ENCE ENERGÍA & CELULOSA

Second-quarter 2019 earnings report

FSC www.fsc.org FSC® C081854 The mark of responsible forestry

EMAS

NORDIC ECOLABEL

PEFC PEFC/14-33-00001 GRUPO EMPRESARIAL ENCE dispone de una Cadena de Custodia certificada www.pefc.es

30 July 2019

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
BHKP (USD/t) average price	938.6	1,044.4	*(10.1%)*	994.7	*(5.6%)*	966.9	1,026.4	*(5.8%)*
Average exchange rate (USD/€)	1.12	1.20	*(6.2%)*	1.14	*(1.3%)*	1.13	1.21	*(6.7%)*
BHKP (€/t) average price	835.9	872.3	*(4.2%)*	874.7	*(4.4%)*	855.5	847.7	*0.9%*
Average pool price (€/MWh)	48.5	52.4	*(7.3%)*	54.8	*(11.5%)*	51.7	50.4	*2.7%*

Operating Metrics	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Pulp production (t)	**226,182**	**232,186**	***(2.6%)***	**239,162**	***(5.4%)***	**465,344**	**457,830**	***1.6%***
Pulp sales (t)	**218,846**	**230,386**	***(5.0%)***	**219,104**	***(0.1%)***	**437,950**	**463,121**	***(5.4%)***
Average sales pulp price (€/t)	575.8	634.5	*(9.2%)*	604.9	*(4.8%)*	590.4	617.9	*(4.5%)*
Cash cost (€/t)	398.7	377.8	*5.5%*	396.1	*0.7%*	396.2	374.0	*5.9%*
Wood cost €/m^3	69.6	66.2	*5.1%*	70.2	*(0.9%)*	69.5	66.3	*4.9%*
Renewable Energy sales volume (MWh)	**235,363**	**219,920**	***7.0%***	**247,217**	***(4.8%)***	**482,580**	**447,469**	***7.8%***
Average sales price - Pool + Ro (€/MWh)	105.0	110.6	*(5.1%)*	97.0	*8.2%*	101.7	108.0	*(5.9%)*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	15.9	-	31.7	20.5	*55.1%*

P&L € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Revenue from Pulp business	151.5	170.3	*(11.1%)*	156.7	*(3.3%)*	308.1	333.4	*(7.6%)*
Revenue from Renewable Energy business	40.8	34.8	*17.3%*	40.0	*1.9%*	80.8	68.8	*17.5%*
Consolidation adjustments	(1.7)	(1.0)		(1.1)		(2.8)	(1.9)	
Total revenue	**190.6**	**204.0**	*(6.6%)*	**195.6**	*(2.5%)*	**386.2**	**400.3**	*(3.5%)*
Pulp business EBITDA	27.8	59.0	*(53.0%)*	38.9	*(28.6%)*	66.6	115.1	*(42.1%)*
Margin %	18%	35%	*(16.3) p.p.*	25%	*(6.5) p.p.*	22%	35%	*(12.9) p.p.*
Renewable Energy business EBITDA	12.5	10.8	*15.6%*	13.1	*(4.5%)*	25.7	19.7	*30.5%*
Margin %	31%	31%	*(0.5) p.p.*	33%	*(2.0) p.p.*	32%	29%	*3.2 p.p.*
EBITDA	**40.3**	**69.9**	*(42.3%)*	**52.0**	*(22.5%)*	**92.3**	**134.8**	*(31.5%)*
Margin %	*21%*	*34%*	*(13.1) p.p.*	*27%*	*(5.4) p.p.*	*24%*	*34%*	*(9.8) p.p.*
Depreciation, amortisation and forestry depletion	(22.4)	(18.6)	*20.2%*	(22.4)	*(0.1%)*	(44.8)	(37.9)	*18.3%*
Impairment of and gains/(losses) on fixed-asset disposals	1.0	1.7	*(42.3%)*	0.6	*53.8%*	1.6	4.0	*(59.9%)*
Other non-ordinary results of operations	(1.1)	(2.0)	*(47.6%)*	(1.1)	-	(2.1)	(4.0)	*(47.5%)*
EBIT	**17.8**	**50.9**	*(65.0%)*	**29.2**	*(38.9%)*	**47.0**	**96.9**	*(51.5%)*
Net finance cost	(6.3)	(23.3)	*(72.9%)*	(6.7)	*(5.5%)*	(13.0)	(29.0)	*(55.1%)*
Other finance income/(cost) results	(0.7)	1.5	*n.s.*	1.3	*n.s.*	0.6	1.3	*(56.1%)*
Profit before tax	**10.8**	**29.1**	*(62.8%)*	**23.7**	*(54.4%)*	**34.6**	**69.2**	*(50.1%)*
Income tax	(2.5)	(7.6)	*(67.0%)*	(5.6)	*(55.3%)*	(8.1)	(17.9)	*(54.4%)*
Net income	**8.3**	**21.5**	*(61.3%)*	**18.1**	*(54.2%)*	**26.4**	**51.3**	*(48.6%)*
Non-controlling interests	(0.6)	(0.7)	*(14.1%)*	(0.8)	*n.s*	(1.4)	(1.0)	*41.1%*
Atributable Net Income	**7.7**	**20.8**	*(62.9%)*	**17.3**	*(55.4%)*	**25.0**	**50.3**	*(50.4%)*
Earnings per share (Basic EPS)	0.03	0.08	*(62.9%)*	0.07	*(55.4%)*	0.10	0.21	*(51.7%)*

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

Cash flow € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
EBITDA	**40.3**	**69.9**	*(42.3%)*	**52.0**	*(22.5%)*	**92.3**	**134.8**	*(31.5%)*
Change in working capital	2.2	21.4	*(89.5%)*	(5.7)	*n.s.*	(3.5)	(9.3)	*(62.6%)*
Maintenance capex	(7.2)	(4.0)	*81.0%*	(5.4)	*32.8%*	(12.6)	(7.9)	*59.8%*
Net interest Payment	(5.9)	(23.8)	*(75.1%)*	(2.2)	*165.9%*	(8.2)	(23.9)	*(65.8%)*
Income tax received/(paid)	(5.4)	(7.5)	*(28.2%)*	0.1	*n.s.*	(5.3)	(7.2)	*(26.7%)*
Normalised free cash flow	**24.1**	**56.0**	*(57.1%)*	**38.7**	*(37.9%)*	**62.8**	**86.5**	*(27.4%)*
Financial investments and other collections / (payments)	(2.9)	(3.2)	*n.s.*	9.1	*n.s*	6.2	2.1	*197.7%*
Expansion capex	(62.1)	(61.7)	*0.6%*	(79.6)	*(22.1%)*	(141.7)	(76.5)	*85.2%*
Sustainability capex	(8.6)	(2.6)	*223.7%*	(6.9)	*24.3%*	(15.5)	(3.0)	*n.s.*
Disposals	4.4	2.9	*49.1%*	0.2	*n.s.*	4.5	1.5	*212.4%*
Free cash flow	**(45.1)**	**(8.6)**	*n.s.*	**(38.5)**	*17.2%*	**(83.6)**	**10.5**	*n.s.*
Dividends	(13.2)	(16.2)	*(18.2%)*	-	*n.s*	(13.2)	(16.2)	*(18.2%)*

Net debt € m	Jun-19	Dec-18	Δ%
Net financial debt Pulp business	233.2	147.6	*57.9%*
Net financial debt Renewable Energy business	231.6	157.2	*47.4%*
Net financial debt	**464.8**	**304.8**	*52.5%*

- ✓ **The prevailing dip in demand, driven by inventory destocking in the paper industry in the wake of apparent overbuying in prior quarters, has exerted downward pressure on pulp prices, leaving them below the least-efficient producers' estimated cash costs.**
- ✓ **Normalisation of this situation, coupled with the production cuts announced by the industry for the second half of the year and the attendant reduction in pulp producer inventories, should lead to pulp price stabilisation over the coming months.**
- ✓ **The lack of major capacity addition plans before the second half of 2021 underpins our outlook for a tight market in the next few years.**
- ✓ **Against that backdrop, EBITDA in the Pulp business declined by 42% in the first half, due mainly to €15m of losses on exchange rate hedges compared to a net gain of €5m in the first half of 2018, in addition to a higher percentage of sales on the spot market outside of Europe (24%) and growth in inventories of over 27,000 tonnes.**
- ✓ **In contrast, EBITDA in the Renewable Energy business increased by 30% year-on-year during the first half, driven by the contribution by the solar thermal power plant in Puertollano acquired last December.**
- ✓ **As a result, first-half Group EBITDA and net profit amounted to €92m (down 31% YoY) and €25m (50% YoY), respectively.**
- ✓ **Normalised free cash flow amounted to €63m, while capex totalled €157m.**
- ✓ **In the Renewable Energy business, Ence made ongoing progress on the construction of two new biomass plants with aggregate capacity of 96 MW which are due to be commissioned at the end of the year, lifting annual EBITDA in this business by approximately €30m.**
- ✓ **In Pulp, the addition of 80,000 tonnes of capacity at the Navia biomill will be carried out in October.**
- ✓ **Progress is being made on the engineering work and building permits required to add a new 340,000-tonne swing line in Navia. The Board of Directors will decide on the precise timeline for executing the project in the first quarter of 2020, based on the conditions prevailing in the pulp market, framed by the commitment to keeping net debt-to-EBITDA in the Pulp business below 2.5x.**
- ✓ **In July, Ence launched a cost-cutting programme in order to ensure delivery of its Business Plan targets.**
- ✓ **Ence continues to defend before the National Court the legality of the extension of its concession in Pontevedra granted until 2073. The legal proceedings could take as long as four years, including any appeals before higher courts. The Spanish coastal authorities began to process draft legislation amending the current Coastal Regulation, holding the interpretation that the maximum concession term of 75 years must encompass both the initial term of the concession and any extension thereof. If such interpretation were applicable to Ence, the concession could run until 2033.**
- ✓ **The Group's ratio of net debt-to-EBITDA stood at 1.8x at the June close; 1.2x in the Pulp business and 3.9x in the Renewable Energy business (factoring in the annualised contribution by the solar thermal plant consolidated since December 2018). Application of IFRS 16 *Leases* from 1 January has triggered the recognition of financial liabilities in the amount of €53m at the June close.**
- ✓ **The Board of Directors has agreed to pay out a first interim dividend from 2019 profits of €0.051 per share (before tax) on 19 September, which is equivalent to 50% of the Group's first-half earnings per share.**

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 energy using renewable 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.

1.1. Pulp market trends

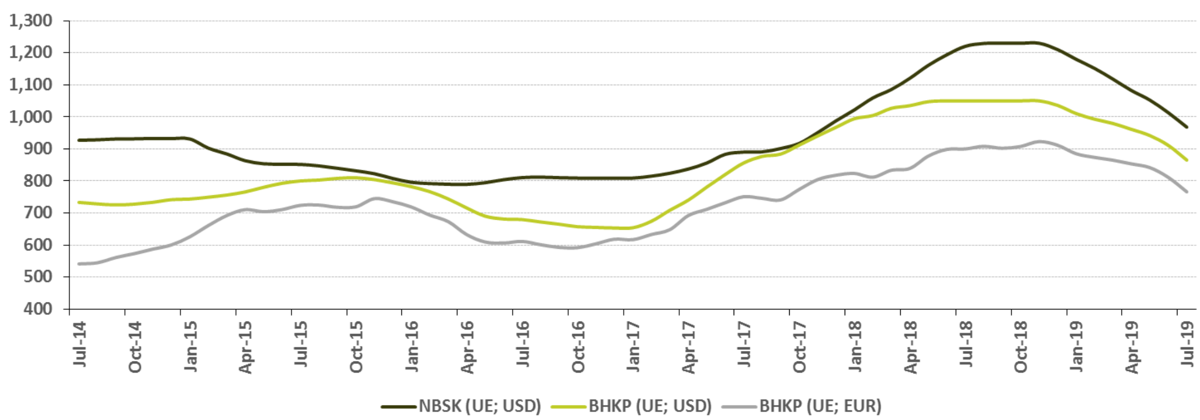
Global demand for hardwood pulp (BHKP) contracted by 6.0% in the first five months of 2019, which is equivalent to a year-on-year decline of 0.8 million tonnes, according to PPPC estimates.

Demand for hardwood pulp is being shaped primarily by ongoing growth in the consumption of tissue paper and personal care products, which is in turn being driven by rapid urban development and growing standards of living in emerging economies. These demand dynamics are very consistent over the long term and contrast with the *ad-hoc* slump in demand observed since October 2018, prompted by destocking by the paper industry in the wake of apparent overbuying in prior quarters and the attendant increase in the pulp producers' inventories.

This drop in demand for pulp has driven hardwood pulp prices lower year-to-date: at the end of July, prices stood at $ 850 tonne in Europe and $ 500 tonne (net price) in China. By our estimates, those prices in China are currently below the cash costs of the least efficient producers.

Normalisation of demand for pulp, coupled with the production cuts announced by the industry for the second half of the year and the attendant reduction in producer inventories, should lead to pulp price stabilisation over the coming months.

Pulp prices in Europe during the last five years (US$)



Source: FOEX

Longer-term, the lack of major plans to add hardwood pulp capacity underpins our outlook for a tight market in 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.

1.2. Revenue from pulp sales

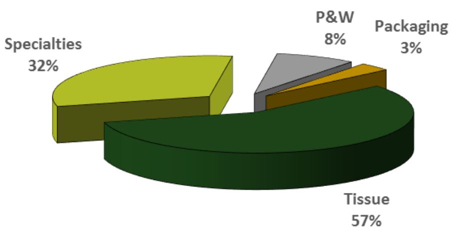
	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Pulp sales (t)	**218,846**	**230,386**	*(5.0%)*	**219,104**	*(0.1%)*	**437,950**	**463,121**	*(5.4%)*
Average sales price (€/t)	575.8	634.5	*(9.2%)*	604.9	*(4.8%)*	590.4	617.9	*(4.5%)*
Pulp sales revenue (€ m)	**126.0**	**146.2**	*(13.8%)*	**132.5**	*(4.9%)*	**258.6**	**286.1**	*(9.6%)*

Ence's average pulp sales price declined by 9.2% year-on-year in the second quarter of 2019. The impact of euro depreciation against the dollar (6.2% on average) was offset by a 10.1% 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 19% of pulp sales in the second quarter and 24% in the first half.

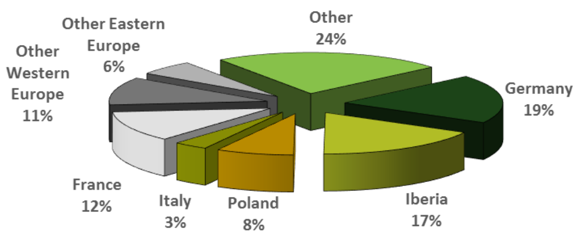
Elsewhere, pulp sales volumes declined by 5.0% compared to 2Q18 due to the growth in inventories, which ended June at 80,700 tonnes. The increase in inventories during the first half of the year is largely related with the stoppage programmed at the Navia biomill in October in order to increase its production capacity by 80,000 tonnes.

The combination of the two factors drove a year-on-year reduction in revenue from pulp sales of 13.8% to €126.0m in the second quarter and of 9.6% to €258.6m in the first half.

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 57% of revenue from pulp sales in 1H19, followed by the specialty paper segment, at 32%, and the printing and writing papers segment, at 8%. The remaining 3% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 76% of revenue from pulp sales in the first half. Germany and Iberia accounted for 19% and 17% of total revenue, respectively, followed by Poland (8%), France (12%) and Italy (3%). The other western European countries accounted for 11% of the total, with the rest of Eastern Europe representing 6%.

1.1. Pulp production and the cash cost

Ence produced 226,182 tonnes of pulp in the second quarter, down 2.6% year-on-year, due to the gradual start-up of the Pontevedra biomill following the addition of 20,000 tonnes of capacity in March and the temporary reduction in evacuation capacity from the shared discharge pipeline at the Navia biomill, an issue that was remedied during the maintenance stoppage carried out during the second quarter.

That meant that, overall, pulp production increased by 1.6% in the first half of the year to 465,344 tonnes, underpinned by higher output at the Pontevedra biomill.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Navia pulp production	115,274	118,930	*(3.1%)*	131,868	*(12.6%)*	247,142	248,733	*(0.6%)*
Pontevedra pulp production	110,908	113,256	*(2.1%)*	107,294	*3.4%*	218,202	209,097	*4.4%*
Pulp production (t)	**226,182**	**232,186**	*(2.6%)*	**239,162**	*(5.4%)*	**465,344**	**457,830**	*1.6%*

In May, the Navia biomill was stopped for maintenance for 12 days. During the stoppage, the shared effluent pipe discharging into the Navia River was cleaned thoroughly so that its discharge capacity will return to normal levels in the second half of the year. The stoppage was also used to perform the preparatory work required for the addition of 80,000 tonnes of capacity in October of this year. On the sustainability front, progress was made on reducing the noise impact, emissions and water footprint at this biomill, as well as improving the quality of its wastewater.

The Pontevedra biomill was stopped for 10 days in March 2019. During that stoppage, the Company carried out phase one of the plan for expanding capacity at this biomill by 20,000 tonnes, investing 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 efficiency improvements are incorporated at the evaporators. Sustainability-wise, it is worth highlighting the addition of a new water cycle, which will drive a reduction in consumption.

The cash cost was €398.7/tonne in the second quarter, up €2.6/tonne from 1Q19, due to a €4.9/tonne increase in overheads, which was partially offset by a €2.4/tonne reduction in conversion costs.

Figures in €/t	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Wood cost	210.0	198.9	*5.6%*	209.7	*0.2%*	209.8	199.0	*5.5%*
Conversion costs	116.4	113.6	*2.4%*	118.8	*(2.0%)*	116.4	112.1	*3.8%*
Sales and logistic costs	31.0	32.4	*(4.3%)*	31.2	*(0.6%)*	31.1	31.9	*(2.7%)*
Overheads	41.3	32.9	*25.8%*	36.4	*13.5%*	38.9	30.9	*25.8%*
Total cash cost	**398.7**	**377.8**	*5.5%*	**396.1**	*0.7%*	**396.2**	**374.0**	*5.9%*

In comparison with the second quarter of 2018, the cash cost increased by €20.9/tonne, due mainly to higher timber costs (€11.1/tonne) and overheads (€8.4/tonne), the latter related with new hires related with execution of the 2019–2023 Business Plan; conversion costs increased by €2.8/tonne year-on-year, while sales and logistics costs decreased by €1.4/tonne.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Wood cost €/m^3	69.6	66.2	*5.1%*	70.2	*(0.9%)*	69.5	66.3	*4.9%*
Timber supply (m^3)	741,587	776,295	*(4.5%)*	743,319	*(0.2%)*	1,484,905	1,471,101	*0.9%*
Large suppliers	16%	24%		15%		15%	24%	
Small suppliers	60%	53%		*58%*		59%	50%	
Standing timber acquired directly from land owners	22%	19%		*24%*		23%	19%	
Owned timber	*2%*	5%		*3%*		2%	6%	

1.2. Revenue from the sale of energy in connection with pulp production (included in the cash cost)

Ence uses the lignin and forest biomass derived from its manufacturing activities 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.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Navia energy sales	110,582	114,718	*(3.6%)*	128,542	*(14.0%)*	239,124	244,557	*(2.2%)*
Pontevedra energy sales	55,136	59,411	*(7.2%)*	56,416	*(2.3%)*	111,552	111,069	*0.4%*
Energy sales linked to the pulp process (MWh)	**165,718**	**174,129**	*(4.8%)*	**184,958**	*(10.4%)*	**350,676**	**355,626**	*(1.4%)*
Average sales price - Pool + Ro (€/MWh)	92.6	100.4	*(7.7%)*	90.5	*2.3%*	91.5	94.2	*(2.9%)*
Remuneration for investment (€ m)	2.6	2.6	*0.0%*	2.6	*0.0%*	5.1	5.1	*0.0%*
Revenues from energy sales linked to pulp (€ m)	**17.9**	**20.0**	*(10.6%)*	**19.3**	*(7.2%)*	**37.2**	**38.6**	*(3.7%)*

The energy sold as part of the pulp production process amounted to 165,718 MWh in the second quarter (down 4.8% YoY) and 350,676 MWh in the first half (down 1.4%).

The average sales price declined by 7.7% year-on-year in the second quarter to €92.6/MWh and by 2.9% to €91.5/MWh in the first half as a result of the temporary suspension of the electricity generation levy in the first quarter and the effect of the regulatory collar.

Remuneration for operation of the plants was adjusted for the period between October 2018 and March 2019 to adjust for the temporary suspension of the generation levy, so that there was no impact at the EBITDA level. In addition, Ence adjusts average pool prices monthly as a function of the limits set by the regulator; that accounting treatment led to the recognition of €0.1m of provisions in 2Q19 and of €0.6m in 1H19, compared to €0.8m and €0.04m in 2Q18 and 1H18, respectively.

In total, revenue from energy sales in the Pulp business, factoring in remuneration for investment - unchanged - decreased by 10.6% year-on-year to €17.9m in 2Q19 and by 3.7% to €37.2m in 1H19.

1.3. 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.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Forestry and other revenue (m €)	**7.5**	**4.1**	*84.6%*	**4.8**	*56.5%*	**12.4**	**8.6**	*43.2%*

Revenue from forestry activities increased by 84.6% year-on-year in the second quarter and by 43.2% in the first half.

Exploitation of the eucalyptus plantations located in the south of Spain has been reactivated following the execution in 4Q18 of two 12-year contracts for the sale of approximately 200,000 tonnes of timber per annum.

1.4. Income statement

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Total net revenue	**151.5**	**170.3**	*(11.1%)*	**156.7**	*(3.3%)*	**308.1**	**333.4**	*(7.6%)*
EBITDA	**27.8**	**59.0**	*(53.0%)*	**38.9**	*(28.6%)*	**66.6**	**115.1**	*(42.1%)*
EBITDA margin	*18%*	*35%*	*(16.3) p.p.*	*25%*	*(6.5) p.p.*	*22%*	*35%*	*(12.9) p.p.*
Depreciation and amortisation	(13.1)	(12.7)	*3.4%*	(13.4)	*(2.2%)*	(26.5)	(25.8)	*2.8%*
Depletion of forestry reserves	(2.3)	(1.6)	*45.1%*	(2.2)	*7.4%*	(4.5)	(3.5)	*27.7%*
Impairment of and gains/(losses) on fixed-asset dispos	1.0	3.5	*(70.8%)*	0.7	*45.5%*	1.7	5.9	*(70.8%)*
Other non-recurring gains/(losses)	(1.1)	(2.0)	*(47.6%)*	(1.1)	-	(2.1)	(4.0)	*(0.5) p.p.*
EBIT	**12.3**	**46.2**	*(73.4%)*	**22.9**	*(46.5%)*	**35.2**	**87.6**	*(59.8%)*
EBIT margin	*8%*	*27%*	*(19.0) p.p.*	*15%*	*(6.5) p.p.*	*11%*	*26%*	*(14.9) p.p.*
Net finance cost	(2.1)	(20.9)	*(90.1%)*	(2.1)	*(0.7%)*	(4.1)	(24.3)	*(83.0%)*
Other financial results	(0.7)	8.1	*n.s.*	1.3	*n.s.*	0.6	7.9	*(92.7%)*
Profit before tax	**9.5**	**33.4**	*(71.6%)*	**22.1**	*(57.1%)*	**31.6**	**71.2**	*(55.6%)*
Income tax	(2.2)	(6.6)	*(67.0%)*	(5.7)	*(61.4%)*	(7.8)	(16.3)	*(51.8%)*
Net Income	**7.3**	**26.8**	*(72.7%)*	**16.5**	*(55.7%)*	**23.8**	**54.9**	*(56.7%)*

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

EBITDA in the Pulp business amounted to €27.8m in 2Q19 and €66.6m in 1H19, down 53% and 42.1% year-on-year, respectively, due to the drop in the average sales price, the growth in inventories and the higher cash cost, developments outlined above, coupled with the adverse impact of the exchange rate hedges settled.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Settlement of those hedges implied a loss of €14.7m in the first half of the year, €8.9m of which corresponded to the second quarter. In contrast, settlement of those instruments had resulted in net gains of €5.2m and €2.1m in 1H18 and 2Q18, respectively.

In addition, EBITDA this half includes other expenses, net of other income, that are not included in the cash cost, of €3.7m. The income and expenses not included in the cash cash 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 2.8% higher at €26.5m in 1H19, while forest depletion charges increased by 27.7% to €4.5m as a result of more intense use of timber sourced from proprietary plantations during the period.

'Impairment of and gains/(losses) on disposal of intangible assets and PP&E' of €1.7m 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 €2.1m provision in 1H19 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 83% year-on-year in 1H19 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 €0.6m of exchange rate gains. In 1H18, that heading included a €6.6m dividend from the Renewable Energy business.

In all, the net profit attributable to the Pulp business amounted to €7.3m in 2Q19 and €23.8m in 1H19, down 72.7% and 56.7% year-on-year, respectively.

1.5. Cash flow analysis

Net cash flows from operating activities amounted to €13.1m in 2Q19, down 74.4% year-on-year. For the first six months, cash flows from operations declined by 29.0% year-on-year to €56.9m.

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
EBITDA	**27.8**	**59.0**	*(53.0%)*	**38.9**	*(28.6%)*	**66.6**	**115.1**	*(42.1%)*
Non cash expenses / (income)	(1.1)	(2.1)	*(49.4%)*	5.9	*n.s.*	4.8	(0.5)	*n.s.*
Other collections / (payments)	0.2	0.5	*(64.1%)*	0.1	*10.1%*	0.3	(0.3)	*n.s.*
Change in working capital	(8.4)	20.1	*n.s.*	0.1	*n.s.*	(8.3)	(8.7)	*(4.0%)*
Income tax received / (paid)	(5.1)	(6.4)	*(20.2%)*	-	*n.s.*	(5.1)	(6.4)	*(20.2%)*
Net interest received / (paid)	(0.2)	(19.9)	*(98.8%)*	(1.1)	*(78.8%)*	(1.4)	(19.0)	*(92.7%)*
Net cash flow from operating activities	**13.1**	**51.1**	*(74.4%)*	**43.8**	*(70.2%)*	**56.9**	**80.2**	*(29.0%)*

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.

Note that net finance costs in 2Q18, in the amount of €19m, included €15.8m related with the prepayment of €250m of 5.375% bonds issued in October 2015, which were partially replaced by 1.25% convertible bonds due 2023.

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Inventories	(8.4)	(5.3)	*59.3%*	(8.7)	*(3.8%)*	(17.1)	(3.0)	*n.s.*
Trade and other receivables	(6.6)	11.8	*n.s.*	11.5	*n.s.*	4.8	(15.3)	*n.s.*
Financial and other current assets	(4.1)	1.7	*n.s.*	(0.6)	*n.s.*	(4.7)	2.5	*n.s.*
Trade and other payables	10.7	11.9	*(10.0%)*	(2.1)	*n.s.*	8.6	7.1	*20.9%*
Change in working capital	**(8.4)**	**20.1**	*n.s.*	**0.1**	*n.s.*	**(8.3)**	**(8.7)**	*(4.0%)*

The change in working capital implied a cash outflow of €8.4m in 2Q19 compared to a cash inflow of €20.1m in 2Q18, which was due to a normal use of the receivables discounting facilities after their decrease in 1Q18. In the first six months, working capital increased by €8.3 million due to the growth in pulp and timber inventories (the increase in 1H18 of €8.7m had been due to growth in trade receivables).

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Maintenance capex	(5.5)	(3.1)	*79.4%*	(3.7)	*48.6%*	(9.2)	(6.4)	*44.5%*
Efficiency and expansion capex	(40.0)	(12.5)	*220.7%*	(18.5)	*116.8%*	(58.5)	(20.5)	*185.1%*
Sustainability capex	(6.5)	(2.3)	*180.7%*	(5.4)	*20.7%*	(11.8)	(2.4)	*n.s.*
Financial investments	(0.1)	(3.3)	*(95.7%)*	0.0	*n.s.*	(0.1)	(2.5)	*(95.5%)*
Investments	**(52.2)**	**(21.2)**	*146.4%*	**(27.5)**	*89.6%*	**(79.7)**	**(31.9)**	*150.1%*
Disposals	4.3	2.9	*48.3%*	0.2	*n.s.*	4.5	4.0	*13.1%*
Net cash flow used in investing activities	**(47.8)**	**(18.2)**	*162.1%*	**(27.3)**	*75.1%*	**(75.1)**	**(27.9)**	*169.8%*

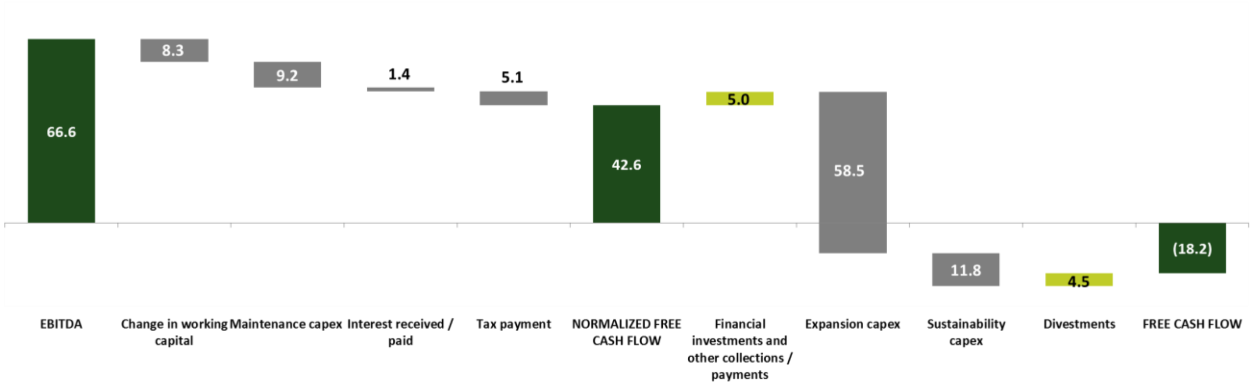
The cash outflow from investing activities amounted to €52.2m in 2Q19 and €79.7m in 1H19, year-on-year growth of 146.4% and 150.1%, respectively, evidencing intensified capital expenditure under the scope of the new Business Plan.

Investments in efficiency and growth amounted to €40m in 2Q19 and €58.5m in 1H19 and were mainly related to the addition of 20,000 tonnes of capacity at the Pontevedra biomill in the first quarter and preparation for the addition of 80,000 tonnes at the Navia biomill next October.

Sustainability-related capital expenditure amounted to €6.5m in 2Q19 and €11.8m in 1H19 and encompassed a range of initiatives designed to reduce odours, noise levels and water consumption, as well as a new biomass drying facility at Navia.

Lastly, the Group recognised €4.3m of proceeds from disposals in the second quarter following the sale of a company that leases 1,743 hectares of eucalyptus plantations in Portugal.

As a result, normalised free cash flow in the Pulp business amounted to €42.6m in 1H19, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €18.2m.



1.6. Change in net debt

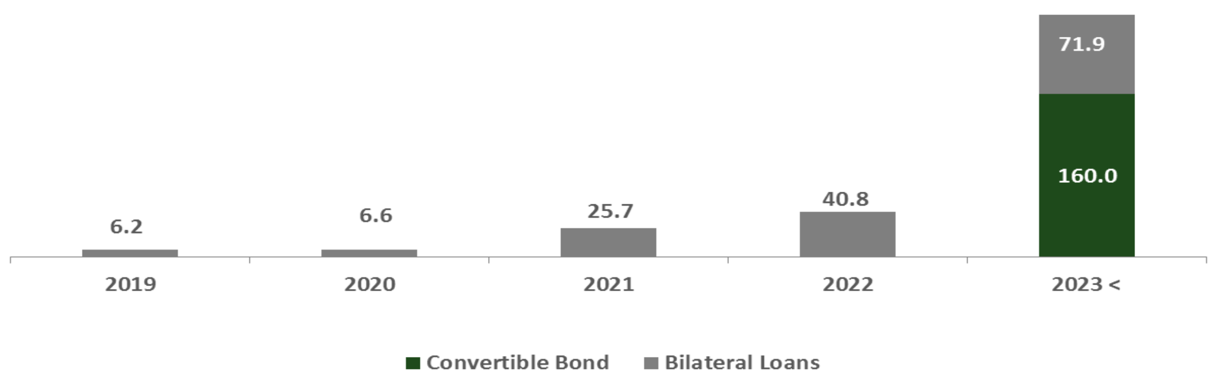
Net debt in the Pulp business increased by €85.6m from year-end 2018, €44.7m of which is attributable to the first-time application of IFRS 16 with effect from 1 January 2019. The remaining €40.9m increase corresponds mainly to the negative free cash flow after capex, payment of the final dividend from 2018 profits of €13.2m and the buyback of 2.4 million shares for €10.4m to enable delivery of the shares awarded under the 2019-2013 long-term bonus scheme.

Figures in € m	Jun-19	Dec-18	Δ%
Non-current financial debt	294.1	292.6	*0.5%*
Current financial debt	6.2	5.4	*15.1%*
Gross financial debt	**300.3**	**298.0**	*0.8%*
Non-current lease contracts	42.3	-	*n.s.*
Current lease contracts	2.4	-	*n.s.*
Financial liabilities related to lease contracts	**44.7**	**-**	*n.s.*
Cash and cash equivalents	104.9	148.2	*(29.2%)*
Short-term financial investments	6.9	2.2	*211.5%*
Net financial debt Pulp business	**233.2**	**147.6**	*57.9%*

The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 1.2x at the June close. Stripping out the accounting impact of the first-time application of IFRS 16, leverage falls to 1.0x.

The gross debt of €300.3m at the June close corresponds mainly to the €147.8m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €110.1m on the bilateral loans and a series of loans totalling €42.4m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.

Pulp business debt maturity profile (€Mn)



At the reporting date, the Pulp business had cash and cash equivalents of €111.8m. Lastly, note that none of the €70m sustainable credit facility had been drawn down as of June 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 - both of which are on schedule for commissioning towards the end of 2019.

1.7. Electricity market trends

Average pool prices in mainland Spain decreased by 7.3% year-on-year in 2Q19 to €48.5/MWh; in the first half they averaged €51.7/MWh, which was 2.7% higher year-on-year.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Average pool price (€/MWh)	48.5	52.4	*(7.3%)*	54.8	*(11.5%)*	51.7	50.4	*2.7%*

Note, however, that the sales price fetched by Ence 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.

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

1.8. Revenue from energy sales

Energy sales volumes increased by 7% year-on-year in 2Q19 and by 7.8% in 1H19 to 235,363 MWh and 482,580 MWh, respectively, thanks to the contribution of the solar thermal plant in Puertollano acquired last December.

	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Huelva 50 MW - Biomass	66,858	67,629	*(1.1%)*	72,971	*(8.4%)*	139,829	134,905	*3.7%*
Huelva 41 MW - Biomass	13,976	37,118	*(62.3%)*	34,781	*(59.8%)*	48,757	73,141	*(33.3%)*
Mérida 20 MW - Biomass	33,860	29,652	*14.2%*	34,700	*(2.4%)*	68,560	57,046	*20.2%*
Ciudad Real 16 MW - Biomass	23,364	22,031	*6.1%*	22,545	*3.6%*	45,909	45,172	*1.6%*
Jaén 16 MW - Biomass	21,219	20,788	*2.1%*	18,888	*12.3%*	40,107	45,193	*(11.3%)*
Córdoba 27 MW - Biomass	48,173	42,702	*12.8%*	51,952	*(7.3%)*	100,125	92,013	*8.8%*
Ciudad Real 50 MW - Solar thermal plant	27,913	-	*n.s.*	11,380	*145.3%*	39,293	-	*n.s.*
Energy sales (MWh)	**235,363**	**219,920**	*7.0%*	**247,217**	*(4.8%)*	**482,580**	**447,469**	*7.8%*
Average sales price - Pool + Ro (€/MWh)	105.0	110.6	*(5.1%)*	97.0	*8.2%*	101.7	108.0	*(5.9%)*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	15.9	-	31.7	20.5	*55.1%*
Revenue (€ m)	**40.8**	**34.8**	*17.3%*	**40.0**	*1.9%*	**80.8**	**68.8**	*17.5%*

It is worth highlighting the growth in production volumes at the biomass plants in comparison with 2Q18 other than at the 41-MW Huelva plant, where the drop in output is attributable to repair and repowering operations at the facility during its annual stoppage during the second quarter, which are expected to pave the way for a considerable improvement in performance in the second half.

The average sales prices of €105/MWh in 2Q19 and of €101.7/MWh in 1H19 were 5.1% and 5.9% above the equivalent prior-year prices due to the temporary suspension of the electricity generation levy in the first quarter and the effect of the regulatory collar.

Remuneration for operation of the plants was adjusted for the period between October 2018 and March 2019 to adjust for the temporary suspension of the generation levy, so that there was no impact at the EBITDA level. In addition, Ence adjusts average pool prices monthly as a function of the limits set by the regulator; that accounting treatment led to the recognition of €0.4m of provisions in 2Q19 and of €2.2m in 1H19, compared to €0.4m and €1.6m in 2Q18 and 1H18, respectively.

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.

As a result, revenue in the Renewable Energy business registered year-on-year growth of 17.3% in 2Q19 and of 17.5% in 1H19 to €40.8m and €80.8m, respectively.

1.9. Income statement

EBITDA in this business amounted to €12.5m in 2Q19, up 15.6% year-on-year, and €25.7m in 1H19, up 30.5%, again driven by the contribution of the solar thermal plant acquired in December.

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Total revenue	**40.8**	**34.8**	*17.3%*	**40.0**	*1.9%*	**80.8**	**68.8**	*17.5%*
EBITDA	**12.5**	**10.8**	*15.6%*	**13.1**	*(4.5%)*	**25.7**	**19.7**	*30.5%*
EBITDA margin	*31%*	*31%*	*(0.5) p.p.*	*33%*	*(2.0) p.p.*	*32%*	*29%*	*3.2 p.p.*
Depreciation and amortisation	(6.9)	(4.3)	*59.7%*	(6.8)	*1.4%*	(13.7)	(8.5)	*61.1%*
Depletion of forestry reserves	(0.0)	-	*n.s.*	-	*n.s.*	(0.0)	-	*n.s.*
Impairment of and gains/(losses) on fixed-asset disposals	(0.0)	(0.1)	*(37.1%)*	(0.1)	*(37.1%)*	(0.1)	(0.1)	*(24.1%)*
EBIT	**5.6**	**6.5**	*(13.9%)*	**6.2**	*(10.9%)*	**11.8**	**11.0**	*7.2%*
EBIT margin	*14%*	*19%*	*(4.9) p.p.*	*16%*	*(2.0) p.p.*	*15%*	*16%*	*(1.4) p.p.*
Net finance cost	(4.2)	(2.4)	*73.2%*	(4.6)	*(8.8%)*	(8.9)	(4.7)	*88.8%*
Other finance income/(cost)	(0.0)	(0.0)	*(38.5%)*	(0.0)	*60.0%*	(0.0)	(0.0)	*(23.5%)*
Profit before tax	**1.3**	**4.0**	*(67.0%)*	**1.6**	*(17.4%)*	**2.9**	**6.3**	*(53.6%)*
Income tax	(0.3)	(1.0)	*(66.9%)*	0.0	*n.s.*	(0.3)	(1.6)	*(81.1%)*
Net Income	**1.0**	**3.0**	*(67.0%)*	**1.6**	*(39.3%)*	**2.6**	**4.7**	*(44.4%)*
Non-controlling interests	(0.6)	(0.7)	*(14.1%)*	(0.8)		(1.4)	(1.0)	*41.1%*
Atributable Net Income	**0.4**	**2.3**	*(82.9%)*	**0.8**	*(50.3%)*	**1.2**	**3.7**	*(67.9%)*

For that same reason, depreciation charges increased by 61.1% from 1H18.

Net finance costs increased to €8.9m in 1H19 from €4.7m in 1H18, due mainly to a higher average gross debt balance.

In all, the net profit attributable to the Renewable Energy business amounted to €0.4m in 2Q19 and €1.2m in 1H19, down 82.9% and 67.9% year-on-year, respectively.

1.10. Cash flow analysis

The net cash inflow from operating activities amounted to €15.4m in 2Q19 and €24.8m in 1H19, growth of 152.7% and 68.1% year-on-year, respectively, thanks to more favourable working capital trends.

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
EBITDA	**12.5**	**10.8**	*15.6%*	**13.1**	*(4.5%)*	**25.7**	**19.7**	*30.5%*
Non cash expenses / (incomes)	(1.3)	(0.8)	*61.0%*	3.1	*n.s.*	1.7	2.0	*(11.1%)*
Other collections / (payments)	(0.5)	(0.2)	*96.8%*	(0.0)	*n.s.*	(0.5)	(0.5)	*(2.4%)*
Change in working capital	10.7	1.3	*n.s.*	(5.8)	*n.s.*	4.9	(0.6)	*n.s.*
Income tax received / (paid)	(0.3)	(1.1)	*(75.3%)*	0.1	*n.s.*	(0.2)	(0.8)	*(78.4%)*
Net interest received / (paid)	(5.7)	(3.9)	*47.4%*	(1.1)	*n.s.*	(6.8)	(4.9)	*37.7%*
Net cash flow from operating activities	**15.4**	**6.1**	*152.7%*	**9.4**	*63.6%*	**24.8**	**14.8**	*68.1%*

The movement in working capital implied a cash inflow of €10.7m in 2Q19, due to a €6.7m reduction in trade receivables during the quarter, a €5m increase in trade payables and a €1.1m increase in inventories.

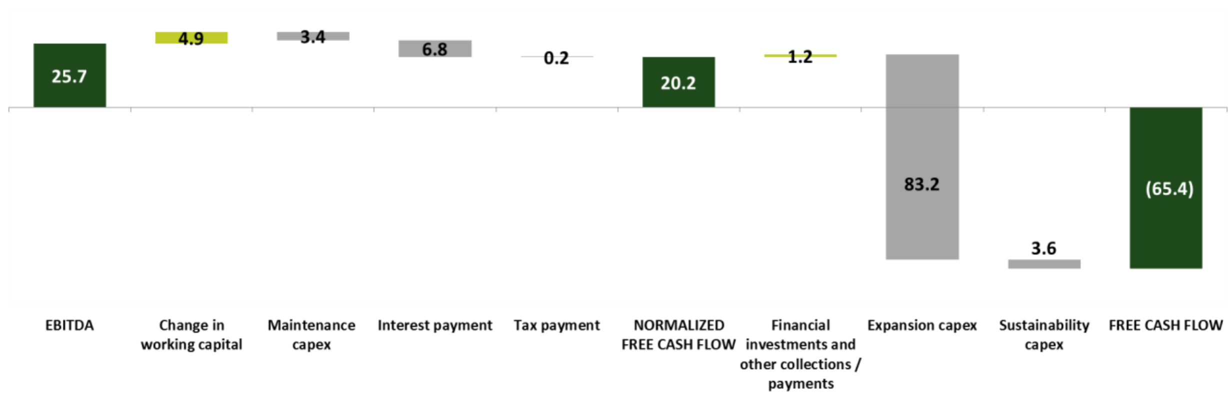
Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Inventories	(1.1)	0.2	*n.s.*	(1.9)	*(45.3%)*	(3.0)	0.7	*n.s.*
Trade and other receivables	6.7	(0.0)	*n.s.*	(1.8)	*n.s.*	4.9	1.1	*n.s.*
Trade and other payables	5.0	1.1	*n.s.*	(2.0)	*n.s.*	3.0	(2.5)	*n.s.*
Change in working capital	**10.7**	**1.3**	*n.s.*	**(5.8)**	*n.s.*	**4.9**	**(0.6)**	*n.s.*

The net cash outflow from investing activities amounted to €40.2m in 2Q19 and €104.6m in 1H19, of which €3.8m and €7m corresponded to maintenance and sustainability capex, respectively.

Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Maintenance capex	(1.7)	(0.9)	*86.8%*	(1.7)	*(1.8%)*	(3.4)	(1.5)	*125.9%*
Efficiency and expansion capex	(36.4)	(49.2)	*(26.0%)*	(61.2)	*(40.5%)*	(97.6)	(58.5)	*66.7%*
Sustainability capex	(2.1)	(0.3)	*n.s.*	(1.5)	*37.1%*	(3.6)	(0.6)	*n.s.*
Financial investments	(0.0)	0.4	*n.s.*	(0.0)	-	(0.0)	1.6	*n.s.*
Investments	**(40.2)**	**(50.0)**	*(19.6%)*	**(64.4)**	*(37.6%)*	**(104.6)**	**(59.1)**	*77.1%*
Disposals	0.0	-	*n.s.*	-	*n.s.*	0.0	-	*n.s.*
Net cash flow from investing activities	**(40.2)**	**(50.0)**	*(19.7%)*	**(64.4)**	*(37.6%)*	**(104.6)**	**(59.1)**	*77.1%*

Investments in efficiency and growth totalled €97.6m in 1H19, €36.4m of which in the second quarter, mainly related with the construction of two new plants, a 46-MW plant in Huelva and a 50-MW plant in Cordoba, which are due to be commissioned at the end of 2019. Of those amounts, €14.4m corresponds to the internal transfer of power generation rights from the Pulp business for use at the new 50-MW biomass plant being built in Ciudad Real. That internal transfer has no impact on the Group's cash flows at the consolidated level.

As a result, the Renewable Energy business generated normalised free cash flow of €20.2m in 1H19, while free cash flow net of growth, efficiency and sustainability capex came in at a negative €65.4m.



** Growth capex adjusted for the internal transfer of generation rights in the amount of €14.4m*

1.11. Change in net debt

Net debt in the Renewable Energy business increased by €74.5m from year-end 2018 to €231.6m. Application of IFRS 16 *Leases* from 1 January triggered the recognition of financial liabilities in the amount of €8.4m at the June close.

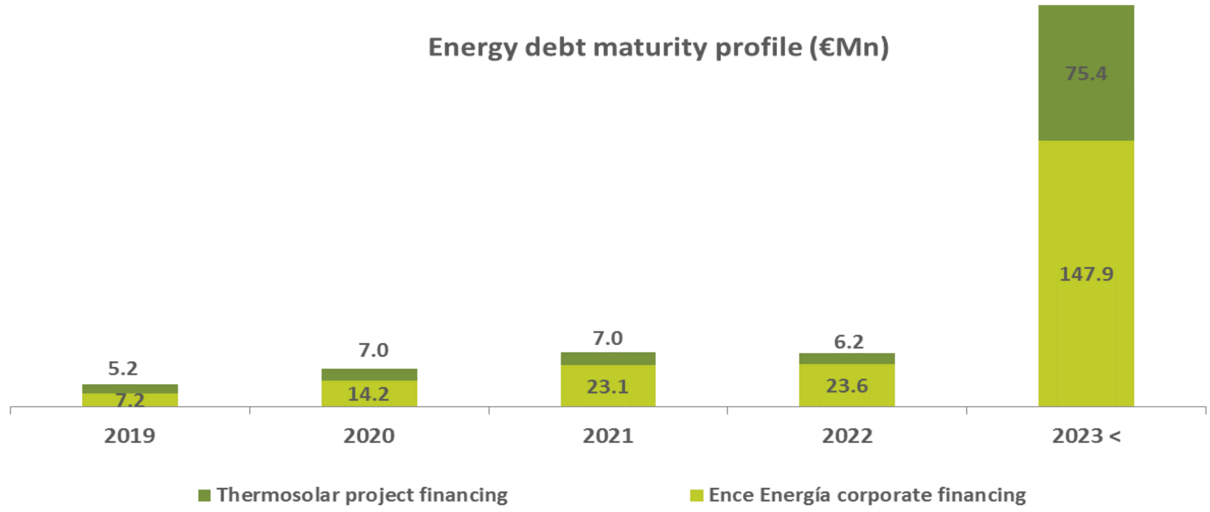
The ratio of net debt-to-LTM EBITDA (including the annualised contribution by the solar thermal plant consolidated for the first time in December) in the Renewable Energy business stood at 3.9x at the June close.

Figures in € m	Jun-19	Dec-18	Δ%
Non-current financial debt	293.9	205.4	*43.1%*
Current financial debt	22.9	152.2	*(85.0%)*
Gross financial debt	**316.8**	**357.6**	*(11.4%)*
Non-current lease contracts	8.1	-	*n.s.*
Current lease contracts	0.3	-	*n.s.*
Financial liabilities related to lease contracts	**8.4**	**-**	*n.s.*
Cash and cash equivalents	93.6	200.5	*(53.3%)*
Short-term financial investments	0.0	0.0	*16.7%*
Net financial debt Renewable Energy business	**231.6**	**157.2**	*47.4%*

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. The proceeds from that facility, coupled with the €45.9m released from escrow, were 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 finance 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 €316.8m of gross borrowings at the June close correspond mainly to the €218.1m drawn down under the corporate finance facility and the €98.7m drawn under the above project finance facility arranged by the solar thermal plant. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



Cash in this business stood at €93.6m at the June close.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

	1H19				1H18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**308.1**	**80.8**	**(2.8)**	**386.2**	**333.4**	**68.8**	**(1.9)**	**400.3**
Other income	(6.5)	0.8	(1.9)	(7.6)	11.2	0.4	(1.7)	9.8
Change in inventories of finished products	10.3	-		10.3	(2.1)	-		(2.1)
Cost of sales	(136.2)	(22.3)	2.8	(155.8)	(126.3)	(22.1)	1.9	(146.5)
Personnel expenses	(39.9)	(6.0)		(45.9)	(32.8)	(4.2)		(37.0)
Other operating expenses	(69.2)	(27.6)	1.9	(94.9)	(68.4)	(23.2)	1.7	(89.9)
EBITDA	**66.6**	**25.7**		**92.3**	**115.1**	**19.7**		**134.8**
EBITDA margin	*22%*	*32%*		*24%*	*35%*	*29%*		*34%*
Depreciation and amortisation	(26.5)	(13.7)		(40.2)	(25.8)	(8.5)		(34.3)
Depletion of forestry reserves	(4.5)	(0.0)		(4.6)	(3.5)	-		(3.5)
Impairment of and gains/(losses) on fixed-asset disposals	1.7	(0.1)		1.6	5.9	(0.1)	(1.7)	4.0
Other non-ordinary operating gains/(losses)	(2.1)	-		(2.1)	(4.0)	-		(4.0)
EBIT	**35.2**	**11.8**		**47.0**	**87.6**	**11.0**	**(1.7)**	**96.9**
EBIT margin	*11%*	15%		12%	*26%*	16%		*24%*
Net finance cost	(4.1)	(8.9)		(13.0)	(24.3)	(4.7)		(29.0)
Other finance income/(costs)	0.6	(0.0)		0.6	7.9	(0.0)	(6.6)	1.3
Profit before tax	**31.6**	**2.9**		**34.6**	**71.2**	**6.3**	**(8.3)**	**69.2**
Income tax	(7.8)	(0.3)		(8.1)	(16.3)	(1.6)		(17.9)
Net Income	**23.8**	**2.6**		**26.4**	**54.9**	**4.7**	**(8.3)**	**51.3**
Non-controlling interests	-	(1.4)		(1.4)	-	(1.0)		(1.0)
Atributable Net Income	**23.8**	**1.2**		**25.0**	**54.9**	**3.7**	**(8.3)**	**50.3**
Earnings per Share (EPS)	0.10	0.00		0.10	0.22	0.01		0.21

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

	Jun - 19				Dec - 18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	46.2	63.1	(14.4)	94.9	12.4	47.7		60.1
Property, plant and equipment	559.5	571.6	(1.7)	1,129.3	475.4	513.4	(1.7)	987.1
Biological assets	80.7	0.2		80.9	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)	0.0	75.2	-	(75.2)	-
Non-current financial assets	3.3	5.1		8.5	1.7	12.0		13.7
Deferred tax assets	39.1	14.9		54.1	42.8	13.6		56.5
Total non-current assets	**1,081.4**	**655.0**	**(368.7)**	**1,367.7**	**967.3**	**587.0**	**(354.3)**	**1,200.0**
Non-current assets held for sale	-	-		-	4.0	-		4.0
Inventories	52.3	10.6		62.8	36.0	7.6		43.5
Trade and other accounts receivable	116.0	35.8	(34.8)	117.1	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	5.0	(0.6)	(1.2)	3.2	2.0	0.0		2.1
Hedging derivatives	0.0	-		-	0.0	-		-
Current financial investments in Group companies	0.0	-		-	-	-		-
Current financial investments	6.9	0.0		6.9	2.2	0.0		2.2
Cash and cash equivalents	104.9	93.6		198.4	148.2	200.5		348.6
Total current assets	**285.2**	**140.5**	**(35.9)**	**389.7**	**302.4**	**244.9**	**(23.1)**	**524.2**
TOTAL ASSETS	**1,366.6**	**795.4**	**(404.6)**	**1,757.4**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**
Equity	**731.8**	**262.9**	**(293.1)**	**701.6**	**724.5**	**251.4**	**(278.7)**	**697.3**
Non-current borrowings	336.5	302.0		638.5	292.6	205.4		498.1
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.2	8.0		8.3	0.1	4.5		4.7
Deferred tax liabilities	21.0	19.3	(0.4)	39.9	21.0	19.4	(0.4)	40.0
Non-current provisions	3.2	9.3		12.5	3.1	9.2		12.3
Other non-current liabilities	10.3	22.6		32.9	8.9	19.4		28.3
Total non-current liabilities	**371.2**	**436.5**	**(75.6)**	**732.1**	**325.8**	**333.2**	**(75.6)**	**583.3**
Current borrowings	8.5	23.2		31.7	5.4	152.2		157.6
Current derivatives	9.9	3.9		13.8	16.0	3.0		19.0
Trade and other account payable	219.1	67.7	(36.0)	250.9	175.0	90.9	(23.1)	242.8
Income tax	3.3	0.2		3.5	1.6	0.2		1.8
Current provisions	22.7	1.0		23.7	21.5	0.9		22.4
Total current liabilities	**263.5**	**96.1**	**(36.0)**	**323.6**	**219.5**	**247.2**	**(23.1)**	**443.6**
TOTAL EQUITY AND LIABILITIES	**1,366.6**	**795.4**	**(404.6)**	**1,757.4**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**

4.3. Cash flow statement

Figures in € m	1H19 Pulp	1H19 Energy	1H19 Adjustments	1H19 Consolidated	1H18 Pulp	1H18 Energy	1H18 Adjustments	1H18 Consolidated
Consolidated profit/(loss) for the period before tax	**31.6**	**2.9**		**34.6**	**71.2**	**6.3**	**(8.3)**	**69.2**
Depreciation and amortisation	31.5	13.3		44.8	29.8	8.0		37.9
Changes in provisions and other deferred expense	7.4	1.9		9.3	4.0	2.0		6.0
Impairment of gains/(losses) on disposals intangible asset	(1.7)	0.1		(1.6)	(5.9)	0.1	1.7	(4.0)
Net finance cost	3.4	8.9		12.3	16.9	4.7	6.6	28.2
Government grants taken to income	(0.5)	(0.1)		(0.6)	(0.5)	(0.1)		(0.6)
Adjustments to profit	**40.1**	**24.0**		**64.1**	**44.3**	**14.8**	**8.3**	**67.5**
Inventories	(17.1)	(3.0)		(20.1)	(3.0)	0.7		(2.3)
Trade and other receivables	4.9	4.8		9.7	(15.3)	1.1		(14.2)
Current financial and other assets	(4.7)	-		(4.7)	2.5	-		2.5
Trade and other payables	8.6	3.0		11.6	7.1	(2.5)		4.6
Changes in working capital	**(8.3)**	**4.8**		**(3.5)**	**(8.7)**	**(0.6)**		**(9.3)**
Interest paid	(1.4)	(6.8)		(8.2)	(19.0)	(4.9)		(23.9)
Dividends received	-	-		-	-	-		-
Income tax received/(paid)	(5.1)	(0.2)		(5.3)	(6.4)	(0.8)		(7.2)
Other collections/(payments)	-	-		-	(1.3)	-		(1.3)
Other cash flows from operating activities	**(6.5)**	**(6.9)**		**(13.4)**	**(26.7)**	**(5.7)**		**(32.4)**
Net cash flow from operating activities	**56.9**	**24.8**		**81.7**	**80.2**	**14.8**		**94.9**
Property, plant and equipment	(91.2)	(90.0)	14.4	(166.9)	(28.3)	(39.4)	2.5	(65.2)
Intangible assets	11.7	(14.6)		(2.9)	(1.0)	(21.2)		(22.2)
Other financial assets	(0.1)	(0.0)		(0.1)	(2.5)	1.6	2.5	1.5
Disposals	4.5	0.0		4.5	4.0	-	(2.5)	1.5
Net cash flow used in investing activities	**(75.1)**	**(104.6)**	**14.4**	**(165.4)**	**(27.9)**	**(59.1)**	**2.5**	**(84.5)**
Free cash flow	**(18.2)**	**(79.8)**	**14.4**	**(83.6)**	**52.3**	**(44.3)**	**2.5**	**10.5**
Buyback/(disposal) of own equity instruments	(10.6)	14.4	(14.4)	(10.6)	14.7	2.5	(2.5)	14.7
Proceeds from and repayments of financial liabilities	(1.3)	(40.7)		(41.9)	(76.2)	25.9		(50.2)
Dividends payments	(13.2)	(0.8)		(14.1)	(16.2)	-		(16.2)
Net cash flow from/ (used in) financing activities	**(25.0)**	**(27.1)**	**(14.4)**	**(66.5)**	**(77.6)**	**28.4**	**(2.5)**	**(51.7)**
Net increase/(decrease) in cash and cash equivalents	**(43.3)**	**(106.9)**		**(150.2)**	**(25.3)**	**(15.9)**		**(41.2)**

5. KEY DEVELOPMENTS

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

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

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

The cases taken by Greenpeace and the APDR are pending sentencing. As for the lawsuit taken by the City Council of Pontevedra, the Appellate Court, which is not conditioned by the state's acquiescence, has decided to continue to hear the case, which is currently in the discovery phase.

Although the Company believes that both the appeals lodged 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, it 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 discontinued, that 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.

The concession term matter lies at the crux of the above-mentioned draft bill. In contrast to the prevailing legislation, which contemplates the possibility of extending the term by up to 75 years, the draft bill endorses a new interpretation, namely that the maximum concession term of 75 years refers to 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 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.

First interim dividend from 2019 profits

The Board of Directors agreed on 30 July 2019 to pay out a first interim dividend from 2019 profits of €0.051 per share (before tax) on 19 September, which is equivalent to 50% of the Group's first-half earnings per share.

Execution of the share buyback programme

On 30 April 2019, the Board approved the buyback of 2,439,000 own shares representing approximately 1% of share capital for delivery to the beneficiaries of the 2019-2023 long-term bonus plan approved at the Annual General Meeting on 28 March 2019.

The share buyback programme was executed between 7 and 17 May, both dates inclusive, at a cost of €10,410,492, implying an average price of €4.27 per share.

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.

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 bonus plan for 2019-2023.

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, distributed 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 APPLICABLE TO THE GROUP'S FACILITIES

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW)	Type of fuel	Remuneration for operation 1H19 (Ro; €/MWh)	Cap on sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	34.550	-
	Biomass generation	36.2	230,190	Agroforestry biomass	56.701	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	35.068	-
			55,308	Agroforestry biomass	56.865	6,500
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	61.403	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	55.023	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	54.946	6,500
C. Real 16MW	Biomass generation	16.0	261,008	Olive Pulp	44.564	6,500
Jaen 16MW	Biomass generation	16.0	261,008	Olive Pulp	44.047	6,500
Cordoba 27MW	Biomass generation	14.3	229,582	Olive Pulp	45.994	6,500
	Gas co-generation	12.8	-	Natural Gas	73.027	-
C.Real 50MW	Solar thermal plant	50.0	451,129		44.402	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 that is 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. Those 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 its biomills' water footprint. Here it is worth noting the improvement recorded at the Pontevedra biomill during the first half: consumption decreased by over 12% from 33.5m^3/ADt at year-end 2018 to 29.5m^3/ADt at the June 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 92% and 73%, respectively, in 1H19.

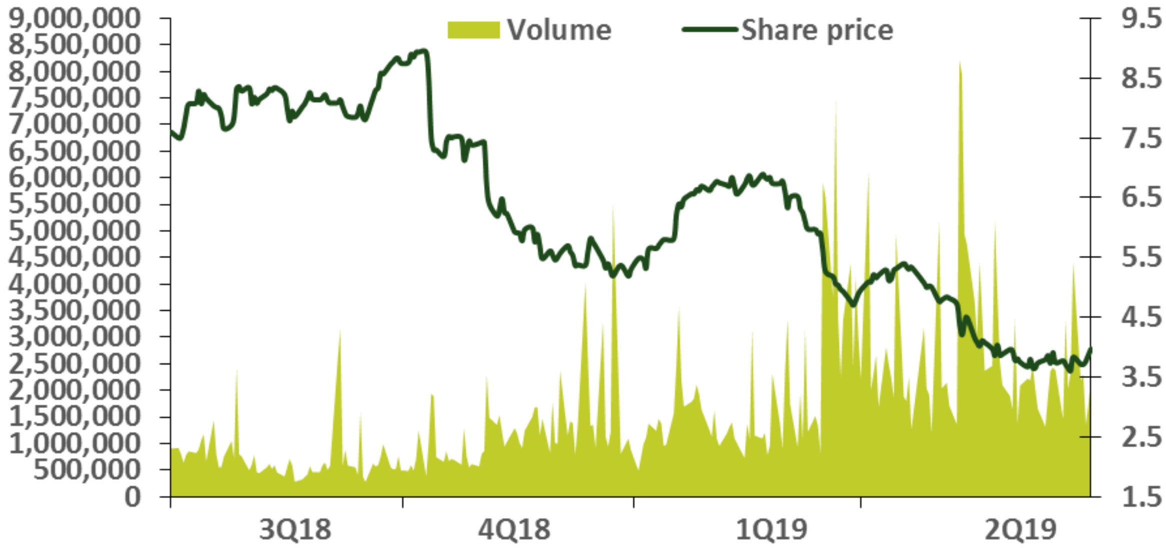
As for its biomass-fuelled Renewable Energy business, Ence has pioneered the segment, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew 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 June at €3.97/share, down 27.7% from year-end 2018, affected by the correction in pulp prices and the uncertainty generated by the change in government criteria with respect to the extension of the concession Ence holds in Pontevedra.



Source: Bloomberg

	2Q18	3Q18	4Q18	1Q19	2Q19
Share price at the end of the period	7.60	8.75	5.49	4.96	3.97
Market capitalization at the end of the period	1871.7	2154.9	1350.8	1221.5	977.2
Ence quarterly evolution	24.2%	15.1%	(37.3%)	(9.6%)	(20.0%)
Daily average volume (shares)	1,073,179	749,581	1,261,459	1,993,546	2,748,155
Peers quarterly evolution *	31.5%	(1.5%)	(23.2%)	11.3%	(22.9%)

(*) Altri, Navigator, Suzano, CMPC y 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	2Q18	3Q18	4Q18	1Q19	2Q19
Bond price at the end of the period	119.28	130.77	105.67	98.46	94.47
Yield to worst at the end of the period*	-2.603%	-4.892%	-0.107%	1.656%	2.845%

*Yield to maturity

The following table shows the current credit ratings awarded to the Ence Group by Moody's and Standard & Poor's:

	RATING	OUTLOOK	DATE
Moody's	**Ba2**	**Stable**	**21/06/2019**
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 differs 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 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.

The information contained in this document has not been verified by independent experts. Accordingly, Ence does not make any representation or warranty, express or implied, as to the impartiality, reliability, completeness or accuracy of the information, opinions or conclusions in this presentation.

This document does not constitute an offer or a recommendation to buy or subscribe for shares, in keeping with the terms of Spanish Royal Decree 4/2015 (of 23 October 2015), enacting the consolidated text of Spain's Securities Market Act and implementing regulations. Nor does it constitute an offer to buy, sell or exchange or a solicitation of an offer to buy, sell or exchange any securities or the solicitation of any vote or approval in any jurisdiction.

Earnings Report
2Q19