the Pulp Operations Officer, the Independent Energy Plants Officer and the Supply Chain Officer include non-compete clauses ranging between one and two year vis-a-vis firms and activities considered analogous to those of ENCE.

The CEO and the members of the Management Committee enjoy certain company benefits, including mixed savings, life and accident insurance coverage. In terms of the savings portion of the policy, the beneficiaries contribute 1% of their fixed remuneration to the plan and the Company contributes an additional amount equivalent to 5.25% of the latter; the risk component is borne 50/50. The contingencies covered by the insurance include retirement, total permanent disability, full permanent disability, severe disability and death. The sum of capital underwritten is equivalent to 35 times' their fixed monthly remuneration (twice that in the event the contingencies result from an accident).

The CEO is entitled to a termination benefit equivalent to one year's pay if the Company terminates his contract, unless the termination is the result of a breach attributable to him or he decides to leave totally voluntarily (two years' pay in the event of a change of control). The same agreement includes a two-year non-compete clause. The CEO's remuneration also includes the premium paid for a retirement insurance policy in his name. The benefit payable under this plan is one year's remuneration, to be received upon termination of his contract, so long as this happens at the age of 62 or over.

Lastly, the Vice-Chairman and CEO and the key management personnel are beneficiaries of the "Long-term Bonus Plan of ENCE, Energía y Celulosa, S.A. for 2016-2018" (note 11).

28.3 Additional considerations

The composition of ENCE's Board of Directors underwent certain changes in 2018: Rosa María García Piñeiro joined the board; the legal person director Mendibea 2002, S.L. was replaced by legal person director La Fuente Salada, S.L., represented in both instances by José Ignacio Comenge Sánchez-Real; and Javier Arregui Abendivar stepped down as the natural person representing Turina 2000, S.L. and was replaced by Gorka Arregui Abendivar.

The composition of the Board of Directors changed as follows in 2017: Turina 2000, S.L., represented by Javier Arregui Abendivar, joined the board, and Pascual Fernández Martínez stepped down.

Note that, as per the notifications provided in this respect by the members of the Board of Directors, no direct or indirect conflicts of interest arose during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

29. Related-party transactions

The Company entered into the following transactions with related parties in 2018 and 2017:

		Thousands of euros	
Related party	Description	2018	2017
Pedro Barato Triguero	Services provision	167	-
Grupo Foresta	Purchase of biomass	-	163

These transactions were arranged on an arm's length basis. Note that the transaction with Grupo Foresta is related to agreements signed on 20 December 2012 and that corresponding to Pedro Barato is related with the services provision agreement executed on 1 March 2018.

30. Environmental management

ENCE is Europe's leading producer of eucalyptus pulp and Spain's number-one producer of renewable power from biomass; it is also the leading private forest manager in Spain.

ENCE understands and embraces its environmental responsibilities and embeds them into the Company's vision, mission and values and the policies set down in its Sustainability Policy: "We pursue our business activities in a socially responsible manner and/or make sure that they are pursued by others with similar rigour. We are respectful of the environment, minimising the consumption or incorrect use of resources of all kinds and we take as many measures as are within our reach to reduce the environmental impact of our activities in terms of waste, emissions, discharges, noise, biodiversity, etc."

That commitment translates into significant investments to introduce prevailing best available techniques and improve process efficiency. It also translates into an unwavering effort to continually improve ENCE's environmental performance which is spearheaded by its senior management and shared by the entire organisation.

As an organisation that is firmly committed to sustainability and its surroundings, ENCE embeds its environmental commitments into every link in its value chain, from its forestry activities to its pulp production and renewable energy generation activities, emphasising the potential environmental ramifications of its activities and mindful of global challenges such as climate change.

Framed by its aspiration to make a real contribution to protecting the environment, the Company's environmental management efforts go beyond compliance with prevailing legislation. ENCE implemented its total quality management (TQM) model as the means to cultural and management practice transformation in 2011. ENCE has also developed a proprietary management excellence model which has been implemented on the basis of a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to health and safety, environmental protection, pollution prevention and product quality and customer service as one.

The TQM model is structured around three key lines of initiative ("Managing improvement", "Managing processes" and "Managing day-to-day activities") which make the model easier to understand and implement. The model further establishes a series of fundamental improvement targets that are clearly focused on the environment:

- Reducing odour pollution
- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing the consumption of raw materials
- Cutting waste generation

Environmental management systems

At its biofactories in Pontevedra and Navia and the operations centre in Huelva, ENCE has developed an integrated management system with the overriding goal of ensuring that all of the Company's activities are carried out under the scope of the management policy set by senior management and the defined targets and goals are met. This integrated system is certified by an accredited external organism which audits it annually. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement.

The integrated management system complies with the following international standards:

- **UNE-EN-ISO 9001** (quality management)
- **UNE-EN-ISO 14001** (environmental management)
- **OHSAS 18001** (workplace health and safety management)

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.

Environmental regulations

ENCE's environmental management commitment is based on rigorous and exhaustive compliance with prevailing legislation, which establishes the requirements with which all activities related with pulp production and energy generation from renewable sources must comply.

All of its operations centres hold the integrated environmental permits required for the pursuit of their industrial activities.

The integrated environmental permits held by each of the biofactories and energy plants establish the environmental requirements for industrial facilities. The goal is to prevent, or at least minimise, and control air, water and soil emissions with a view to protecting the environment as a whole.

To this end, the permits set emission limits for each facility based on best available techniques as well as surveillance plans in respect of all relevant environmental parameters. ENCE avails of all measures within its reach to meet or even surpass the limits set in the permits and reports to the corresponding authorities on its performance in this respect on a timely basis.

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. To this end, under the scope of the TQM model, it has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

These achievements are the result of the commitment of all the people working at ENCE and the investment effort undertaken by the Company in recent years, underpinned by implementation of the best available techniques (BAT) and best environmental practices (BEP) defined in two BREFs: the 'Best Available Techniques Reference Document for the pulp and paper industry, 2014' and the 'Best Available Techniques Reference Document for large combustion plants, 2017', both of which approved by the European Parliament's ENVI Committee.

By way of example of what can be achieved by means of environmental excellence, the pulp produced in Pontevedra and Navia has carried the Nordic Swan seal (the official Scandinavian ecolabel, created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway) certifying compliance with the most stringent environmental standards since 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.

Obtained following a rigorous assessment of the environmental impact of the Company's products throughout their entire life cycle, this ecolabel promises compliance with the seal's stringent requirements in the areas of climate change mitigation, energy efficiency and resource consumption (water, chemical products and raw materials).

30.1 Pulp business

The Navia and Pontevedra biofactories epitomise the circular economy concept. The manufacturing process starts in the forest plantations, where FSC certification is championed. Maximum use is made of the forest plantations. The trunks, mainly from eucalyptus trees, are used to produce the cellulose used to make pulp for paper. The bark and lignin are used to generate steam and power in the production process. In addition, the chemical products used in the production process are reused in the recovery furnaces.

The water used in the process is treated. The sludge generated enters back into the production system as a source of fuel.

The industrial waste generated during the production process is used to make flooring.

Navia biofactory

The Navia biofactory is in the midst of an ambitious project designed to upgrade and optimise the facility's technology. That project includes implementation of best available practices in a significant number of productive processes that will in turn lead to an increase in capacity which is expected to be commissioned during the course of 2019. The project has a dual purpose:

- Expanding existing pulp production capacity by 80,000 tonnes by eliminating several existing bottlenecks. Since work began on expanding the facility's capacity in 2015, capacity has increased by 13%; in 2018, this biofactory produced a total of 530,463 ADt.
- Improving the facility's environmental performance by enhancing equipment and system technology throughout the productive process, specifically technology focused on improving its environmental performance framed by best available techniques.

On the environmental front, the effort remains focused on reducing the noise impact, odour emissions and particle emissions from both point and diffuse sources, while also enhancing the quality of the effluents discharged even further. ENCE is also executing projects designed to reduce water consumption at this biofactory; indeed, the goal is to reduce water consumption per tonne of pulp produced by 23% in 2019.

It is worth highlighting the financial effort made to reduce the activity's noise impact in the surrounding areas: in 2018, ENCE completed phase two of the related project which included closing the side of the recovery boiler, completing the sound-proofing of line 2 in the timber area and installing acoustic insulation in the cooling towers, among other things. Phases three, four and give of this project are slated for execution in 2019 with the aim of delivering a reduction of up to 58% in sound pressure in the vicinity of the biofactory with respect to 2018 levels.

As for odour emissions, the odour impact index at this biofactory has improved considerably. The optimisation of operating processes and the use of the techniques prescribed in the TQM model to analyse the root causes of the incidents occurring have translated into process stability with the attendant positive impact on its environmental performance. In 2019, ENCE is looking to improve these results by an additional 20%. As a result, by 2018 odour emissions from point sources were down by 99.5% since the “Zero odour” programme was rolled out.

Turning to atmospheric emissions, overall fuel consumption in the recovery and biomass furnaces was cut by 24%, with a significant impact on the generation of greenhouse gas emissions by the biofactory as a result of its combustion processes.

Technical and operating improvements drove SO2 emissions lower at each point source compared to 2017, as well as delivering a 30% reduction in particle emissions from the biomass furnace.

As for liquid effluents, since the biological treatment plant was commissioned in 2013, it has been delivering steady operating improvements and growing stability, so that the performance indicators were stable year-on-year, implying a 77% improvement in wastewater chemical oxygen demand readings with respect to the old treatment system. In 2019, the plan is to commission a new effluent primary treatment stage based on cutting-edge dissolved air floatation (DAF) technology which will enable the extraction of solids with a high fibre content (characteristic of the pulp production process) from the water discharged.

On the waste management front, ENCE continued to execute circular economy based projects and to implement best operating practices, increasing efficiency in a bid to reduce overall waste generation.

Capital expenditure on environmental projects totalled €5.2 million at this biofactory in 2018.

Pontevedra biofactory

“Zero odours” is the priority target at the Pontevedra biofactory, one on which the firm is working tirelessly. To this end, in 2018, it carried out a number of projects clearly focused on this goal, notable among which the new gas furnace and the elimination of the steam collector.

Other investments were made to minimise the odour impact such as the installation of a collector for fog from the wastewater treatment facility and the subsequent treatment of that fog.

Thanks to these investments, coupled with enhanced process control, the odour impact index used to track progress on the odour reduction project and monitor, in addition to the number of minutes of odour episodes at point and diffuse sources, the perception of the smell from the industrial activity in the surrounding areas, declined by 24% year-on-year in 2017, accompanied by a 40% reduction in odour episodes from point and diffuse sources.

As for liquid discharges, the results remain excellent. The discharge readings consolidate the Pontevedra biofactory's position as a sector benchmark. For example, chemical oxygen demand was 4.2 kg/ADt, which is 80% below the threshold recommended in the pulp and paper BAT reference document. Suspended solids are similarly improving, with the facility outperforming the BREF recommendations by 59% in this respect.

Elsewhere, aware that water is a scarce resource, technical improvements have been introduced at the Pontevedra biofactory that will lead to a saving of 20% in water consumption at the plant in Lourizán, which will mean using around 2.5 million fewer cubic metres of water per annum.

In addition, a new advanced condensate evaporation system equipped with a new high-efficiency cooling tower (which replaces the biofactory's old cooling towers) was installed at the end of October.

The new system enables the recovery of condensates and their subsequent reuse in the production process, increasing the volume of recycled water used substantially. The use of this vapour in the process will substitute the use of freshwater, leading to the above-mentioned saving of 20% in the biofactory's overall consumption.

As part of its commitment to implementing the most advanced systems and technology to guarantee that its production processes are as environmentally-friendly as possible, ENCE is investing significantly in adding capacity and modernising this biofactory.

Among these investments, it is worth highlighting the separation of clean rainwater, the replacement of the primary decanter with DAF technology for conversion into an emergency tank and the new blowers installed in the effluent treatment facility.

Over the course of 2018, investments were made to improve process effectiveness and efficiency, such as the expansion of the recovery furnace's boiler, the installation of variable-frequency drives to reduce electricity consumption, the installation of a smart blower that reduces the consumption of vapour and the installation of a new press for washing the pulp that improves the quality of the resulting wastewater.

Lastly among the investments undertaken in 2018, work is underway on phase three of the landscape integration project; phase three entails total investment of €3.5 million.

On the waste management front and framed by its circular economy strategy, ENCE has applied to have the Madrid regional environmental authorities authorise a subsidiary (Sostenibilidad y Economía Circular, S.L.) as a waste manager with the aim of making a mobile plant and soil improvers for the recovery of degraded areas (mines, refills, etc.).

Capital expenditure on environmental projects totalled €6.0 million at this biofactory in 2018.

<u>Pontevedra Environmental Pact</u>

ENCE and the environment department of the regional government of Galicia entered into an “Environmental Pact” on 28 June 2016 triggering the rollout of a five-year programme comprising environment-related investments and projects designed to contribute to economic development in Pontevedra and Galicia and boost the sustainability of the activities performed by ENCE at its Pontevedra Operations Centre under the scope of its corporate social responsibility strategy.

The Pact is a legal concept provided for in Galician legislation and already used by ENCE and the regional government in the past. Under such a pact, a company undertakes to bring its environmental management beyond that stipulated in prevailing environmental legislation by pursuing best available techniques in this arena.

Under the pact, ENCE has committed to:

- Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- Fostering job creation by using regional forest resources.
- Creating a a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- Installing a biomass-fuelled co-generation plant and three bioenergy centres.
- Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:
  I. A commitment to contribute up to €15 million to any investments mandated by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the city of Pontevedra;
  II. A commitment to contribute up to €5 million to the refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to the construction of a football pitch in the vicinity of Lourizán;
  III. Creation of a framework agreement for application in tandem with ENCE's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

Effectiveness of these commitments and projects is contingent upon effectiveness and survival of ENCE's concession rights in Pontevedra and the grant of the necessary permits and authorisations, which have already been applied for from the competent body of the regional government of Galicia and are accordingly in the midst of being processed.

The Pact was modified via an addendum signed on 16 January 2017, as a result of which, exceptionally and with effect solely in 2017, ENCE assumed the commitments outlined in the “Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy”, which contemplates annual funding of up to €3 million.

In addition, a second addendum was signed on 5 March 2018 under which, exceptionally and with effect solely in 2018, ENCE assumed the commitments outlined in the “Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy”, in respect of the annual funding provided for of up to €3 million. That second addendum also included the commitment to contribute up to €5 million to upgrading and modernising the urban waste treatment plant located in the city of Pontevedra and up to €3 million to the construction of a new building to serve as the head offices of the Research Centre, in the event the regional government of Galicia contracted and executed the related works that year.

ENCE is currently in the process of negotiating a new addendum to cover 2019 which will contemplate, among other things, a €3 million contribution to the “Framework agreement for the specific crystallisation in the area of Lourizán of ENCE's corporate social responsibility policy”. Note that the new addendum being negotiated will transfer to 2019 the commitment assumed in 2018 to contribute up to €5 million to upgrading and modernising the urban waste treatment plant located in the city of Pontevedra in the event the regional government of Galicia contracts and executes the related works this year.

Forestry

ENCE maintained its position and role as the leading private forest manager and a key dealer in timber-based products in Spain throughout 2018. It also reinforced its position as benchmark buyer of agricultural biomass for conversion into energy.

From the organisational standpoint, the work of defining strategy and implementing techniques and the operational control and oversight tasks are carried out by corporate professionals with the required expertise from the headquarters in Madrid and the various bases located close to the production and management centres.

The proprietary forest management business involves the properties and tracts of forest operated under consortia and leased by its forest management subsidiaries. Meanwhile, the entire commercial side of the business - supplies and standing timber and biomass purchases - is handled by the corporate supply chain management department. In both the proprietary and third-party segments, the management requirements are based on an integrated forest management system which is in turn articulated around the benchmark sustainable forestry management and chain of custody standards: FSC® (Forest Stewardship Council) and PEFC® (Programme for the Endorsement of Forest Certification Schemes).

In relation to agricultural biomass, in 2017, ENCE presented a 10-Point Declaration on the Sustainability of Biomass which is being implemented via a universe of indicators to guarantee sustainable management from source right throughout the productive process.

In 2019, ENCE will start to implement the requirements under the ISO quality and environmental management standards in its forestry activities.

That work should serve as a driver for encouraging the sector to adopt these standards, lifting the number of ISO-certified suppliers. The environmental sustainability approach is a core element of ENCE's corporate social responsibility strategy. The procurement of timber and biomass, whether from directly managed forests, standing timber purchases, purchased from suppliers or agricultural biomass, generates income and jobs in rural communities, providing economic structure in areas in which raw material production activities constitute one of the main ways of earning a living. ENCE contributes to this wealth generation not only by carrying out its direct management business but also by providing tools for technical and social development of these rural communities: financing schemes for groups; nursery discounts; transfer of know-how to forest owners and companies; training and education, etc., all with the aim of accelerating genuine sector development framed by the Group's environmental and social policies.

All of these activities are compliant with prevailing laws and regulations. Indeed, ENCE is a sector benchmark in terms of compliance with labour, technical and regulatory requirements, particularly in the timber market, which puts it in a position to assure that all of the the activities performed by it and its partners are compliant with the European due diligence regulation with respect to the legal origin of timber (EUTR). The biggest challenge lies with the development of stakeholder policies (owners, suppliers, sellers of standing timber, associations, etc.). Accordingly, the Group's specific environmental and social policies are transmitted to the organisation's stakeholders before work begins. This management approach is focused on ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. These principles are applied across the board to all sources of supply (own assets, whether held for production or conservation, standing timber purchases and suppliers). 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 92 % and 76%, at year-end 2018. It is particularly worth highlighting ENCE's widespread efforts to promote dual certification (PEFC+FSC): similarly since 2011, the percentage of incoming timber that boasts dual certification has risen from 0% at both biofactories to 89% at Navia and 63% at Pontevedra.

The optimisation of the acreage managed by ENCE enabled the production of 248,070 cubic metres of timber and 55,129 tonnes of forestry biomass during the year. Elsewhere, ENCE invested almost €3.3 million in its forest assets as a whole, which was earmarked primarily to forestry care and infrastructure upgrade work and reforestation.

All of ENCE's proprietary forestry management activity was audited in accordance with the PEFC and FSC standards with satisfactory outcomes. As a result, ENCE's management of its owned forests remains a benchmark not only in terms of robust technical management at the national level but also as a source of timber, for the large part doubly certified.

Not only does ENCE's forest management division produce timber for sale to third parties, it is an active generator of income and of intangible environmental and social benefits. Against this backdrop, ENCE participated in Spain's first pilot test for the FSC® certification of forest ecosystem services. To this end, it drew up the “Document certifying the ecosystem and biodiversity conservation service at the Aracena forest management unit”. That project took place between January and April 2018 and took the form of a pilot test in which a representative from FSC® International participated, in order to provide technical support interpreting the requirements, together with a representative from FSC® Spain, who provided information about the national ecosystem service standard. The ecosystem service to be verified at the Aracena forest management unit (area: 6,362.67 hectares) is the conservation of its biodiversity under the guidelines established in the Ecosystem Services Procedure: Impact demonstration and market tools. FSC-PRO-30-006. The documentation drawn up for verification purposes was based on reports that identify and classify the habitats of Community interest compiled by ENCE and the studies performed by the University of Huelva, which permitted familiarity with and itemisation of the plant communities in the conservation areas.

On the technical management front, the following benchmark projects stand out:

- Rollout of the RENOVA project, designed to make use of every last bit of the tree, in this instance by using eucalyptus stumps to produce pulp.
- Project for the recovery of eucalyptus plantations affected by fire or managerial shortcomings which consists of taking charge of their management through felling and development during that time of the necessary remedial actions, restoring the existing plantations' productive capacity, framed by efficiency and profitability criteria and adequate forestry care. In 2018, management agreements were reached with forest owners for the environmental recovery of around 730 hectares of degraded or abandoned eucalyptus plantations.
- Continuation of the work by the cross-border group (Spain-Portugal) for the exchange of know-how and strategies for fighting the eucalyptus leaf beetle (Gonipterus). The milestones attained under the GONIPTERUS projects in 2018 can be summed up as follows:
  - ✓ The biological treatment of 41,406 hectares of forests affected by this pest.
  - ✓ Enhanced process efficiency in the form of a significant increase in the parasitism rate (one of the project's performance indicators is the parasitism rate attained in the weevil populations)
  - ✓ Increase in the biofactories' productive capacity with more than 600,000 parasitised oothecas.

These results build on those achieved in prior years, with 37,400 and 48,692 hectares biologically treated in 2016 and 2017, respectively. To date, the results point to a 57% increase in parasitism levels in the area treated compared to untreated areas and a reduction in damage quantified by a 14 percentage point reduction in defoliation levels.

- Consolidation of the two biofactories set up in 2016 to research the Anaphes nitens egg parasitoid, specifically to demonstrate to the sector the viability of integrated pest control efforts framed by efficiency criteria. Standardisation of the parasitoid production process at efficient levels, coupled with ENCE's Community Work Plan, paved the way for the execution in 2018 of an agreement under which a forest association, ASFONOR, has replicated the productive model, which will start to function in 2019. In this manner, ENCE is providing the sector with an important solution that will help treat larger areas at competitive prices. The entire process, from implementation through to production, was advised on by skilled professionals from ENCE's Forestry R&D Department.
- Improvements in the supply of Eucalyptus globulus plants to the sector. This falls under the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best materials for planting and recommendations regarding the best forestry care solutions for each situation.
- The project dubbed "Improved ownership accreditation" designed to pinpoint the location of mature and extra-mature eucalyptus plantations in Galicia and Asturias in order to inform their owners of their value, mobilise existing idle resources and possibly present bids, getting them into the market.
- Agricultural biomass supply project at the energy plants in southern Spain designed to foster the recovery of waste, and not only forest but above all agricultural sub-products, preventing it from being burned, thereby unlocking value from these products while helping to generate carbon-neutral power.

In addition to the management of its own forests, ENCE takes a proactive stance towards third-party forests, articulating know-how transfer policies (the provision of training and support for producers and associations via forums, talks and financing formulae addressing issues such as forest care, plant selection, pest control, legal compliance and forestry certification) and policies for the promotion of standing timber and supplier purchases, as well as fostering communication and debate in general on relevant forestry matters with the rest of the sector, the public authorities and civil society.

In 2018, ENCE carried out the corresponding traceability audits in accordance with the FSC and PEFC regimes encompassing all of its business activities (the entire chain, from timber production through purchases and supplies, to pulp sales). ENCE's overall certification figures remain very impressive, with 2,439,170m^3 of certified timber going through its factories during the year.

On the forestry logistics fronts, the reorganisation of the logistics effort, coupled with market adjustments, enabled the streamlining of timber displacements. As for the companies working on forest logistics tasks, the number of trucks stood at 180 in the northern region and 77 in the south, rendering the fleet in use highly flexible and well-diversified. In addition, the first trucks fuelled by liquid natural gas (LNG) were incorporated into the fleet, thus reducing emissions and injecting efficiency into the transportation of timber to the productive facilities. Elsewhere, geolocation technology is being used when assigning vehicles, which is delivering a substantial improvement in the process of allocating and controlling transportation loads.

On the safety front, the Group continues to foster implementation of a safety culture by the firms it works with by means of initiatives on the ground related with employee health and safety awareness-raising by means of seminars, talks and oversight of critical interventions such as manual felling. Lastly, it is worth highlighting the technical improvements proposed during the year in the area of communication with forest workers in the field and tools to assist manual felling such as hydraulic and mechanical wedges.

30.2 Renewable Energy business

In 2018, the studies and projects aimed at adapting the operations centres for implementation of best available techniques ahead of effectiveness in 2021 of the BREF for Large Combustion Plants continued. To this end, a number of projects were set in motion to invest in particle, NOx and SO_2 filter systems in the various plants, tailored for each facility's needs.

However, adaptation for the BREF for Large Combustion Plants does not only imply complying with more stringent emission thresholds but also upholding other management requirements and best practices, in addition to those already implemented by ENCE.

During the second half of 2018, ENCE also worked on a cross-plant project dubbed Reliability of Environmental Indicator Measurements, investing in redundant continuous emissions measurement equipment and equipment for the automated capture and processing of data. This effort was complemented by specific internal and external training initiatives.

Huelva operations centre

The integrated management system was consolidated with renewal of the environmental and quality management certifications by accredited organisms in accordance with the UNE-EN-ISO 14001:2015 and UNE-EN-ISO 9001:2015 standards, respectively. Adaptation of the ISO standards for the criteria introduced in 2015 implies progress on adapting the integrated management system for the risk assessment analyses in all areas of the organisation's management as the initial premise for implementing change.

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 2018.

In relation to atmospheric emissions, following the annual stoppage, the particle emissions from the HU-41 MW furnace declined. Work began on the installation of a bag filter that will be fitted during the maintenance stoppage programmed for 2019. That system will bring particle and SO_2 emissions within the thresholds stipulated in the BREF.

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

On the waste management front, 2018 was characterised by an increase in the volume of ash and sand generated in the biomass boiler as a result of the increase in the combustion of agricultural biomass with a high content of ash and inert substances.

Framed by the circular economy model, virtually all of the waste generated was reused. ENCE continues to study alternative uses for the ash and sand generated by the biomass furnaces with the aim of having this waste classified and used as a sub-product.

Lastly, with respect to the dismantling of the pulp production facilities, the process of dismantling the buildings and facilities in the central, biological treatment and causticising areas of the complex finalised in 2018; note that a new 40-MW plant is being built in the cleared biological treatment and causticising areas.

Capital expenditure on environmental projects totalled €2.0 million at this operations centre in 2018.

Merida operations centre

The wastewater and atmospheric emissions readings remained at all times within the limits established in the integrated environmental permit.

The host of initiatives undertaken in prior years to reduce emissions gained traction and new projects were set in motion such as the rollout of six-sigma projects for reducing NOx emissions, coupled with the investment of €0.2 million in a NOx reduction system using SNCR technology and a desulphurisation system.

During the last quarter of 2018, work began on a project which encompasses all of the energy plants dubbed Reliability of Environmental Indicator Measurements with the implementation of an emissions data acquisition system and back-up equipment for critical pieces of equipment.

The Environmental Monitoring Programme to Control Risks to Fauna remained ongoing with the goal of ensuring that operation of the plant, and all of the activities that this entails, is being conducted in keeping with the environmental limits imposed in the environmental impact study and declaration with respect to birds and animals.

On the waste management front, the slag generated is being reused in the Emgrisa project for the restoration of the degraded floor of the Saelices el Chico uranium mine in Salamanca. That same reuse has been proposed for mining facilities in the region of Merida with the approval of the regional government of Extremadura.

Lastly, the plant continues to collaborate with other companies in the region on the LIFE ICIRBUS Circular Economy project, researching how to recover the ash produced in the furnace. Phase three of this project finished last year; that phase entailed field-testing the fertilisers developed by trialling the new materials obtained from the addition of the plant's ash.

The plant also participated in the Circular Economy Seminars sponsored by the regional government under the scope of the H2020 Screen Project.

Enemansa operations centre

Currently there are no discharges from this plant. Effluents are managed as waste in light of the high conductivity levels of this plant's incoming water (from underground sources). However, ENCE is analysing options for managing the water through the municipal treatment facility or by separating the various flows.

As for atmospheric emissions, all readings comply with the limits stipulated in the integrated environmental permit. In 2018, the continuous emissions measurement equipment was upgraded to achieve higher availability and redundancy, thus guaranteeing compliance with the measurement reliability standard defined by ENCE.

Although this plant already had a system for managing and validating the data hourly, daily, monthly and annually, the system has been fine-tuned in order to maximise the reliability of the information compiled and enable its computerised and digitalised reporting at all levels, including the arrangement of a data control and maintenance service with an outside expert. That was this plant's most significant project in 2018, entailing an investment of €300 thousand and an annual maintenance agreement worth around €80 thousand.

Noise-wise, having completed phases one and two of the related plan, phase three is in the process of being contracted out. Phase three contemplates reducing noise levels by sound-proofing the turbine room and mill building and changing the ash transportation system to a pneumatic one.

Capital expenditure on environmental projects totalled €0.3 million at this operations centre in 2018.

La Loma operations centre

A project is underway to improve the management of the various discharge flows and clean rainwater at this plant; the discharge point is also being modified.

As for atmospheric emissions, the readings comply with the limits stipulated in the integrated environmental permit and Royal Decree 815/2013 on emissions.

During the last stoppage in December, the continuous emissions measurement equipment was replaced by new equipment, including redundant devices, as defined in the environmental data reliability plan being applied across all of the power plants.

On the waste management front, this facility continues to manage its ash as a sub-product and not as waste having filed the corresponding information with Spain's environment ministry and notified the regional department of the environment.

Capital expenditure on environmental projects totalled €0.3 million at this operations centre in 2018.

Lucena operations centre

At this plant projects were carried out to improve its efficiency and its environmental performance. The most noteworthy projects:

- Bag filter at source point no. 1 in the biomass furnace
- Noise reduction project
- Launch and execution of the inputs self-control project
- Project to enhance reliability of environmental indicator measurements

The atmospheric emissions and wastewater readings remained within the limits established in the environmental permit.

Lastly, the Lucena plant has applied to have its slag and ash waste added to the Spanish ministry of the environment's register of sub-products. Similar applications were made at the Enemansa and La Loma plants in 2017. As a result, the ash and slag generated from the combustion of olive pomace will be considered a raw material for the manufacture of fertilisers, consolidating ENCE's role at the forefront of circular economy efforts.

Capital expenditure on environmental projects totalled €0.4 million at this operations centre in 2018.

31. Events after the reporting date

The Board of Directors has agreed to submit a long-term Bonus Plan for 2019 - 2023 for shareholder approval at the 2019 Annual General Meeting. The proposed Plan will be settled in a mix of cash and ENCE shares over several years. The key terms and conditions are:

- It is a five-year plan, which coincides with the horizon of the Business Plan, structured into two cycles with an interim milestone after three years. The first cycle runs for three years from 1 January 2019 to 31 December 2021; the second spans five years, from 1 January 2019 to 31 December 2023.
- The vesting period begins on 1 January 2019 and the two cycles will start on the same date. Cycle one finishes on 31 December 2021 and cycle two on 31 December 2023. The cycle one bonuses will be paid out, if vested, in July 2022; the cycle two bonuses would be payable in July 2024.

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

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

i. 45% of the bonus pool will be determined by the level of delivery of the accumulated synthetic EBITDA targets for the Group and/or Division as per the 2019-2023 Business Plan.

ii. 30% of the bonus pool will be determined by the level of delivery of the target related with the gain in ENCE's share price relative to the performance of a basket of comparable stocks.

iii. 15% of the bonus pool will be determined by the level of delivery of the sustainability-related target.

iv. 10% of the bonus pool will be determined by the level of delivery of the workplace climate-related target.

No significant events have taken place since 31 December 2018, other than those already disclosed herein, that would imply modifying the accompanying consolidated financial statements.

Appendix

Statement of financial position at 31 December 2018 and 31 December 2017 and income statement and statement of cash flows for the years then ended for the PULP and RENEWABLE ENERGY businesses

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2018 AND 2017

	2018				2017			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets	12.381	47.732	-	60.113	13.154	2.818	-	15.972
Property, plant and equipment	475.441	513.424	(1.729)	987.136	438.392	254.281	-	692.673
Biological assets	82.408	149	-	82.557	81.497	195	-	81.692
Non-current investments in group companies				-				-
Equity instruments	277.378	-	(277.378)	-	198.599	-	(198.599)	-
Loans to group companies	75.177	-	(75.177)	-	75.176	-	(75.176)	-
Other financial assets								
Hedging derivatives	268	-	-	268	2.501	-	-	2.501
Other financial assets	1.432	12.026	-	13.458	2.063	2.057	-	4.120
Deferred tax assets	42.817	13.648	12	56.477	47.272	12.511	-	59.783
	967.302	**586.979**	**(354.272)**	**1.200.009**	**858.654**	**271.862**	**(273.775)**	**856.741**
CURRENT ASSETS:								
Non-current assets held for sale	4.000	-	-	4.000	-	-	-	-
Inventories	35.980	7.565	-	43.545	28.640	10.486	-	39.126
Trade and other receivables								
Trade receivables, third parties	89.485	16.044	-	105.529	97.598	5.472	-	103.070
Trade receivables, related parties	6.445	16.644	(23.089)	-	4.828	28.809	(33.637)	-
Other receivables	1.198	195	-	1.393	3.377	324	-	3.701
Public authorities	12.937	2.548	-	15.485	6.097	848	-	6.945
Income tax receivable from tax authorities	-	1.363	-	1.363	355	667	-	1.022
Current financial assets:			-				-	
Derivatives	-	-	-	-	13.525	-	-	13.525
Other financial assets	2.218	6	-	2.224	6.369	6	-	6.375
Cash and cash equivalents	148.161	200.462	-	348.623	167.294	103.234	-	270.528
Other current assets	2.023	33	-	2.056	1.552	511	-	2.063
	302.447	**244.860**	**(23.089)**	**524.218**	**329.635**	**150.357**	**(33.637)**	**446.355**
TOTAL ASSETS	**1.269.749**	**831.839**	**(377.361)**	**1.724.227**	**1.188.289**	**422.219**	**(307.412)**	**1.303.096**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2018 AND 2017

	2018				2017			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share capital	221.645	22.604	(22.604)	221.645	221.645	116.136	(116.136)	221.645
Share premium	170.776	74.955	(74.955)	170.776	170.776	74.463	(74.463)	170.776
Parent company reserves	161.266	729	(729)	161.266	158.479	-		158.479
Reserves in fully-consolidated companies	129.892	(75)	(46.609)	83.208	113.102	(5.980)	(45.912)	61.210
Valuation adjustments	27.720	(1.942)	-	25.778	51.374	306		51.680
Parent company retained earnings (prior-year losses)	(71.196)	(45.912)	45.912	(71.196)	(92.436)	(45.912)	45.912	(92.436)
Shareholder contributions	-	173.500	(173.500)	-	-	-	-	-
Profit/(loss) for the year	126.246	9.072	(6.188)	129.130	86.576	13.210	(8.000)	91.786
Interim dividend	(51.309)	-	-	(51.309)	(29.623)	-	-	(29.623)
Translation differences	13	-	-	13	47	-	-	47
Own shares - parent company shares	(4.352)	-	-	(4.352)	(4.016)	-	-	(4.016)
Other equity instruments	13.830	235	-	14.065	2.574	209		2.783
Equity attributable to owners of the parent	**724.531**	**233.166**	**(278.673)**	**679.024**	**678.498**	**152.432**	**(198.599)**	**632.331**
Non-controlling interests	**-**	**18.272**	**-**	**18.272**	**-**	**9.903**	**-**	**9.903**
TOTAL EQUITY	**724.531**	**251.438**	**(278.673)**	**697.296**	**678.498**	**162.335**	**(198.599)**	**642.234**
NON-CURRENT LIABILITIES:								
Borrowings:								
Bonds and other marketable securities	145.443	90.719	-	236.162	244.610	48.948	-	293.558
Bank borrowings	110.000	108.164	-	218.164	21.429	80.293	-	101.722
Other financial liabilities	37.196	81.740	(75.178)	43.758	19.595	75.176	(75.176)	19.595
Derivative financial instruments	142	4.531	-	4.673	-	3.619	-	3.619
Grants	6.257	1.583	-	7.840	7.274	1.922	-	9.196
Deferred tax liabilities	21.029	19.408	(420)	40.017	21.072	2.751	-	23.823
Non-current provisions	3.087	9.200	-	12.287	3.738	429	-	4.167
Non-current accruals and deferred income	-	1.470	-	1.470				
Other non-current liabilities	2.608	16.357	-	18.965	-	-	-	-
	325.762	**333.172**	**(75.598)**	**583.336**	**317.718**	**213.138**	**(75.176)**	**455.680**
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	893	151.758	-	152.651	6.701	7.030	-	13.731
Other financial liabilities	4.494	440	-	4.934	1.457	-	-	1.457
Derivative financial instruments	15.971	3.005	-	18.976	3	2.190	-	2.193
Trade and other payables								
Trade payables, third parties	150.721	84.303	-	235.024	140.838	27.798	-	168.636
Trade payables, related parties	16.823	6.267	(23.090)	-	28.808	4.829	(33.637)	-
Income tax payable	1.608	220	-	1.828	25	412	-	437
Other payables to public authorities	7.459	366	-	7.825	7.590	4.052	-	11.642
Current provisions	21.487	870	-	22.357	6.651	435	-	7.086
	219.456	**247.229**	**(23.090)**	**443.595**	**192.073**	**46.746**	**(33.637)**	**205.182**
TOTAL EQUITY AND LIABILITIES	**1.269.749**	**831.839**	**(377.361)**	**1.724.227**	**1.188.289**	**422.219**	**(307.412)**	**1.303.096**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR 2018 AND 2017

	2018					2017			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL		Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:									
Revenue	696.983	138.917	(3.918)	831.982	-	611.641	133.043	(4.362)	740.322
Gain/(loss) on hedging transactions	3.734	-	-	3.734	-	(358)	(107)	-	(465)
Changes in inventories of finished goods and work in progress	7.386	-	-	7.386	-	(5.211)	-	-	(5.211)
Cost of sales	(260.264)	(43.951)	3.918	(300.297)	-	(248.136)	(41.750)	4.362	(285.524)
GROSS PROFIT	**447.839**	**94.966**	**-**	**542.805**	-	**357.936**	**91.186**	**-**	**449.122**
Own work capitalised	5.536	887	-	6.423	-	3.732	569	-	4.301
Other operating income	4.386	2.053	(3.696)	2.743	-	11.317	(442)	(4.987)	5.888
Grants taken to income	1.788	499	-	2.287	-	1.704	196	-	1.900
Employee benefits expense	(69.374)	(8.298)	-	(77.672)	-	(67.292)	(7.074)	-	(74.366)
Depreciation and amortisation charges	(51.973)	(17.856)	-	(69.829)	-	(54.379)	(16.033)	-	(70.412)
Depletion of forest reserve	(5.699)	(122)	-	(5.821)	-	(4.034)	(991)	-	(5.025)
Impairment of and gains/(losses) on disposal of fixed assets	11.622	(1.536)	(46)	10.040	-	9.192	(132)	-	9.060
Other operating expenses	(160.285)	(44.821)	3.696	(201.410)	-	(136.806)	(39.000)	4.987	(170.819)
OPERATING PROFIT/(LOSS)	**183.840**	**25.772**	**(46)**	**209.566**	-	**121.370**	**28.279**	**-**	**149.649**
Finance income:					-				
From interests in equity instruments in group companies	6.574	-	(6.574)	-	-	8.000	-	(8.000)	-
From marketable securities & other financial instruments:				-	-				-
Related parties	3.401	-	(3.401)	-	-	2.968	-	(2.968)	-
Third parties	496	489	-	985	-	467	534	-	1.001
Finance costs:				-	-				-
Related-party borrowings	-	(3.401)	3.401	-	-	-	(2.968)	2.968	-
Third-party borrowings	(30.879)	(7.501)	-	(38.380)	-	(17.627)	(5.128)	-	(22.755)
Change in fair value of financial instruments	(1.682)	-	-	(1.682)	-	2.093	(3.710)	-	(1.617)
Exchange differences	3.029	(38)	-	2.991	-	(6.270)	(13)	-	(6.283)
Impairment of and gains/(losses) on disposal of financial assets	(249)	-	-	(249)	-	(124)	-	-	(124)
NET FINANCE COST	**(19.310)**	**(10.451)**	**(6.574)**	**(36.335)**	-	**(10.493)**	**(11.285)**	**(8.000)**	**(29.778)**
					-				
PROFIT/(LOSS) BEFORE TAX	**164.530**	**15.321**	**(6.620)**	**173.231**	-	**110.877**	**16.994**	**(8.000)**	**119.871**
Income tax	(38.284)	(3.708)	432	(41.560)	-	(24.301)	(1.905)	-	(26.206)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	**126.246**	**11.613**	**(6.188)**	**131.671**	-	**86.576**	**15.089**	**(8.000)**	**93.665**
					-				
CONSOLIDATED PROFIT FOR THE PERIOD	**126.246**	**11.613**	**(6.188)**	**131.671**	-	**86.576**	**15.089**	**(8.000)**	**93.665**
Profit/(loss) attributable to non-controlling interests	-	2.541	-	2.541	-	-	1.879	-	1.879
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**126.246**	**9.072**	**(6.188)**	**129.130**	-	**86.576**	**13.210**	**(8.000)**	**91.786**

CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW BY BUSINESS FOR 2018 AND 2017

Thousands of euros	2018 Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Consolidated profit/(loss) for the period before tax	164.530	15.321	-6.620	173.231
Adjustment for:				
Depreciation and amortisation	58.652	16.998	-	75.650
Changes in provisions and other deferred expense (net)	22.504	365	-	22.869
Impairment of and gains/(losses) on disposals of intangible assets and PP&E	-11.388	1.614	46	(9.728)
Net finance cost	19.799	10.413	6.574	36.786
Grants taken to income	-1.108	-254	-	-1.362
	88.458	**29.136**	**6.620**	**124.215**
Changes in working capital:				
Inventories	-9.177	2.675	-	(6.502)
Trade and other receivables	-7.478	3.414	-	(4.064)
Short-term investments	4.151	-	-	4.151
Trade payables, other payables and other liabilities	-2.106	-1.624	-	(3.730)
	(14.610)	**4.465**	**-**	**(10.145)**
Other cash flows from operating activities:				
- Interest paid (net)	(19.893)	(10.016)	-	(29.909)
- Dividends received from group companies	6.574	-	(6.574)	-
- Income tax received (paid)	(26.675)	(2.132)	-	(28.807)
- Other receipts / (payments)	(1.321)	-	-	(1.321)
	(41.315)	(12.148)	**(6.574)**	(60.037)
Net cash from/(used in) operating activities (I)	197.064	36.774	(6.574)	227.264
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investments:				
Property, plant and equipment and biological assets	(77.988)	(88.313)	2.542	(163.759)
Intangible assets	(1.999)	(22.235)	-	(24.234)
Business combinations	-	(124.852)	-	(124.852)
Other financial assets	(78.179)	1.817	78.779	2.417
	-158.166	**-233.583**	**81.321**	**-310.428**
Proceeds:				
Property, plant and equipment and biological assets	2.158	**57**	**-860**	**1.355**
	2.158	**57**	**-860**	**1.355**
Net cash from/(used) in investing activities (II)	**-156.008**	**-233.526**	**80.461**	**-309.073**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from and payments for equity instruments				
Proceeds from issuance of own equity instruments	0	80.461	(80.461)	-
Proceeds from issuance of convertible bonds, net of arrangement fees	14.551	-		14.551
Buyback of own equity instruments	-63.864	-	-	(63.864)
Disposal of own equity instruments	63.368	-	-	63.368
	14.055	**80.461**	**-80.461**	**14.055**
Proceeds from and repayments of financial liabilities:				
Group companies and associates	(5.937)	5.937	-	-
Proceeds from issuance of bonds, net of arrangement fees	142.767	41.523	-	184.290
Repayment of bonds and other marketable securities	(250.000)	0		(250.000)
Increase/(decrease) in bank borrowings, net of issuance costs	84.285	171.177	-	255.462
Increase/(decrease) in other borrowings	21.661	4.217	-	25.878
Grants received	90	25	-	115
	-7.134	**222.879**	**-**	**215.745**
Dividends and payments on other equity instruments				-
Dividends	(67.110)	(9.360)	6.574	(69.896)
	(67.110)	**(9.360)**	**6.574**	**(69.896)**
Net cash from/(used in) financing activities (III)	**(60.189)**	**293.980**	**(73.887)**	**159.904**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(19.133)**	**97.228**	**0**	**78.095**
Cash and cash equivalents, opening balance	167.294	103.234	-	270.528
Cash obtained as a result of a business combination	-	0	-	-
Cash and cash equivalents, ending balance	148.161	200.462	-	348.623

ENCE Energía y Celulosa, S.A.
and subsidiaries

2018 Group Management Report

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

2018 Group Management Report

1. Introduction

This Management Report has been drawn up in keeping with the terms of article 49 of Spain's Code of Commerce, as worded by Spanish Law 16/2007 (of 4 July 2007), revising and adapting the accounting aspects of company law for international harmonisation purposes, article 262 of the Spanish Corporate Enterprises Act and the recommendations issued by the Spanish securities market regulator, the CNMV, in its "Guide for the preparation of management reports for listed companies".

The Management Report also includes the following reports, which are included in the website www.ence.es:

- The non-financial statement, drawn up in keeping with the requirements stipulated in Spanish Law 11/2018 (of 28 December 2018), which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Legislative-Decree 1/2010, and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity reporting.

  It was also drawn up taking into consideration the guidelines on non-financial reporting issued by the European Commission (2017/C 215/01) in response to Directive 2014/95/EU. The sustainability report constituting the non-financial statement was prepared in accordance with the Global Reporting Initiative (GRI) standards (In-Accordance option: core).

  The information included in the non-financial statement has been assured by an independent assurance service provider.

- The report about the Group's activities in 2018, which includes a detailed assessment of ENCE's business performance in 2018, provides additional details about the markets it operates in and the key trends in the main income statement, cash flow and capital structure indicators. That report also includes information about ENCE's share price performance in 2018.

- The Annual Corporate Governance Report.

With the aim of avoiding overlap in the information provided in this Management Report, below is a list of the main sections included in the CNMV's "Guide for the preparation of management reports for listed companies" which are addressed in the Appendices:

1. The non-financial statement provides information about environmental matters (mainly in the section headed "Committed to our stakeholders – Environment"), its R&D efforts (mainly in the section titled "Lines of activity") and about employee matters (mainly in the section titled "Committed to our stakeholders – People"); it also provides the non-financial key performance indicators.

2. The report providing details about the Group's activities in 2018 provides detailed information about the business trends and performance, ENCE's liquidity and financial resources, its share price performance in 2018 and the alternative performance measures used by ENCE to report on its financial performance.

3. The annual financial statements to which this Management Report is attached include disclosures about significant developments occurring since the end of the reporting period (note 31 of the consolidated financial statements), own share transactions (note 21) and the average supplier payment term (note 20).

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.

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

The Board of Directors is made up of executive, proprietary, external and independent directors, in line with corporate governance regulations and best practices. The Board has a non-executive Chairman and a Vice-Chairman. The vice-chairmanship is currently held by the CEO. The current Secretary of the Board of Directors is not a director.

The Board is currently 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 Vice-Chairman and Chief Executive Officer (CEO) is responsible for the Company's everyday management. He is supported in this work by the Management Committee, which comprises the Company's senior management, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Energy Officer, the Supply Chain Officer, the Chief Finance & Corporate Development Officer, the Human Capital Officer, the Communication and Institutional Relations Officer, the Pulp Sales and Logistics Director and the General Secretary. These officers report directly to the CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

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

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

The Executive Sustainability Committee reports to the Board's Sustainability Committee and is made up of the CEO, who chairs it, the General Secretary and the heads of the corporate Human Capital, Pulp, Independent

Energy Plant Operations, Finance and Corporate Development, Supply Chain and Communication and Institutional Relations Departments. That committee's permanent members also include the head of corporate sustainability and the designated sustainability officers in each business unit. Its main duties include execution at the operating level of the corporate sustainability strategy set by the Board committee, work which includes setting targets and monitoring their delivery. That committee also approves ENCE's membership of sector or cross-sector initiatives for the promotion of sustainability and establishes the channels for engaging with stakeholders. It also coordinates the preparation of the non-financial reports for presentation to the Board's Sustainability Committee.

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

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

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. Indeed, the Company is the sole director of its Group companies, other than those in which there are non-controlling interests.

The companies with non-controlling interests are: Energía la Loma, S.A., Energías de la Mancha ENEMAN, S.A and Bioenergía Santamaría, S.A., in which Ence Energía, S.L.U., 100%-owned by Ence Energía y Celulosa, S.A., holds ownership interests of 60.07%, 68.42% and 70%, respectively.

In 2018, Ence Energía, S.L.U., 100%-owned by Ence Energía, S.L.U., acquired 90% of Iberdrola Energía Solar de Puertollano, S.A. (since renamed Ence Energía Termollano, S.A.) from the Iberdrola Group.

The above four companies are governed by a board of directors and the non-controlling shareholder is represented on three of them.

3. Group activity

ENCE has articulated its activities around two core businesses: the production of pulp, which represented 84% of Group EBITDA in 2018, and the generation of energy from renewable sources at standalone power plants, which accounted for the remaining 16%.

3.1. Pulp production:

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.

As an integral part of its pulp production process, ENCE uses the lignin and forest waste 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 produced at these power plants is sold to the grid and subsequently repurchased.

The Pulp business therefore includes both the production and sale of pulp and the generation and co-generation of energy at the plants involved in the productive process, as well as the supply of timber from the plantations managed by the Company.

Pulp is the basic raw material used to manufacture the various kinds of paper that form part of our everyday lives. More specifically, it makes pulp from cultivated eucalyptus timber acquired in Galicia and along the Cantabria coast.

The eucalyptus is a natural, renewable and indigenous resource. It grows abundantly in the north of Spain but is scarce in most of the world as it only grows in very specific climate conditions, normally warm subtropical regions.

In addition, eucalyptus timber is very valuable because it provides the best quality pulp for the manufacture of tissue paper, i.e. sanitary paper products, such as kitchen paper, facial tissues, paper napkins, toilet paper, etc.

3.2. Renewable power generation:

The Renewable Energy business encompasses the generation of power from renewable sources - forestry and agricultural biomass - at plants that have no relation to the pulp production process. ENCE currently has seven biomass plants: two in the Huelva industrial complex, with capacity of 50 MW and 41 MW, respectively, one in Merida (20 MW), one in Ciudad Real (16 MW), one in Jaen (16 MW) and a complex in Cordoba with two separate facilities (with capacity of 14 MW and 13 MW). In addition, ENCE has begun to build a new 46-MW independent generation plant in Huelva and another 50-MW plant in Puertollano which are expected to be commissioned towards the end of 2019. This business also includes a 50-MW solar thermal power plant in Puertollano.

These assets position ENCE as one of Europe's largest short-fibre pulp (BHKP) producers, with installed capacity of 1,070,000 tonnes between the two biofactories in Galicia and Asturias, and as the leading generator of biomass-fuelled renewable energy, with installed capacity of 112 MW integrated within the pulp biofactories and another 170 MW distributed between seven standalone plants located in Andalusia, Extremadura and Castile la Mancha. Moreover, ENCE is the leading player in the end-to-end and responsible management of forest land and crops in Spain.

3.3. 2019-2023 Business Plan

The new 2019-2023 Business Plan, presented to the market at the end of 2018, constitutes the roadmap for delivery of the Group's strategic objectives for the next five years. The new plan is articulated around growth, diversification and excellence in sustainability in order to position the Group to leverage the opportunities arising in the pulp and renewable energy markets.

The targets set in the plan include virtually doubling EBITDA to €550 million by 2023, assuming constant pulp prices and exchange rates and framed by maintenance of the established leverage thresholds and shareholder dividend policy. To achieve this target, ENCE has devised a capital expenditure programme of approximately €1.1 billion to be executed in stages in order to ensure financial discipline.

In the Pulp business, ENCE wants to take advantage of the positive outlook for pulp prices for the coming years. Growth in urban populations and living standards in emerging markets are driving growth in demand in pulp for hygiene and absorbent paper products and viscose for use in the textile industry. Specifically, ENCE is planning to lift its pulp production capacity to 1.3 million tonnes per annum and to diversify into absorbent hygiene and viscose products.

In the Renewable Energy business, ENCE plans to increase its power generation capacity, helping Spain to meet its renewable energy targets for 2030. To do so, the Company estimates it will invest a total of €615 million, multiplying EBITDA in this business line by a factor of three with respect to 2018, while providing earnings stability and resilience versus the cyclicality that characterises the pulp business.

Excellence in sustainability is a strategic priority for ENCE. Safety, reducing the carbon footprint and water consumption of its productive processes and promoting a circular economy model are vital for the Company. ENCE is also committed to revitalising rural areas, giving back to the communities it operates in and introducing best available practices in order to minimise the environmental impacts of its activities and prevent workplace risks, all of which underpinned by a policy of transparency and integrity. In the strategy section of this report you will find more information about the Company's Business Plan.

The new plan was designed factoring in the context and the trends in Spain and internationally that are set to shape the pulp and renewable energy sectors in the near future.

In the case of the pulp industry, rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in demand for pulp for hygiene and absorbent paper products and for viscose for use in the textile industry.

The ongoing growth in demand, coupled with a lack of major capacity addition plans in the pulp industry, foreshadows a period of structurally strong pulp prices for the coming years.

The outlook for the renewable energy industry is shaped by the targets set nationally and internationally for fighting the global challenge posed by climate change. The European Union wants 32% of the energy consumed across the region to come from renewable sources by 2030. To achieve that target, Spain will have to double its renewable energy generation capacity within the next decade.

Against that backdrop, ENCE has articulated its new business plan around the following key lines of initiative:

Growth

By executing its new Business Plan, ENCE's objective is to virtually double Group EBITDA (assuming constant pulp prices) to €550 million in 2023 and to mitigate earnings cyclicality, with at least €150 million coming from the Renewable Energy business.

Diversification

In order to tap the unfolding growth opportunities, ENCE is strategically committed to diversification, which will also increase the solidity and flexibility of its business model. This commitment to diversification is not only centred on products but also raw materials and renewable power generation technologies.

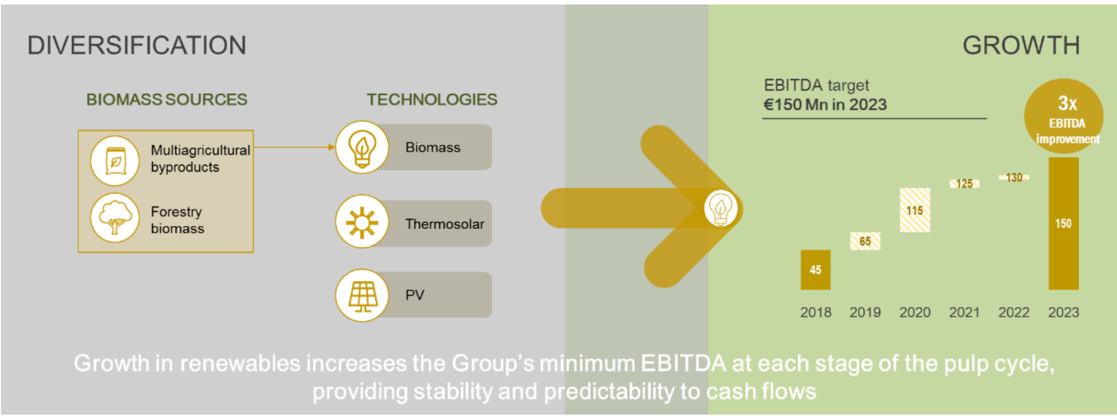
In the Pulp business, the Business Plan contemplates diversifying the species of trees used by ENCE as raw material for the manufacture of pulp. In addition to stepping up the use of the Nitens eucalyptus species, ENCE is analysing the use of pine in its productive process. By diversifying its raw materials the goal is to increase the availability of timber and be able to offer customers higher value-added products.

The Business Plan also contemplates the addition of two new products to the portfolio: pulp for absorbent hygiene products and pulp for viscose for application in the textile industry. Both present higher growth rates than the various types of pulp currently sold by ENCE for manufacture into paper.

CELULOSA

In the Renewable Energy business, ENCE similarly wants to reap the benefits of diversification. On the one hand, it plans to add new sources of agricultural and forest biomass to its supply sources to increase availability and reduce costs. It also plans to diversify the technologies used to generate power from renewable sources of energy, on the other.

ENERGÍA RENOVABLE



In December 2018, ENCE took its first step towards diversifying into new renewable energy technologies by acquiring a 90% interest in a 50-MW solar thermal power plant in Puertollano (Ciudad Real) for €140 million (net). By acquiring this facility in the vicinity of the new biomass plant which the Company is in the process of constructing in that same town, ENCE's commitment to the hybridisation of technologies in order to make renewable energy production more manageable and programmable is already materialising. .

Excellence in sustainability

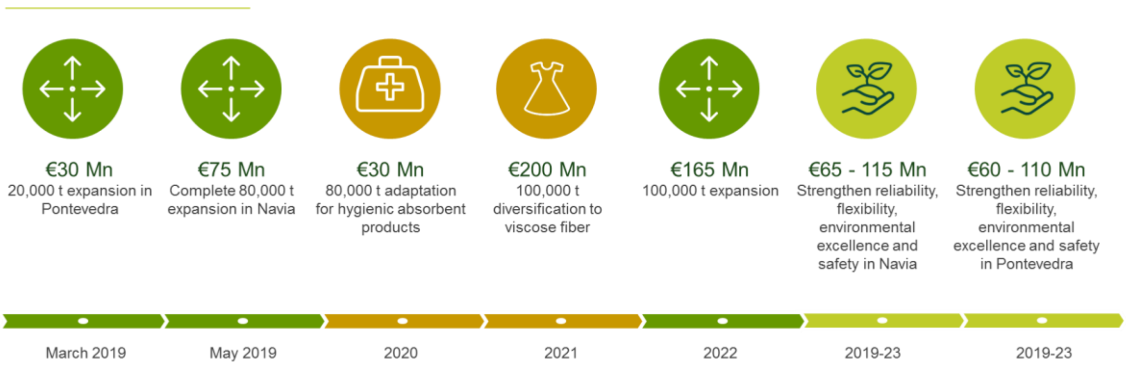
The third pillar underpinning the 2019 – 2023 Business Plan is excellence in sustainability, applicable across all of the Company's business activities. ENCE plans to invest between €125 million and €225 million over the time horizon contemplated by the plan to reinforce the reliability, flexibility, environmental excellence and safety of its facilities.

Investment plan to be executed in stages to ensure financial discipline

To achieve its Business Plan objectives, ENCE has designed an investment plan articulated around various independent projects that will be executed in stages in order to guarantee ongoing financial discipline. Each project must be reconfirmed by the Board before proceeding in order to:

1. Ensure compliance with the return criteria;
2. Ensure that the leverage thresholds set for each business are not surpassed (net debt / EBITDA of 2.5x in the Pulp business and 4.5x in the Renewable Energy business);
3. After paying out 50% of net profit in dividends.

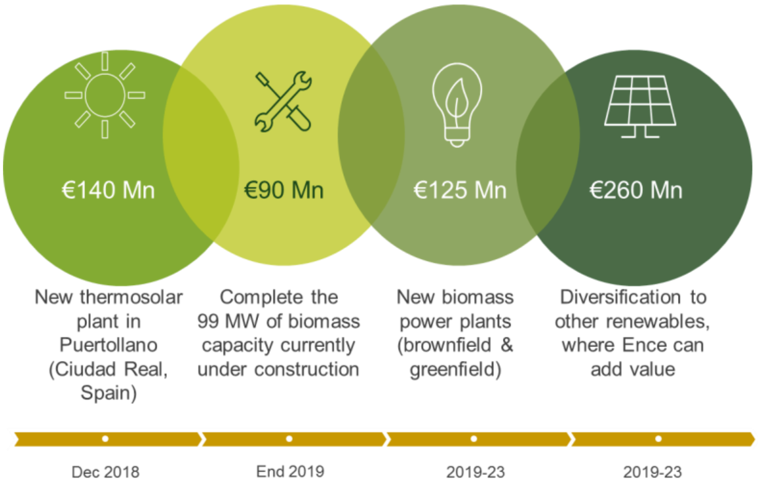
Besides the investments earmarked to sustainability, ENCE plans to invest €500 million in five independent pulp-related projects:



With those five projects, ENCE expects to deliver the following targets in 2023:

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

In the Renewable Energy business, the Business Plan contemplates investments totalling €615 million, which includes the 50-MW solar thermal plant acquired in December 2018 and finalisation of the 99 MW of new biomass power generation capacity currently under construction.



A noteworthy characteristic of this plan is the flexibility built in to accommodate potentially changing market circumstances so that the investments can be carried out in phases without jeopardising the Company's viability at any time.

4. 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 and monitor situations that pose a threat to the Company's activities and objectives. Various areas of the Company participate in the process, each with specific responsibilities which, combined, constitute the end-to-end system.

Each year, ENCE identifies and evaluates new risks and monitors developments with respect to risks identified in prior years and those that have dissipated during the year. The purpose of this monitoring and control process is to ensure execution and effectiveness of the agreed-upon action plans and guarantee continuous supervision of the Company's key risk factors.

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

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

1. The risk management officers are tasked with executing the action plans and establishing the controls needed to provide the agreed-upon response to the risks identified within their respective purviews.
2. Throughout the year the Internal Audit Department closely monitors the level of progress on executing the risk mitigation plans and is the body responsible for providing the Board's Audit Committee with regular updates on these matters.
3. The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.

4. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's ERM system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

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

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

This 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 investee.

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 Information and Reporting
4. Compliance

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

1. Environmental Risks
2. Risks associated with Decision-Making Information
3. Financial Risks
4. Organisational Risks
5. Operational Risks
6. Corporate Crime Risks
7. Tax Risks

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

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

1. ENCE takes a zero-tolerance stance on any situation which could compromise the health or safety of its employees.
2. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to Company, particularly in respect of the impact of its operations on the environment or its facilities' surroundings, the Group's reputation in the eyes of others and business sustainability.
3. 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.

4. ENCE's appetite for situations 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.
5. 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.
6. Nevertheless, a significant percentage of ENCE's transactions are exposed 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.

b) EXCHANGE RATE VOLATILITY

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

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

The Group has currently hedged approximately 68% of estimated 2019 sales and approximately 40% of 2020 sales under different forward currency contracts.

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 2019, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

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

d) LIQUIDITY AND CAPITAL RISK

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

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteed business continuity in any pulp price scenario.
2. Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.
3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage ceiling set for the Pulp business is 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4-5 times.
4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp business and using bank financing and raising money from institutional investors in the Renewable Energy business.

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

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

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

e) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

It is feasible that the state, regional and/or local tax authorities could make further changes to current tax regulations, such as changes/reforms to corporate and/personal income tax, which could directly affect ENCE and its earnings.

To mitigate this risk, ENCE has a team of in-house specialists who work together with external tax advisors and experts and have established internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Objective: Enhancing the Company's Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and uses total quality management (TQM) methodology 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, the firm cannot guarantee delivery of the various operations centres' targets and the biofactories' and energy plants' installations, machinery and equipment could become impaired.

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

Objective: New Product Development

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

The strategy adopted to satisfy customers' needs is to reduce risk by enhancing productive processes and maintaining a customer complaints/claims management system. In 2018, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it shored up its salesforce quantitatively and qualitatively with a view to identifying customers' specific needs in order to factor them into the Company's product range.

Objective: Minimising the Cash Cost

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

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

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

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

Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers.

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

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

Objective: Increasing ENCE's Market Share

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

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

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

Objective: Streamlining of Post-Production Logistics

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

End product stockouts can occur as a result of *ad-hoc* technical incidents in the productive process (breakdowns, 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. These events can also trigger the cancellation of orders by our customers thereby increasing stock levels. To minimise this risk, the Pulp Business reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

Objective: Minimising the Impact of our Operations on the Environment

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

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

ENCE mitigates this risk by reducing the impact its operations have on the environment by means of its integrated quality, environment and safety management system which is certified under the UNE-EN-ISO 14001 environmental management standard, by means of education about how to prevent environmental risks, writing insurance policies, conducting audits and implementing inspection, oversight and control measures, framed by a preventative approach. Note that in 2018, the Group also continued to invest to make its facilities more environmentally-friendly.

Objective: Business Continuity

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

The Spanish Ministry of Agriculture, Food and the Environment has extended the Company's concession for the use of the land on which the Pontevedra complex is located for 50 plus 10 years, the additional 10 years of which are subject to the performance by ENCE of specific works in the energy efficiency, water savings and environmental performance areas. Failure to comply with the terms and conditions stipulated in the commitments enshrined in the Ministerial Order of 26 January 2016 extending the concession could imply the loss of that additional 10-year period.

This resolution has also been challenged firstly through administrative channels and subsequently in court by the Town Council of Pontevedra and two environmentalist associations: Green Peace Spain and *Asociación pola Defensa da Ría de Pontevedra*. Their challenges have given rise to four separate consecutive court proceedings before the Appellate Court's Chamber for Contentious Administrative Proceedings. ENCE has appeared in court in all the cases in its capacity as co-defendant, arguing the legality of the actions of the Ministry in extending the concession. Those proceedings remain ongoing.

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

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

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

As for international expansion projects, the potential risks to business continuity relate to political, economic and regulatory uncertainty in the markets in which ENCE wants to establish a presence, as well as risks related to the supply of biomass.

ENCE analyses all international expansion projects extremely thoroughly at all levels, drawing up risk maps in order to identify and assess the situations that could pose a threat to the Company's activities and objectives and establishing actions plans to mitigate or eliminate the risks so identified.

Objective: Guaranteeing Worklife Quality and Workplace Health and Safety

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

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

ENCE is firmly committed to upholding its workplace safety plans, which include an action plan for preventing/reducing accidents that is based primarily on employee training initiatives, process upgrades, regular compliance audits and adequate oversight of the plans' effectiveness and any associated requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives to make harvesting safer and more cost effective.

Objective: Regulatory and Reporting Compliance

The EU-endorsed Best Available Techniques Reference Document (BREF) for the sector took effect in 2017. Companies have until 2020 to fully adapt to the new requirements. The BREF requirements are more stringent than the prior requirements in terms of production and emissions depending on process types, geographic location and local environmental conditions, triggering the need for new environmental investments and control systems.

The strategy employed by ENCE to tackle this risk factor is two-fold. Firstly, ENCE staff have reached out to the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account. In parallel, the most important environmental investments required at all of the Operations Centres to adapt to the new regulations were analysed and approved by ENCE's Investment Committee in 2018.

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.

Following on from this, in 2018 a number of internal policies and procedures were formulated and implemented to mitigate the organisation's exposure to specific corporate crime risks.

It is worth noting, lastly, that in November 2018, ENCE obtained UNE 19601:2017 certification for Criminal Compliance (issued by AENOR, Spain's national certification body), thus acknowledging the organisation's commitment to complying with criminal law and preventing corporate crime.

Objective: Tax Risk Control

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

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

The consolidated financial statements and management report of ENCE Energía y Celulosa, S.A. and its subsidiaries for 2018, prepared under the IFRS adopted by the European Union, were authorised for issue by the Board of Directors of the Parent on 26 February 2018. The consolidated financial statements and accompanying notes span 113 sheets of ordinary paper (the financial statements numbered from 1 to 5 and the accompanying explanatory notes numbered from 6 to 113), while the management report spans 18 sheets (numbered from 1 to 18). The Management Report comes with three Appendices. All of the above-listed sheets have been witnessed by the Board's Secretary and this last sheet has been signed by all the Parent's Directors.

In addition, for the purposes of article 8.1.b of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the annual financial report of Ence Energía y Celulosa, S.A. and its subsidiaries in respect of 2018, which disclosures include the pertinent consolidated financial information, the undersigning Directors make the following statement of responsibility: "to the best of their knowledge, the 2018 consolidated financial statements have been prepared in keeping with applicable accounting standards and provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole, while the management report includes a fair analysis of the required disclosures".

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