ENCE ENERGÍA & CELULOSA

First-quarter 2019
Earnings report

NORDIC ECOLABEL

EMAS

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1. EXECUTIVE SUMMARY

Market figures	1Q19	1Q18	Δ%	4Q18	Δ%
BHKP (USD/t) average price	994.7	1,008.4	*(1.4%)*	1,045.8	*(4.9%)*
Average exchange rate (USD/€)	1.14	1.23	*(7.2%)*	1.14	*(0.6%)*
BHKP (€/t) average price	874.7	823.1	*6.3%*	914.1	*(4.3%)*
Average pool price (€/MWh)	54.8	48.3	*13.5%*	63.0	*(12.9%)*

Source: Bloomberg

Operating Metrics	1Q19	1Q18	Δ%	4Q18	Δ%
Pulp production (t)	**239,162**	**225,644**	***6.0%***	**253,701**	***(5.7%)***
Pulp sales (t)	**219,104**	**232,735**	***(5.9%)***	**246,729**	***(11.2%)***
Average sales pulp price (€/t)	604.9	601.4	*0.6%*	643.6	*(6.0%)*
Cash cost (€/t)	396.1	369.3	*7.3%*	383.5	*3.3%*
Wood cost €/m^3	70.2	66.4	*5.7%*	69.4	*1.2%*
Renewable Energy sales volume (MWh)	**247,184**	**227,549**	***8.6%***	**208,834**	***18.4%***
Average sales price - Pool + Ro (€/MWh)	97.0	103.0	*(5.7%)*	90.5	*7.2%*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	12.0	*32.5%*

P&L € m	1Q19	1Q18	Δ%	4Q18	Δ%
Revenue from Pulp business	156.7	163.1	*(4.0%)*	182.5	*(14.2%)*
Revenue from Renewable Energy business	40.0	34.0	*17.7%*	31.0	*29.3%*
Consolidation adjustments	(1.1)	(0.9)		(1.2)	
Total revenue	**195.6**	**196.2**	*(0.3%)*	**212.3**	*(7.9%)*
Pulp business EBITDA	38.9	54.1	*(28.1%)*	64.5	*(39.8%)*
Margin %	25%	33%	*(8.3) p.p.*	35%	*(10.5) p.p.*
Renewable Energy business EBITDA	13.1	8.8	*48.9%*	12.7	*3.0%*
Margin %	33%	26%	*6.9 p.p.*	41%	*(8.4) p.p.*
EBITDA	**52.0**	**62.9**	*(17.3%)*	**77.3**	*(32.7%)*
Margin %	*27%*	*32%*	*(5.5) p.p.*	*36%*	*(9.8) p.p.*
Depreciation, amortisation and forestry depletion	(22.4)	(19.2)	*16.5%*	(19.5)	*15.0%*
Other gains/(losses)	(0.4)	2.3	*n.s.*	(5.0)	*(91.8%)*
EBIT	**29.2**	**46.0**	*(36.5%)*	**52.8**	*(44.7%)*
Net finance cost	(6.7)	(5.6)	*18.7%*	(5.1)	*30.7%*
Other finance income/(cost) results	1.3	(0.2)	*n.s.*	(0.1)	*n.s.*
Profit before tax	**23.7**	**40.1**	*(40.8%)*	**47.6**	*(50.1%)*
Income tax	(5.6)	(10.3)	*(45.1%)*	(9.4)	*(39.8%)*
Net income	**18.1**	**29.9**	*(39.4%)*	**38.2**	*(52.6%)*
Non-controlling interests	(0.8)	(0.3)	*159.8%*	(0.8)	*n.s*
Atributable Net Income	**17.3**	**29.6**	*(41.6%)*	**37.5**	*(53.9%)*
Earnings per share (Basic EPS)	0.07	0.12	*(41.6%)*	0.15	*(53.9%)*

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

Cash flow € m	1Q19	1Q18	Δ%	4Q18	Δ%
EBITDA	**52.0**	**62.9**	*(17.3%)*	**77.3**	*(32.7%)*
Change in working capital	(5.7)	(30.7)	*(81.3%)*	8.3	*n.s.*
Maintenance capex	(5.4)	(3.9)	*38.3%*	(7.0)	*(22.5%)*
Net interest Payment	(2.2)	(0.1)	*n.s.*	(4.6)	*(51.7%)*
Income tax received/(paid)	0.1	0.3	*(66.5%)*	(21.0)	*n.s.*
Normalised free cash flow	**38.7**	**28.4**	*36.2%*	**53.0**	*(26.9%)*
Financial investments and other collections / (payments)	9.1	7.3	*n.s.*	0.3	*n.s*
Expansion capex	(79.6)	(17.4)	*n.s.*	(158.1)	*(49.6%)*
Sustainability capex	(6.9)	(0.4)	*n.s.*	(6.1)	*13.7%*
Disposals	0.2	1.1	*(82.3%)*	(1.8)	*n.s.*
Free cash flow	**(38.5)**	**19.0**	*n.s.*	**(112.6)**	*(65.8%)*
Dividends	-	-	*n.s.*	(28.2)	*n.s*

Net debt € m	Mar-19	Dec-18	Δ%
Net financial debt Pulp business	179.0	147.6	*21.2%*
Net financial debt Renewable Energy business	221.2	157.2	*40.7%*
Net financial debt	**400.1**	**304.8**	*31.3%*

- ✓ **EBITDA in the Renewable Energy business increased by 48.9% year-on-year in the first quarter of 2019, driven not only by the contribution of the solar thermal energy plant acquired in December but also by higher output at the biomass power plants.**
- ✓ **As foreshadowed, EBITDA in the Pulp business declined by 28.1% year-on-year in the first quarter, due to losses on the settlement of exchange rates hedges of €9m, a higher weight of sales in the spot market outside of Europe, a 7.3% increase in the cash cost and a 5.9% drop in sales volumes related to the build-up during the quarter of inventories by over 20,000 tonnes ahead of the scheduled stoppage at the Navia biomill in the second quarter.**
- ✓ **As a result, the Group´s EBITDA and net profit amounted to €52m (down 17.3% YoY) and €17.3m (+41.6% YoY), respectively.**
- ✓ **However, normalised free cash flow increased by 36.2% to €38.7m, partially financing the Group's growth and sustainability capex during the quarter, which amounted to €79.6m and €6.9m, respectively.**
- ✓ **In the Renewable Energy business, Ence continued to build two new biomass plants with aggregate capacity of 96 MW which are slated to be commissioned at the end of the year, lifting annual EBITDA in this business by approximately €30m.**
- ✓ **In March, Ence Solar, a wholly-owned subsidiary of Ence Energía, arranged €109.6m of non-recourse project finance due 2031, at the 50-MW solar thermal plant in Ciudad Real. This financing, together with the release of the existing bank deposit of €45.9m was used to prepay the €139m bridge loan taken out in November to fund the plant's acquisition. As with the rest of the corporate financing taken on by the Renewable Energy business, the new project finance facility boasts Standard & Poor's highest green rating, evidencing Ence's commitment to sustainability, transparency and good governance.**
- ✓ **In the Pulp business, the Company completed phase one of the project for adding 20,000 tonnes of capacity at the Pontevedra biomill, to be followed by the addition of 80,000 tonnes at the Navia biomill during the second quarter.**
- ✓ **Application of IFRS 16 *Leases* from 1 January has triggered the recognition of financial liabilities in the amount of €55m at the March close; €46.4m of that sum correspond to the Pulp business and €8.6m to the Renewable Energy business.**
- ✓ **The Group's net debt-to-EBITDA ratio stood at 1.4x at the March close; 0.8x in the Pulp business and 3.5x in the Renewable Energy business (factoring in the annualised contribution by the solar thermal plant consolidated for the first time in December).**
- ✓ **The outlook for hardwood pulp (BHKP) market remains very positive thanks to sustained growth in demand and the lack of major capacity increases in the coming years. The soonest confirmed project, being built by Arauco in Chile, is not expected to be operational until the second half of 2021.**
- ✓ **Given the legal uncertainty generated by the change in criteria regarding the extension of Ence's concession in Pontevedra, the Board of Directors has decided to freeze all capital expenditure at this biomill not already committed to and to embark on the engineering work needed to concentrate the Group's investments at the Navia biomill, reiterating the targets for growth, diversification and financial discipline approved in the 2019 - 2023 Business Plan.**
- ✓ **There is no other viable alternative in Galicia, neither technical nor economic, to the current site of Ence´s biofactory in Pontevedra**

2. PULP BUSINESS

Ence has two eucalyptus pulp biomills in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 515,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally.

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

2.1. Pulp market trends

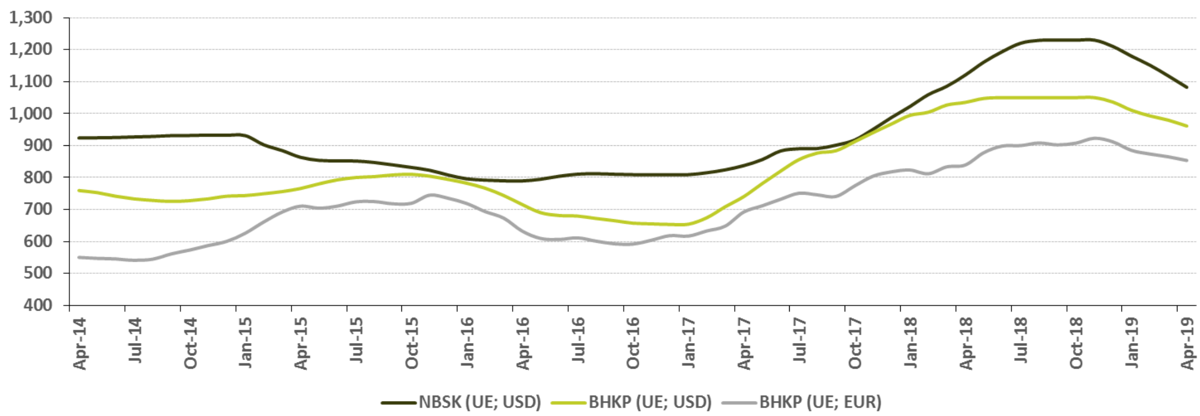
Global demand for hardwood pulp (BHKP) contracted by 0.9% in the first quarter of 2019, according to PPPC W-20 estimates. Within the various classes of BHKP, demand for eucalyptus pulp declined by 3.5% in the first quarter, compared to an increase of 13.8% in the other less efficient hardwood strains.

Demand for hardwood pulp is being shaped primarily by ongoing growth in the consumption of tissue paper, on the back of rapid urban development and growing standards of living in emerging economies. These demand dynamics are very consistent in the long term, in contrast to the ad-hoc contraction observed during the first quarter, which is attributable to the reduction of inventories in the Chinese paper industry initiated during the last quarter 2018.

The drop in apparent demand for pulp observed since October has triggered a $100 correction in BHKP prices in Europe since October to $950/tonne as of the April close.

The expected normalisation of apparent demand for pulp and the lack of major capacity addition plans foreshadow pulp price recovery in the coming quarters.

Pulp prices in Europe during the last five years (USD)



Source: FOEX

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

2.2. Revenue from pulp sales

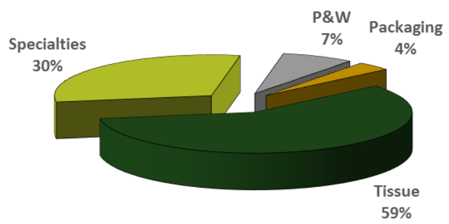
	1Q19	1Q18	Δ%	4Q18	Δ%
Pulp sales (t)	**219,104**	**232,735**	*(5.9%)*	**246,729**	*(11.2%)*
Average sales price (€/t)	604.9	601.4	*0.6%*	643.6	*(6.0%)*
Pulp sales revenue (€ m)	**132.5**	**140.0**	*(5.3%)*	**158.8**	*(16.5%)*

Ence's average pulp sales price increased by 0.6% year-on-year in the first quarter of 2019. The impact of euro depreciation against the dollar (7.2% on average) was offset by a 1.4% drop in the average benchmark price in dollars and, above all, a higher percentage of sales in the spot market, outside Europe. That market accounted for 29% of pulp sales in the first quarter.

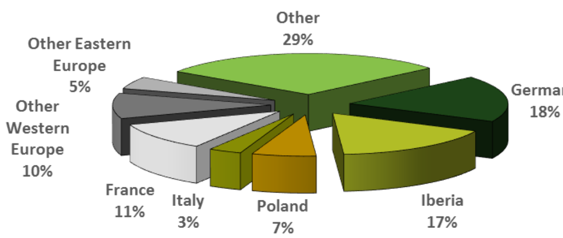
Pulp sales volumes, in tonnes, decreased by 5.9% year-on-year in the first quarter, due mainly to the build-up of inventories by over 20,000 tonnes ahead of the longer-than-customary stoppage scheduled at the Navia biomill for the second quarter in order to increase its capacity by 80,0000 tonnes. Inventories stood at 73,400 tonnes at the March close.

The combination of the two factors drove a year-on-year reduction in revenue from pulp sales of 5.3% to €132.5m in the first quarter.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 59% of revenue from pulp sales during the reporting period, followed by the specialty paper segment, at 30%, and the printing and writing papers segment, at 7%. The remaining 4% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 71% of revenue from pulp sales in 1Q19. Germany and Iberia accounted for 18% and 17% of total revenue, respectively, followed by Poland (7%), France (11%) and Italy (3%). Other western European countries accounted for 10% of the total, with Eastern Europe representing 5%.

2.3. Pulp production and cash cost

The Company produced 239,162 tonnes of pulp during the first quarter, year-on-year growth of 6%, thanks to the 30,000 tonnes of capacity added at the Pontevedra biomill in March 2018.

	1Q19	1Q18	Δ%	4Q18	Δ%
Navia pulp production	131,868	129,803	*1.6%*	138,554	*(4.8%)*
Pontevedra pulp production	107,294	95,841	*11.9%*	115,147	*(6.8%)*
Pulp production (t)	**239,162**	**225,644**	*6.0%*	**253,701**	*(5.7%)*

In March 2019, the Pontevedra biomill was stopped for 10 days. During that stoppage, the Company carried out €15.5m of investments corresponding to phase one of the plans to increase capacity at this biomill by 20,000 tonnes, most notably the investments made in the recovery boiler and condensation turbine. The plan is to bring this new capacity online gradually during the second half of the year, as the upgrades at the evaporators and digestors are fine-tuned. On the sustainability front, it is worth highlighting the addition of a new water cycle which will drive a 20% reduction in usage.

The first-quarter cash cost was €396.1/tonne, up €12.6/tonne from 4Q18 due mainly to the €13.4/tonne increase in conversion costs, in turn driven by reduced economies of scale and a lower contribution by the internal energy generation component this quarter. Elsewhere, wood cost increased by €2.1/tonne on the back of higher transportation costs, offset by a €2.6/tonne quarter-on-quarter reduction in overhead costs.

Figures in €/t	1Q19	1Q18	Δ%	4Q18	Δ%
Wood cost	209.7	199.1	*5.3%*	207.6	*1.0%*
Conversion costs	118.8	109.7	*8.2%*	105.4	*12.7%*
Sales and logistic costs	31.2	31.5	*(1.0%)*	31.5	*(1.1%)*
Overheads	36.4	29.0	*25.7%*	39.0	*(6.6%)*
Total cash cost	**396.1**	**369.3**	*7.3%*	**383.5**	*3.3%*

Compared to the first quarter of 2018, the cash cost increased by €26.8/tonne to €396.1/tonne. Wood cost was €10.6/tonne higher year-on-year, due to the sourcing from our plantations in southern Spain. Conversion costs increased by €9.1/tonne from 1Q18, largely driven by higher personnel and fuel costs. Lastly, overhead costs, which include the cost of the supply chain department, increased by €7.4/tonne, due mainly to new hires under the scope of the 2019 - 2023 Business Plan.

	1Q19	1Q18	Δ%	4Q18	Δ%
Wood cost €/m^3	70.2	66.4	*5.7%*	69.4	*1.2%*
Timber supply (m^3)	743,319	694,806	*7.0%*	729,431	*1.9%*
Large suppliers	15%	25%		20%	
Small suppliers	58%	48%		*54%*	
Standing timber acquired directly from land owners	24%	19%		*26%*	
Owned timber	*3%*	8%		*1%*	

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

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

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

	1Q19	1Q18	Δ%	4Q18	Δ%
Navia energy sales	128,542	129,839	*(1.0%)*	138,139	*(6.9%)*
Pontevedra energy sales	56,416	51,658	*9.2%*	60,374	*(6.6%)*
Energy sales linked to the pulp process (MWh)	**184,958**	**181,497**	*1.9%*	**198,514**	*(6.8%)*
Average sales price - Pool + Ro (€/MWh)	90.5	88.3	*2.5%*	95.2	*(4.9%)*
Remuneration for investment (€ m)	2.6	2.6	*0.0%*	2.6	*0.2%*
Revenues from energy sales linked to pulp (€ m)	**19.3**	**18.6**	*3.8%*	**21.5**	*(10.0%)*

The energy sold as part of the pulp production process amounted to 184,958 MWh in the first quarter, up 1.9% year-on-year.

Meanwhile, the average sales price increased by 2.5% to €90.5/MWh. Ence adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of provisions of €0.5m in 1Q19, compared to €0.8m in 1Q18, which are recognised as a decrease in the average sales price.

In total, revenue from energy sales in the Pulp business, factoring in the remuneration for investment - unchanged - increased by 3.8% year-on-year to €19.3m in 1Q19.

2.5. Revenue from forestry and other activities

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

	1Q19	1Q18	Δ%	4Q18	Δ%
Forestry and other revenues (€Mn)	**4.8**	**4.5**	*6.0%*	**2.3**	*114.2%*

Revenue from forestry increased by 6% year-on-year in the first first quarter and by 114% quarter-on-quarter.

Exploitation of the eucalyptus plantations located in the south of Spain was reactivated during the first quarter following the execution last quarter of two 12-year contracts for the sale of approximately 200,000 tonnes of timber per annum.

2.6. Income statement

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Total net revenue	**156.7**	**163.1**	*(4.0%)*	**182.5**	*(14.2%)*
EBITDA	**38.9**	**54.1**	*(28.1%)*	**64.5**	*(39.8%)*
EBITDA margin	*25%*	*33%*	*(8.3) p.p.*	*35%*	*(10.5) p.p.*
Depreciation and amortisation	(13.4)	(13.1)	*2.2%*	(12.8)	*4.5%*
Depletion of forestry reserves	(2.2)	(1.9)	*13.2%*	(1.6)	*38.0%*
Impairment of and gains/(losses) on fixed-asset disposals	0.7	2.4	*(70.9%)*	4.3	*(83.9%)*
Other non-recurring gains/(losses)	(1.1)	-	*n.s.*	(9.7)	*(89.2%)*
EBIT	**22.9**	**41.4**	*(44.6%)*	**44.8**	*(48.8%)*
EBIT margin	*15%*	*25%*	*(10.7) p.p.*	*25%*	*(9.9) p.p.*
Net finance cost	(2.1)	(3.4)	*(38.5%)*	(1.4)	*45.6%*
Other financial results	1.3	(0.2)	*n.s.*	(0.1)	*n.s.*
Profit before tax	**22.1**	**37.8**	*(41.5%)*	**43.3**	*(48.8%)*
Income tax	(5.7)	(9.7)	*(41.5%)*	(9.3)	*(38.9%)*
Net Income	**16.5**	**28.2**	*(41.5%)*	**34.0**	*(51.5%)*

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

EBITDA in the Pulp business declined by 28.1% year-on-year in the first quarter to €38.9m, due to a higher percentage of sales in the spot market, outside of Europe, a 7.3% increase in the cash cost and a 5.9% drop in sales volumes as a result of the build-up of inventories by over 20,000 tonnes during the period related to the plans to expand capacity at the Navia biomill by 80,000 tonnes during the second quarter. Those trends were compounded by losses on exchange rate hedges.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Those hedges entailed a loss of €5.8m in 1Q19 compared to a gain of €3m in 1Q18.

In addition, EBITDA this quarter includes other expenses, net of other income, that are not included in the cash cost, of €2m. The income and expenses not included in the cash cost include the EBITDA generated on the sale of timber to third parties, charges for community work in the vicinity of the Group's biomills, non-recurring staff costs and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were 2.2% higher at €13.4m, while forest depletion charges increased by 13.2% to €2.2m as a result of more intense use of timber sourced from Group-owned plantations during the quarter.

'Impairment of and gains/(losses) on disposal of intangible assets and PP&E' of €0.7m includes the reversal of the impairment losses previously recognised against the industrial assets remaining in Huelva in order to offset their depreciation. Other non-recurring operating charges include a €1.1m provision for expenses under Ence's Environmental Pact in Pontevedra, signed in June 2016.

Lastly, it is worth highlighting the fact that net finance costs declined by 38.5% year-on-year thanks to the refinancing work completed in 2018, which included the prepayment of €250m of 5.375% bonds issued in October 2016, which were partially replaced by 1.25% convertible bonds due 2023.

'Other finance income/costs' include €1.3m of exchange rate gains.

In all, net profit in the Pulp business amounted to €16.5m in the first quarter, down 41.5% from 1Q18.

2.7. Cash flow

Net cash flows from operating activities amounted to €43.8m in 1Q19, up 51% year-on-year, thanks to more favourable working capital trends.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
EBITDA	**38.9**	**54.1**	*(28.1%)*	**64.5**	*(39.8%)*
Non cash expenses / (income)	5.9	3.6	*62.8%*	0.8	*n.s.*
Other collections / (payments)	0.1	(0.8)	*n.s.*	0.3	*(49.5%)*
Change in working capital	0.1	(28.8)	*n.s.*	(0.4)	*n.s.*
Income tax received / (paid)	-	-	*n.s.*	(20.2)	*(100.0%)*
Net interest received / (paid)	(1.1)	0.9	*n.s.*	(0.3)	*n.s.*
Net cash flow from operating activities	**43.8**	**29.0**	*51.0%*	**44.7**	*(2.0%)*

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

The movement in working capital implied a cash inflow of €0.1m in the first quarter, attributable mainly to the lower volume of pulp sales, which more than offset the increase in inventories. In 1Q18, the change in working capital implied a cash outflow of €28.8m, due largely to a reduction in the use of factoring facilities.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Inventories	(8.7)	2.3	*n.s.*	(5.4)	*60.2%*
Trade and other receivables	11.5	(27.1)	*n.s.*	5.1	*125.6%*
Financial and other current assets	(0.6)	0.8	*n.s.*	(0.7)	*(17.8%)*
Trade and other payables	(2.1)	(4.8)	*(55.9%)*	0.6	*n.s.*
Change in working capital	**0.1**	**(28.8)**	*n.s.*	**(0.4)**	*n.s.*

The cash outflow from investing activities amounted to €27.3m, growth of 184% from 1Q18, evidencing intensification in capital expenditure under the scope of the new Business Plan.

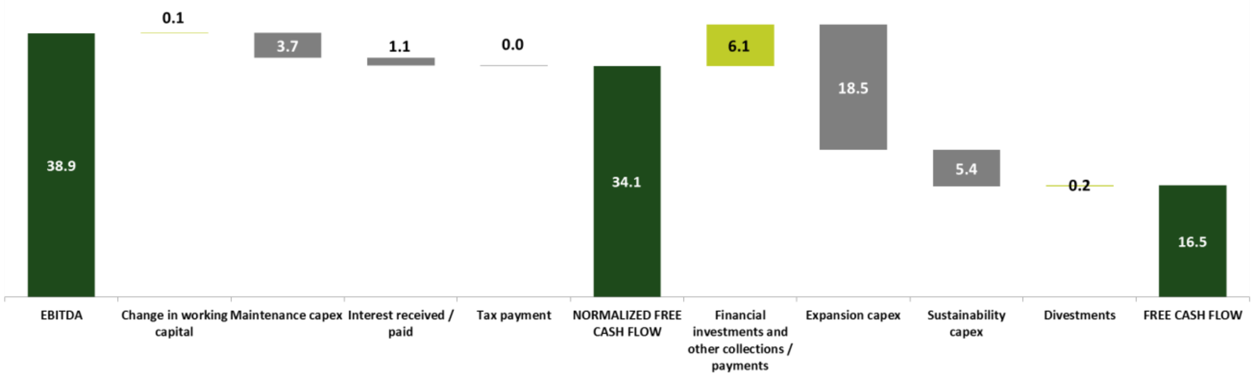
Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Maintenance capex	(3.7)	(3.3)	*12.1%*	(5.8)	*(35.5%)*
Efficiency and expansion capex	(18.5)	(8.0)	*129.8%*	(18.9)	*(2.2%)*
Sustainability capex	(5.4)	(0.1)	*n.s.*	(4.7)	*14.7%*
Financial investments	0.0	0.8	*(96.6%)*	(76.3)	*n.s.*
Investments	**(27.5)**	**(10.7)**	*157.4%*	**(105.6)**	*(74.0%)*
Disposals	0.2	1.1	*(82.3%)*	(1.8)	*n.s.*
Net cash flow used in investing activities	**(27.3)**	**(9.6)**	*184.2%*	**(107.5)**	*(74.6%)*

Maintenance capital expenditure totalled €3.7m, compared to €3.3m in 1Q18. Investments in efficiency and growth increased by 130% to €18.5m and were mainly related to the addition of 20,000 tonnes of capacity at the Pontevedra biomill and preparation for the addition of 80,000 tonnes at the Navia biomill during the second quarter.

Sustainability-related capital expenditure amounted to €5.4m, encompassing a range of initiatives designed to reduce odours, noise and water consumption, as well as a new biomass drying facility at Navia.

Lastly, proceeds from disposals amounted to €0.2m and related to industrial assets remaining in Huelva.

As a result, normalised free cash flow in the Pulp Business amounted to €34.1m in 1Q19, while free cash flow net of efficiency, growth and sustainability capex totalled €16.5m.

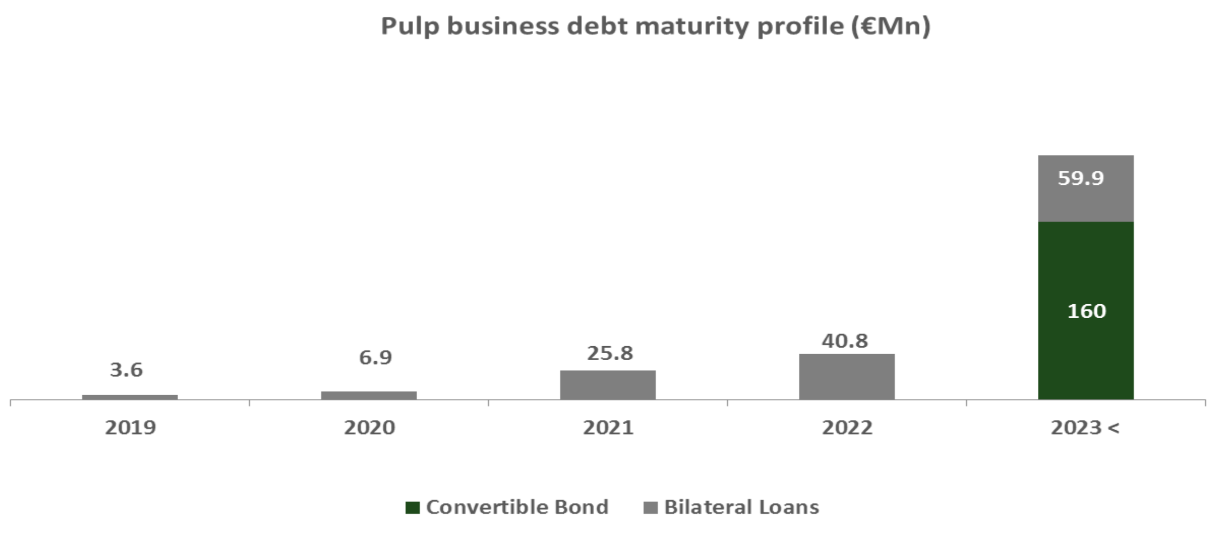


2.8. Change in net debt

Net debt in the Pulp business increased by €31.4m from year-end due to the first-time application of IFRS 16 *Leases*, which triggered the recognition of financial liabilities of €46.4m at the March close. If it weren't for the impact of IFRS 16, net debt in this business would have decreased by €15m in the period.

Figures in € m	Mar-19	Dec-18	Δ%
Non-current financial debt	293.4	292.6	*0.2%*
Current financial debt	3.6	5.4	*(32.7%)*
Gross financial debt	**297.0**	**298.0**	*(0.3%)*
Non-current lease contracts	44.0	-	*n.s.*
Current lease contracts	2.4	-	*n.s.*
Financial liabilities related to lease contracts	**46.4**	**-**	*n.s.*
Cash and cash equivalents	161.6	148.2	*9.1%*
Short-term financial investments	2.8	2.2	*27.1%*
Net financial debt Pulp business	**179.0**	**147.6**	*21.2%*

The gross debt of €297m at the March close corresponds mainly to the €146.4m of convertible bonds (deducted by the value of the conversion option), the outstanding balance of €110.3m on the bilateral loans and a series of loans totalling €40.3m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



At the March close, the Pulp business had cash and cash equivalents of €164.4m. Lastly, note that none of the €70m sustainable credit facility had been drawn down as of the 1Q19 close.

The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 0.8 times at the March close.

3. RENEWABLE ENERGY BUSINESS

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

Ence has six power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 170 MW: two plants in Huelva (with capacity of 50 MW and 41 MW); one in Merida (20 MW); one in Ciudad Real (16 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW). In addition, on 30 November 2018, Ence closed the acquisition of a 50-MW solar thermal plant in Puertollano (Ciudad Real).

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

3.1. Electricity market trends

	1Q19	1Q18	*Δ%*	4Q18	*Δ%*
Average pool price (€/MWh)	54.8	48.3	*13.5%*	63.0	*(12.9%)*

Average pool prices in mainland Spain were 13.5% higher year-on-year in 1Q19 at €54.8/MWh.

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

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

3.2. Revenue from energy sales

Energy sales volumes increased by 8.6% year-on-year to 247,184 MWh, thanks not only to the first-time contribution of the solar thermal plant acquired in December but also to higher output at the biomass power plants this quarter.

	1Q19	1Q18	Δ%	4Q18	Δ%
Huelva 50 MW - Biomass	72,955	67,276	*8.4%*	70,516	*3.5%*
Huelva 41 MW - Biomass	34,781	36,023	*(3.4%)*	36,574	*(4.9%)*
Mérida 20 MW - Biomass	34,700	27,393	*26.7%*	37,020	*(6.3%)*
Ciudad Real 16 MW - Biomass	22,545	23,141	*(2.6%)*	24,001	*(6.1%)*
Jaén 16 MW - Biomass	18,888	24,404	*(22.6%)*	12,498	*51.1%*
Córdoba 27 MW - Biomass	51,952	49,311	*5.4%*	27,101	*91.7%*
Ciudad Real 50 MW - Solar thermal plant	11,361	-	*n.s.*	1,125	*n.s.*
Energy sales (MWh)	**247,184**	**227,549**	*8.6%*	**208,834**	*18.4%*
Average sales price - Pool + Ro (€/MWh)	97.0	103.0	*(5.7%)*	90.5	*7.2%*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	12.0	*32.5%*
Revenue (€ m)	**40.0**	**34.0**	*17.7%*	**31.0**	*29.3%*

It is worth highlighting the quarter-on-quarter growth in output at the biomass plants in Jaen and Cordoba of 51.1% and 91.7%, following the repair in the last quarter of 2018 of damage affecting the turbines at both plants.

In addition, significant process and facility improvements were introduced at the biomass plants in Huelva during their annual stoppages in April which should enhance both power plants' performance during the second half of the year considerably.

The average energy sales price decreased by 5.7% year-on-year in 1Q19 to €97/MWh as a result of the temporary suspension of the electricity generation tax by the regulator (between October 2018 and March 2019) and the attendant adjustment to remuneration for operation of the plants. Note that this temporary suspension has no impact on EBITDA.

In addition, Ence adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of €1.8m of provisions in 1Q19, compared to €1.1m in 1Q18.

Lastly, quarterly remuneration for investment increased by 55.1% to €15.9m as a result of the first-time consolidation of the 50-MW solar thermal plant in Ciudad Real, acquired in December 2018.

In total, the Renewable Energy business reported revenue growth of 17.7% to €40m in 1Q19.

3.3. Income statement

EBITDA in the Renewable Energy business increased by 48.9% year-on-year to €13.1m in the first quarter of 2019, driven not only by the contribution of the solar thermal energy plant acquired in December but also higher output at the biomass power plants.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Total revenue	**40.0**	**34.0**	*17.7%*	**31.0**	*29.3%*
EBITDA	**13.1**	**8.8**	*48.9%*	**12.7**	*3.0%*
EBITDA margin	*33%*	*26%*	*6.9 p.p.*	*41%*	*(8.4) p.p.*
Depreciation and amortisation	(6.8)	(4.2)	*62.6%*	(5.1)	*34.6%*
Depletion of forestry reserves	-	-	*n.s.*	(0.0)	*(100.0%)*
Impairment of and gains/(losses) on fixed-asset disposals	(0.1)	(0.1)	*(12.7%)*	(1.3)	*(95.4%)*
EBIT	**6.2**	**4.6**	*37.2%*	**6.3**	*(1.3%)*
EBIT margin	*16%*	*13%*	*2.2 p.p.*	*20%*	*(4.8) p.p.*
Net finance cost	(4.6)	(2.3)	*105.6%*	(3.7)	*25.7%*
Other finance income/(cost)	(0.0)	(0.0)	*25.0%*	(0.0)	*(68.7%)*
Profit before tax	**1.6**	**2.3**	*(30.2%)*	**2.6**	*(39.0%)*
Income tax	0.0	(0.6)	*n.s.*	(0.5)	*n.s.*
Net Income	**1.6**	**1.7**	*(4.9%)*	**2.1**	*(22.2%)*
Non-controlling interests	(0.8)	(0.3)	*159.8%*	(0.8)	
Atributable Net Income	**0.8**	**1.4**	*(43.1%)*	**1.3**	*(40.2%)*

For similar reasons, depreciation charges increased by 62.6% from 1Q18.

Net finance costs increased to €4.6m in 1Q19 from €2.3m in 1Q18, due mainly to a higher average gross debt balance.

In all, attributable net profit in the Renewable Energy business amounted to €0.8m, a reduction of 43.1% from 1Q18.

3.4. Cash flow

Net cash flows from operating activities amounted to €9.4m in 1Q19, up 8.6% year-on-year, thanks to the growth in EBITDA, partially offset by a higher working capital requirement.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
EBITDA	**13.1**	**8.8**	*48.9%*	**12.7**	*3.0%*
Non cash expenses / (incomes)	3.1	2.8	*10.4%*	(2.3)	*n.s.*
Other collections / (payments)	(0.0)	(0.3)	*(98.2%)*	(0.2)	*(97.3%)*
Change in working capital	(5.8)	(1.9)	*204.0%*	8.8	*n.s.*
Income tax received / (paid)	0.1	0.3	*(66.5%)*	(0.8)	*n.s.*
Net interest received / (paid)	(1.1)	(1.1)	*2.4%*	(4.3)	*(74.9%)*
Net cash flow from operating activities	**9.4**	**8.7**	*8.6%*	**13.9**	*(32.3%)*

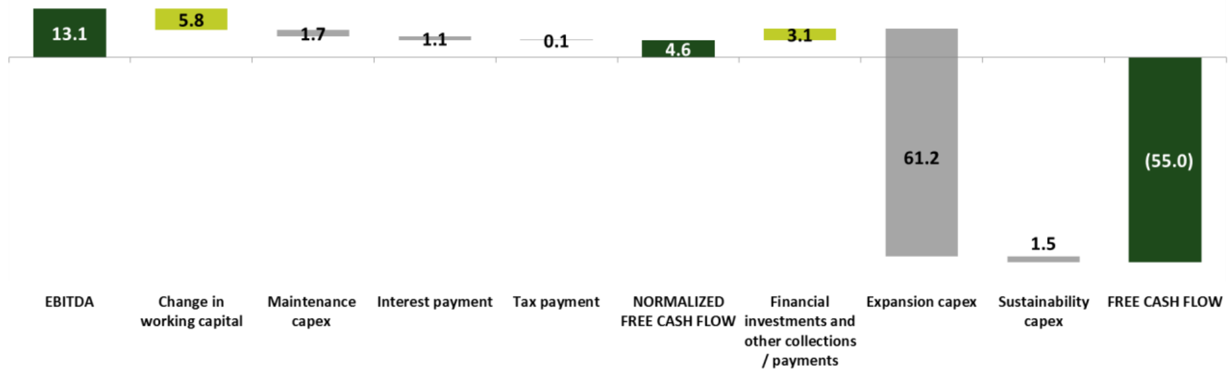
The movement in working capital implied a cash outflow of €5.8m in 1Q19, driven by a €1.9m increase in biomass inventories, growth of €1.8m in trade receivables and a €2.0m decrease in trade payables.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Inventories	(1.9)	0.5	*n.s.*	(0.1)	*n.s.*
Trade and other receivables	(1.8)	1.2	*n.s.*	8.4	*n.s.*
Trade and other payables	(2.0)	(3.5)	*(43.1%)*	0.5	*n.s.*
Change in working capital	**(5.8)**	**(1.9)**	*204.0%*	**8.8**	*n.s.*

Net cash flows used in investing activities totalled €64.4m, of which €61.2m corresponded to growth capex, mainly related with the construction of two new plants, a 46-MW plant in Huelva and a 50-MW plant in Cordoba, which are expected to be commissioned at the end of 2019. Maintenance and sustainability capex amounted to €1.7m and €1.5m, respectively.

Figures in € m	1Q19	1Q18	Δ%	4Q18	Δ%
Maintenance capex	(1.7)	(0.6)	*184.3%*	(1.2)	*38.8%*
Efficiency and expansion capex	(61.2)	(9.3)	*n.s.*	(139.2)	*(56.1%)*
Sustainability capex	(1.5)	(0.2)	*n.s.*	(1.4)	*10.5%*
Financial investments	(0.0)	1.1	*n.s.*	(0.0)	*n.s.*
Investments	**(64.4)**	**(9.1)**	*n.s.*	**(141.8)**	*(54.6%)*
Disposals	-	-	*n.s.*	-	*n.s.*
Net cash flow from investing activities	**(64.4)**	**(9.1)**	*n.s.*	**(141.8)**	*(54.6%)*

As a result, the Renewable Energy business generated normalised free cash flow of €4.6m in 1Q19, while free cash flow net of growth, efficiency and sustainability capex totalled -€55m.



3.5. Change in net debt

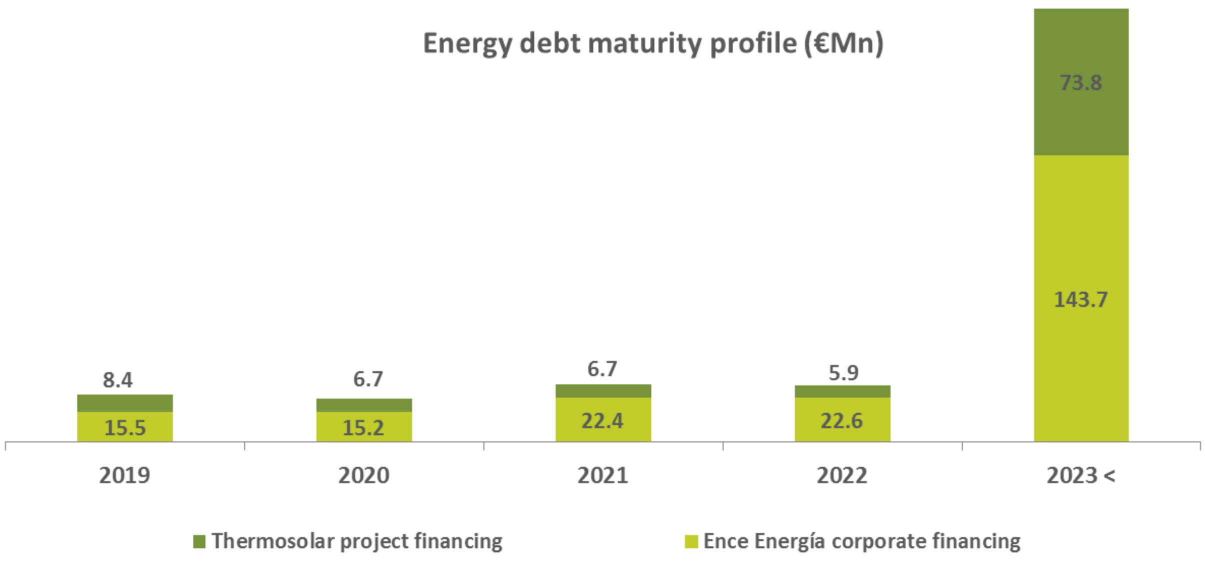
Net debt in the Renewable Energy business increased by €64m from year-end 2018 to €221.2m. Application of IFRS 16 *Leases* from 1 January triggered the recognition of financial liabilities in the amount of €8.6m at the March close.

Figures in € m	Mar-19	Dec-18	Δ%
Non-current financial debt	297.1	205.4	*44.6%*
Current financial debt	24.0	152.2	*(84.3%)*
Gross financial debt	**321.1**	**357.6**	*(10.2%)*
Non-current lease contracts	8.2	-	*n.s.*
Current lease contracts	0.3	-	*n.s.*
Financial liabilities related to lease contracts	**8.6**	-	*n.s.*
Cash and cash equivalents	108.5	200.5	*(45.9%)*
Short-term financial investments	0.0	0.0	-
Net financial debt Renewable Energy business	**221.2**	**157.2**	*40.7%*

In March 2019, Ence Solar, a wholly-owned subsidiary of Ence Energía, arranged €109.6m of non-recourse project finance, due 2031, at the 50-MW solar thermal plant in Ciudad Real. This financing, together with the €45.9m released from the existing bank deposit, was used to prepay the €139m bridge loan taken out in November 2018 to fund the plant's acquisition.

As with the rest of the corporate financing taken on by the Renewable Energy business, the new project finance facility boasts Standard & Poor's highest green rating, evidencing Ence's commitment to sustainability, transparency and good governance.

This unit's €321.1m of gross borrowings at the March close corresponded mainly to the €219.7m drawn down under the corporate financing facility and the €101.4m drawn under the above project finance facility arranged by the solar thermal plant. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



Cash in this business stood at €108.5m at the March close.

The ratio of net debt-to-LTM EBITDA (including the annualised contribution by the solar thermal plant consolidated for the first time in December) in the Renewable Energy business stood at 3.5 times at the March close.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income Statement

	1Q19				1Q18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**156.7**	**40.0**	**(1.1)**	**195.6**	**163.1**	**34.0**	**(0.9)**	**196.2**
Other income	(2.1)	0.3	(0.9)	(2.7)	5.7	0.2	(1.1)	4.8
Change in inventories of finished products	7.5	-		7.5	(2.1)	-		(2.1)
Cost of sales	(69.1)	(11.9)	1.1	(79.9)	(61.7)	(11.3)	0.9	(72.1)
Personnel expenses	(19.9)	(2.8)		(22.7)	(15.8)	(2.1)		(17.9)
Other operating expenses	(34.1)	(12.5)	0.9	(45.7)	(35.1)	(12.1)	1.1	(46.1)
EBITDA	**38.9**	**13.1**		**52.0**	**54.1**	**8.8**		**62.9**
EBITDA margin	*25%*	*33%*		*27%*	*33%*	*26%*		*32%*
Depreciation and amortisation	(13.4)	(6.8)		(20.2)	(13.1)	(4.2)		(17.3)
Depletion of forestry reserves	(2.2)	-		(2.2)	(1.9)	-		(1.9)
Impairment of and gains/(losses) on fixed-asset disposals	0.7	(0.1)		0.6	2.4	(0.1)		2.3
Other non-ordinary operating gains/(losses)	(1.1)	-		(1.1)	-	-		-
EBIT	**22.9**	**6.2**		**29.2**	**41.4**	**4.6**		**46.0**
EBIT margin	*15%*	16%		15%	*25%*	13%		*23%*
Net finance cost	(2.1)	(4.6)		(6.7)	(3.4)	(2.3)		(5.6)
Other finance income/(costs)	1.3	(0.0)		1.3	(0.2)	(0.0)		(0.2)
Profit before tax	**22.1**	**1.6**		**23.7**	**37.8**	**2.3**		**40.1**
Income tax	(5.7)	0.0		(5.6)	(9.7)	(0.6)		(10.3)
Net Income	**16.5**	**1.6**		**18.1**	**28.2**	**1.7**		**29.9**
Non-controlling interests	-	(0.8)		(0.8)	-	(0.3)		(0.3)
Atributable Net Income	**16.5**	**0.8**		**17.3**	**28.2**	**1.4**		**29.6**
Earnings per Share (EPS)	0.07	0.00		0.07	0.11	0.01		0.12

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

4.2. Balance sheet

	Mar- 19				Dec - 18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	45.4	47.6	-	93.0	12.4	47.7		60.1
Property, plant and equipment	515.2	547.6	(1.7)	1,061.1	475.4	513.4		987.1
Biological assets	81.2	0.2		81.4	82.4	0.2		82.6
Non-current investments in Group companies	277.4	-	(277.4)	-	277.4	-	(277.4)	-
Non-current borrowings to Group companies	75.2	-	(75.2)	-	75.2	-	(75.2)	-
Non-current financial assets	1.4	1.4	-	2.8	1.7	12.0		13.7
Deferred tax assets	43.0	14.4		57.5	42.8	13.6		56.5
Total non-current assets	**1,038.8**	**611.2**	**(354.3)**	**1,295.7**	**967.3**	**587.0**	**(354.3)**	**1,200.0**
Non-current assets held for sale	4.0	-		4.0	4.0	-		4.0
Inventories	44.4	9.5		53.9	36.0	7.6		43.5
Trade and other accounts receivable	102.9	37.0	(28.2)	111.7	110.1	35.4	(23.1)	122.4
Income tax	0.0	1.2		1.2	0.0	1.4		1.4
Other current assets	3.6	0.1		3.7	2.0	0.0		2.1
Hedging derivatives	0.0	-		-	0.0	-		-
Current financial investments in Group companies	0.0	-		-	-	-		-
Current financial investments	2.8	0.0		2.8	2.2	0.0		2.2
Cash and cash equivalents	161.6	108.5		270.1	148.2	200.5		348.6
Total current assets	**319.3**	**156.3**	**(28.2)**	**447.5**	**302.4**	**244.9**	**(23.1)**	**524.2**
TOTAL ASSETS	**1,358.1**	**767.6**	**(382.5)**	**1,743.2**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**
Equity	**724.7**	**251.1**	**(278.7)**	**697.1**	**724.5**	**251.4**	**(278.7)**	**697.3**
Non-current borrowings	337.4	305.4		642.7	292.6	205.4		498.1
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	1.2	7.1		8.3	0.1	4.5		4.7
Deferred tax liabilities	21.1	19.4	(0.4)	40.0	21.0	19.4		40.0
Non-current provisions	3.2	9.2		12.5	3.1	9.2		12.3
Other non-current liabilities	8.7	22.7		31.5	8.9	19.4		28.3
Total non-current liabilities	**371.6**	**439.0**	**(75.6)**	**735.0**	**325.8**	**333.2**	**(75.6)**	**583.3**
Liabilities linked to non-current assets held for sale	-	-	-	-	-	-	-	-
Current borrowings	6.0	24.3		30.3	5.4	152.2		157.6
Current derivatives	19.7	3.0		22.6	16.0	3.0		19.0
Trade and other account payable	206.4	48.7	(28.2)	226.9	175.0	90.9	(23.1)	242.8
Income tax	6.5	0.2		6.7	1.6	0.2		1.8
Current provisions	23.3	1.3		24.6	21.5	0.9		22.4
Total current liabilities	**261.8**	**77.5**	**(28.2)**	**311.1**	**219.5**	**247.2**	**(23.1)**	**443.6**
TOTAL EQUITY AND LIABILITIES	**1,358.1**	**767.6**	**(382.5)**	**1,743.2**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**

4.3. Cash flow statement

	1Q19				1Q18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	**22.1**	**1.6**		**23.7**	**37.8**	**2.3**		**40.1**
Depreciation and amortisation	15.6	6.8		22.4	15.3	3.9		19.2
Changes in provisions and other deferred expense	7.2	3.1		10.3	3.9	2.8		6.7
Impairment of gains/(losses) on disposals intangible asset	(0.7)	0.1		(0.6)	(2.4)	0.1		(2.3)
Net finance cost	0.9	4.6		5.6	3.3	2.3		5.6
Government grants taken to income	(0.2)	(0.1)		(0.3)	(0.3)	(0.0)		(0.3)
Adjustments to profit	**22.8**	**14.6**		**37.4**	**19.9**	**9.1**		**28.9**
Inventories	(8.7)	(1.9)		(10.6)	2.3	0.5		2.8
Trade and other receivables	11.5	(1.8)		9.6	(27.1)	1.2		(26.0)
Current financial and other assets	(0.6)	-		(0.6)	0.8	-		0.8
Trade and other payables	(2.1)	(2.0)		(4.1)	(4.8)	(3.5)		(8.3)
Changes in working capital	**0.1**	**(5.8)**		**(5.7)**	**(28.8)**	**(1.9)**		**(30.7)**
Interest paid	(1.1)	(1.1)		(2.2)	0.9	(1.1)		(0.1)
Dividends received	-	-		-	-	-		-
Income tax received/(paid)	-	0.1		0.1	-	0.3		0.3
Other collections/(payments)	-	-		-	(0.8)	-		(0.8)
Other cash flows from operating activities	**(1.1)**	**(1.0)**		**(2.1)**	**0.1**	**(0.8)**		**(0.6)**
Net cash flow from operating activities	**43.8**	**9.4**		**53.3**	**29.0**	**8.7**		**37.7**
Property, plant and equipment	(26.7)	(64.3)		(91.0)	(11.1)	(10.1)		(21.2)
Intangible assets	(0.8)	(0.1)		(0.9)	(0.4)	(0.0)		(0.4)
Other financial assets	0.0	(0.0)		0.0	0.8	1.1		1.9
Disposals	0.2	-		0.2	1.1	-		1.1
Net cash flow used in investing activities	**(27.3)**	**(64.4)**		**(91.7)**	**(9.6)**	**(9.1)**		**(18.7)**
Free cash flow	**16.5**	**(55.0)**		**(38.5)**	**19.4**	**(0.4)**		**19.0**
Buyback/(disposal) of own equity instruments	(0.2)	-		(0.2)	14.8	-		14.8
Proceeds from and repayments of financial liabilities	(2.9)	(37.0)		(39.9)	154.9	14.2		169.1
Dividends payments	-	-		-	-	-		-
Net cash flow from/ (used in) financing activities	**(3.0)**	**(37.0)**		**(40.0)**	**169.7**	**14.2**		**183.9**
Net increase/(decrease) in cash and cash equivalents	**13.5**	**(92.0)**		**(78.5)**	**189.1**	**13.9**		**202.9**

5. KEY DEVELOPMENTS

Change in the state's criteria regarding the extension of Ence's concession in Pontevedra

In relation to the court proceedings brought at the behest of the City Council of Pontevedra, appealing the Resolution dated 20 January 2016 extending Ence's concession in Pontevedra, on 10 April 2019, the National Court´s Chamber for Contentious Administrative Proceedings issued a court order granting Ence and Ence's Works Committee (whose appearance in the proceedings as co-defendant has recently been allowed) a deadline for officially filing their arguments against the lawsuit brought by the City Council of Pontevedra. With this court ruling, the National Court has moved ahead with the proceedings without being conditioned, for the time being, by the decision taken by Spain's Ministry of Ecological Transition to acquiesce (see below).

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

On 8 March 2019, the Ministry of Ecological Transition, by means of deeds presented that same day, conceded or acquiesced in all three lawsuits, i.e., it requested to have the claims upheld, despite having previously argued throughout all of the proceedings that the Ministerial Order | Resolution of 20 January 2016 was totally lawful. Ence is opposing the state's acquiescence vehemently.

Although Ence and its legal counsel believe that both the appeals lodged by the Council and environmental association and the arguments put forward by the state government to substantiate its acquiescence lack legal grounds, in order to act transparently, on 15 March 2019, the Company filed a price-sensitive notice in which it provided its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex.

The Company estimates that in the unlikely event that operations have to be so discontinued, such a development would have an extraordinary impact on its income statement of €185m. Of that sum, €74m would entail an outflow of cash: €43m for dismantling work; €16m to terminate existing contracts (based on the prior experience of dismantling the former mill in Huelva); and €15m related with employee layoffs. The remaining €111m would correspond to asset impairment charges and would not, accordingly, affect cash.

In addition, on 19 March 2019, the Ministry of Ecological Transition began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The reason given by the Ministry for amending the Regulations is to bring them in line with the Public Authority Property Act in keeping with reports and rulings recently issued by the state attorney's office (report 611/2018 and ruling 25/18). The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

Reflecting the new criterion established by the state attorney's office, the matter of the term of concessions lies at the crux of the above-mentioned draft bill, which reinterprets the existing regulations regarding the maximum term for which concessions can be extended. Current regulations contemplate the possibility of extending the term by up to 75 years; the new interpretation holds that the maximum concession term of 75 years must encompass both the initial term of the concession and any extension thereof.

Given the legal uncertainty generated by the change in criteria regarding the extension of Ence's concession in Pontevedra, the Board of Directors has decided to freeze all capital expenditure at this biomill not already contracted and to embark on the engineering work needed to concentrate the Group's investments at the Navia biomill, reiterating in the interim the targets for growth, diversification and financial discipline approved in the 2019 - 2023 Business Plan.

2019 Annual General Meeting

Ence held its Annual General Meeting on 28 March. It was attended by shareholders representing 70% of its share capital who ratified all of the agenda items, including:

- Approval of the 2018 financial statements, management report and sustainability report.
- Approval of the Board of Directors' performance and proposed appropriation of profit for 2018.
- The re-election and appointment of the following directors:
    - The re-election of Ms. Isabel Tocino Biscarolasaga as independent director and her appointment as Chairwoman of the Audit Committee and member of the Appointments and Remuneration Committee.
    - The re-election of Mr. Fernando Abril-Martorell as other external director and his appointment as member of the Executive Committee and of the Appointments and Remuneration Committee.
    - The re-election of Mr. José Guillermo Zubía Guinea as other external director, his appointment as Chairman of the Sustainability Committee and his re-election as Secretary of the Audit Committee and member of the Executive Committee.
    - Appointment of Ms. Amaia Gorostiza Tellería as independent director and as Secretary of the Appointments and Remuneration Committee.
    - Appointment of Ms. Irene Hernández Álvarez as independent director and as member of the Audit Committee.
    - Appointment of Ms. Rosa María García Piñeiro as member of the Audit Committee and of the Sustainability Committee.
    - Appointment of RETOS OPERATIVOS XXI, S.L. as member of the Executive Committee and of the Sustainability Committee.
    - Appointment of TURINA 2000, S.L. as member of the Appointments and Remuneration Committee.
    - Appointment of Ms. Reyes Cerezo Rodríguez-Sedano as Vice-Chairwoman of the Board of Directors.
- Re-election of the Company's auditor.
- Approval of the long-term incentive plan for 2019-2023.

Ignacio Colmenares appointed Ence's new Chairman and Juan Luis Arregui named Honorary Chairman

On 30 April 2019, the Board of Directors agreed to name the Company's current CEO and Vice-Chairman, Ignacio de Colmenares Brunet, Chairman of the Board and of the Executive Committee, in replacement of Juan Luis Arregui Ciarsolo. Mr. Arregui will remain a member of the Company's Board of Directors and of its Executive and Sustainability Committees.

In addition, the Board, at the recommendation of its Appointments and Remuneration Committee, appointed independent director José Carlos del Álamo Jiménez as its Lead Independent Director.

Approval of a share buyback programme

Also on 30 April 2019, the Board approved a share buyback programme to enable the Company to meet its obligations under the 2019 - 2023 Long-Term Incentive Plan approved at the Annual General Meeting on 28 March 2019; the shares bought back will be earmarked for delivery to the plan beneficiaries. The main terms and conditions of the programme are:

1. Maximum number of shares to be repurchased: The buyback programme will encompass a maximum of 2,439,000 own shares, representing approximately 1% of the Company's share capital.
2. Maximum consideration: subject to the price and volume terms referred to under item 3 below, the maximum price payable for the shares bought back under the scope of this programme has been set at €5.80 per share, so that the programme will have a maximum size of €14,166,200.
3. Price and volume: The shares will be purchased at market prices, in keeping with the price and volume terms stipulated in article 3 of Commission Delegated Regulation (EU) 2016/1052, which supplements Regulation (EU) No. 596/2014 with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.
4. Duration: The buyback programme will run from 7 May 2019 until 31 May 2019. However, the buyback programme may be ended prior to that date if the maximum number of authorised shares has already been purchased; the maximum monetary size of the programme has been surpassed; or if any other circumstances so warrant.
5. Programme management: Management of the share buyback programme has been mandated to GVC Gaesco Beka, S.V., S.A., which will purchase the shares on behalf of the Company and take all decisions related to the Company's shares autonomously.

Payment of the final dividend

The Company paid out a final dividend against 2018 profits of €0.054 per share (before tax) on 11 April 2019.

The final dividend complemented two interim dividends from 2018 profits: a first interim dividend of €0.104 paid out on 12 September 2018 and a second interim dividend of €0.105, on 18 December 2018.

Together, the three dividends are equivalent to 50% of 2018 earnings per share and imply a dividend yield of over 5% with respect to the year-end 2018 share price.

APPENDIX 1: REMUNERATION PARAMETERS APPLICABLE TO GROUP FACILITIES

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW)	Type of fuel	Remuneration for operation 1Q19 (Ro; €/MWh)	Cap on sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	31.995	-
	Biomass generation	36.2	230,190	Agroforestry biomass	52.683	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	32.049	-
			55,308	Agroforestry biomass	53.243	6,500
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	58.256	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	50.465	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	49.818	6,500
C. Real 16MW	Biomass generation	16.0	261,008	Olive Pulp	40.409	6,500
Jaen 16MW	Biomass generation	16.0	261,008	Olive Pulp	39.960	6,500
Cordoba 27MW	Biomass generation	14.3	229,582	Olive Pulp	41.825	6,500
	Gas co-generation	12.8	-	Natural Gas	68.940	-
C.Real 50MW	Solar thermal plant	50.0	451,129		28.5	2,024

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

Power plants fuelled by renewable sources of energy, combined heat and power (CHP) systems or waste are regulated by Spanish Royal Decree 413/2014. These plants are remunerated by means of two specific concepts designed to enable them to compete on an even footing with the other generation technologies and ensure a reasonable return on investment:

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

   Income from operations = (Ro + pool) * MWh

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

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

Eur / MWh	2017	2018	2019
LS2	49,81	48,30	48,68
LS1	46,33	44,92	45,28
Estimated pool price	42,84	41,54	41,87
LI1	39,35	38,16	38,46
LI2	35,87	34,78	35,06

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

   Investment income = MW * Ri

APPENDIX 2: ENVIRONMENTAL PLEDGE

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

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

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

The integrated management system in place at the Navia, Pontevedra and Huelva Operations Centres is certified by an accredited organisation in keeping with the following international standards: The UNE-EN-ISO 9001 quality management standard, the UNE-EN-ISO 14001 environmental management standard and the OHSAS 18001 workplace health and safety standard. It is audited annually.

These three facilities also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of their environmental statements 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.

Framed by the sustainability goals set by the Company for 2019, Ence is prioritising the elimination of odour emissions at its biomills as part of its so-called Xer0 Odour Plan. To date, it has already reduced these emissions by 99%.

Another of the objectives set for 2019 is to reduce water consumption at its biomills. Here it is worth noting the improvement recorded at the Pontevedra biomill during the first quarter, where consumption decreased by over 12% from 335m^3/ADt at year-end 2018 to 29.4 m3/ADt at the March close.

Ence has also positioned itself as the benchmark Spanish player in forest sustainability matters thanks to its strategic focus on three key lines of initiative: environmental responsibility, management efficiency and social commitment. Ence uses internationally-recognised standards of excellence, such as the FSC® (FSC-C099970) (Forest Stewardship Council®) and PEFC (Program for the Endorsement of Forest Certification) schemes, in managing its own forest tracts and fosters their adoption in the case of third-party forests. In addition, Ence aims to deliver continuous improvement in terms of its consumption of natural resources and works to promote its management criteria by collaborating actively on planning matters, pest control, plant issues and forest certification, among other aspects.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 91% and 61%, respectively, in 1Q19.

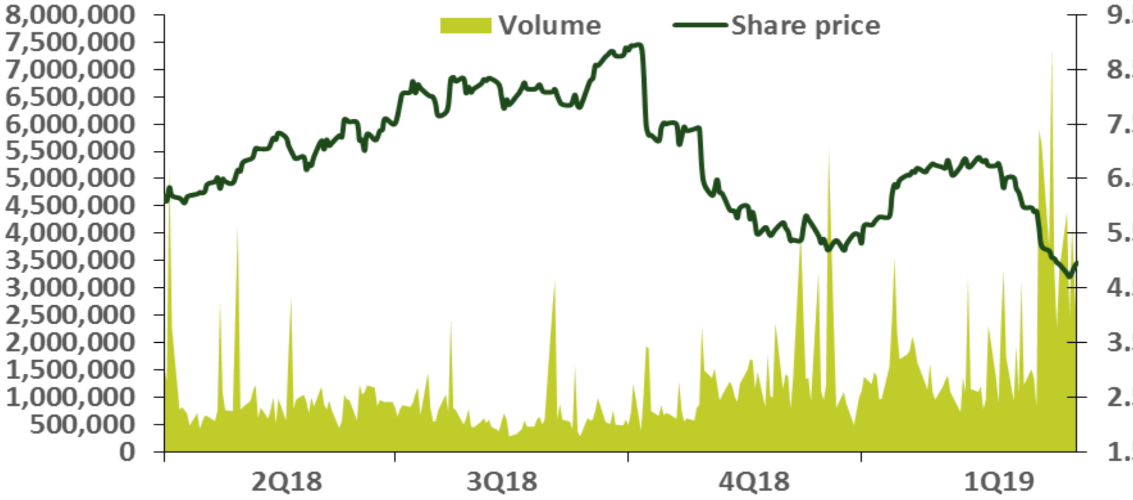
As for its biomass-fuelled Renewable Energy business, Ence has pioneered the segment, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew from the biomass sustainability criteria established by some of Europe's leading environmentalist organisations.

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

APPENDIX 3: SHARE PRICE PERFORMANCE

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

Ence's share price ended March at €4.96/share, down 9.6% from year-end 2018, affected by the uncertainty generated by the change in government criteria with respect to the extension of the concession Ence holds in Pontevedra.



Source: Bloomberg

	1Q18	2Q18	3Q18	4Q18	1Q19
Share price at the end of the period	6.12	7.60	8.75	5.49	4.96
Market capitalization at the end of the period	1507.2	1871.7	2154.9	1350.8	1221.5
Ence quarterly evolution	11.3%	24.2%	15.1%	(37.3%)	(9.6%)
Daily average volume (shares)	1,205,342	1,073,179	749,581	1,261,459	1,993,546
Peers quarterly evolution *	37.6%	30.5%	4.8%	(23.8%)	7.6%

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp.

On 5 March 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €7.2635 per share. The convertible bonds are traded on the Frankfurt stock exchange. Their trading performance during the first quarter reflected the movement in the value of the conversion option in line with the correction in the share price.

CONVERTIBLE BOND	1Q18	2Q18	3Q18	4Q18	1Q19
Bond price at the end of the period	106.77	119.28	130.77	105.67	98.46
Yield to worst at the end of the period*	-0.123%	-2.603%	-4.892%	-0.107%	1.656%

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

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

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

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

CASH COST

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

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

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

EBITDA

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

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

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

CASH FLOW ANALYSIS

The Cash Flow Analysis presented in sections 1, 2.7 and 3.4 of this report differ from the cash flow movements presented in the statement of cash flows included in section 4.3 and also presented in the annual financial statements.

The difference stems from the fact that the former analyses the movements in Free Cash Flow starting from EBITDA, whereas the Cash Flow Statement presents the movements in the Group's cash and cash equivalents starting from profit before tax, using the indirect method.

As a result, the headings, 'Other receipts/(payments)' and 'Expenses/(income) with no impact on cash' do not coincide exactly with 'Consolidated profit/(loss) for the period - Adjustments' and 'Other receipts/(payments)', albeit in both instances arriving at net cash from operating activities.

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

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

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

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

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

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

FREE CASH FLOW

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

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

NET FINANCIAL DEBT

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

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

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

DISCLAIMER

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

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

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

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Earnings Report
1Q19