Ence Energía y Celulosa, S.A. and subsidiaries

Condensed consolidated interim financial statements for the first half of 2019 prepared under the International Financial Reporting Standards adopted by the European Union and the corresponding Group Management Report

Condensed consolidated interim financial statements for the first half of 2019

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019 AND 31 DECEMBER 2018

Thousands of euros	Note	30/06/2019 (*)	31/12/2018
NON-CURRENT ASSETS:			
Intangible assets:			
Goodwill	10	6.482	5.675
Other intangible assets	10	88.412	54.438
Property, plant and equipment	11	1.129.338	987.136
Biological assets	12	80.921	82.557
Non-current financial assets:			
Hedging derivatives	20 & 21	1.800	268
Other financial assets	20	6.663	13.458
Deferred tax assets	22	54.090	56.477
		1.367.706	**1.200.009**
CURRENT ASSETS:			
Non-current assets held for sale	13	-	4.000
Inventories	15	62.846	43.545
Trade and other receivables	16 & 20	85.839	106.922
Tax receivables	22	31.232	15.485
Income tax receivable	22	1.213	1.363
Current financial assets:			
Other financial assets	20	6.917	2.224
Cash and cash equivalents	20	198.446	348.623
Other current assets	1.5	3.193	2.056
		389.686	**524.218**
TOTAL ASSETS		**1.757.392**	**1.724.227**
EQUITY:			
Share capital	18	221.645	221.645
Share premium		170.776	170.776
Parent company reserves		165.322	161.266
Parent company retained earnings (prior-period losses)		(43.668)	(71.196)
Reserves in fully-consolidated companies		115.670	83.208
Interim dividend		-	(51.309)
Translation differences		10	13
Own shares - parent company shares	18	(14.370)	(4.352)
Valuation adjustments	18	28.214	25.778
Other equity instruments		15.216	14.065
Profit/(loss) for the period attributable to owners of the parent	18	24.976	129.130
Equity attributable to owners of the parent		**683.791**	**679.024**
Non-controlling interests	18	**17.852**	**18.272**
TOTAL EQUITY		**701.643**	**697.296**
NON-CURRENT LIABILITIES:			
Borrowings:			
Bonds and other marketable securities	20	237.967	236.162
Bank borrowings	20	312.919	218.164
Other financial liabilities	20	87.590	43.758
Derivative financial instruments	20 & 21	8.252	4.673
Grants		8.706	7.840
Deferred tax liabilities	22	39.920	40.017
Non-current provisions	19	12.535	12.287
Non-current accruals and deferred income		3.407	1.470
Other non-current liabilities	20	20.821	18.965
		732.117	**583.336**
CURRENT LIABILITIES:			
Borrowings:			
Bank borrowings	20	23.773	152.651
Other financial liabilities	20	7.959	4.934
Derivative financial instruments	20 & 21	13.773	18.976
Trade and other payables	17 & 20	236.093	235.024
Income tax payable	22	3.543	1.828
Taxes payable	22	8.475	7.825
Other current liabilities	20	6.300	-
Current provisions	19	23.716	22.357
		323.632	**443.595**
TOTAL EQUITY AND LIABILITIES		**1.757.392**	**1.724.227**

The accompanying notes 1 to 26 are an integral part of the consolidated statement of financial position at 30 June 2019.

(*) Unaudited figures

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

Thousands of euros	Note	1H19 (*)	1H18 (*)
Continuing operations:			
Revenue	5	386.167	400.349
Gains/(losses) on hedging transactions	21	(14.714)	5.160
Changes in inventories of finished goods and work in progress	15	10.260	(2.074)
Cost of sales	6	(155.790)	(146.528)
GROSS PROFIT		**225.923**	**256.907**
Own work capitalised	11 & 12	4.701	2.008
Other operating income		318	1.606
Grants taken to income		2.088	1.058
Employee benefits expense	7	(45.872)	(36.980)
Depreciation and amortisation charges	10 & 11	(40.246)	(34.325)
Depletion of forest reserve	12	(4.556)	(3.549)
Impairment of and gains/(losses) on disposal of fixed assets	11 & 12	1.614	4.024
Other operating expenses	8	(96.961)	(93.847)
OPERATING PROFIT		**47.009**	**96.902**
Finance income		480	533
Change in fair value of financial instruments	9 & 21	-	(1.329)
Finance costs	9	(13.461)	(29.493)
Net exchange gains/(losses)		669	2.586
Impairment of and gains/(losses) on disposal of financial assets	1.7	(140)	-
NET FINANCE COST		**(12.452)**	**(27.703)**
PROFIT BEFORE TAX		**34.557**	**69.199**
Income tax	22	(8.146)	(17.868)
CONSOLIDATED PROFIT FOR THE PERIOD (**)		**26.411**	**51.331**
Profit/(loss) attributable to non-controlling interests	18	1.435	1.017
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**24.976**	**50.314**
Earnings/(loss) per share attributable to owners of the parent		**€/share**	
Basic	18	**0,10**	**0,21**
Diluted	18	**0,09**	**0,19**

The accompanying notes 1 to 26 are an integral part of the consolidated income statement for the six months ended 30 June 2019

(*) Unaudited figures

(**) 100% from continuing operations

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

Thousands of euros	Note	1H19 (*)	1H18 (*)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (I)		**26.411**	**51.331**
Income and expense recognised directly in consolidated equity			
- Cash-flow hedges (*)		(12.122)	(17.468)
- Translation differences (*)		(3)	4
- Tax effect		3.031	4.367
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**18**	**(9.094)**	**(13.097)**
Amounts transferred to profit or loss			
- Cash-flow hedges (*)		15.370	(4.922)
- Tax effect		(3.843)	1.231
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**18**	**11.527**	**(3.691)**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		**28.844**	**34.543**
Attributable to:			
Parent		**27.409**	**33.526**
Non-controlling interests		**1.435**	**1.017**

The accompanying notes 1 to 26 are an integral part of the consolidated statement of comprehensive income for the six months ended 30 June 2019

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

30 June 2019 - Thousands of euros	Balance at 01/01/2019	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (**)	Trading in own shares	Other movements	Balance at 30/06/2019 (*)
Issued capital	221.645	-	-	-	-	-	221.645
Share premium	170.776	-	-	-	-	-	170.776
Legal reserve	45.049	-	-	-	-	-	45.049
Cancelled capital reserve	10.566	-	-	-	-	-	10.566
Capitalisation reserve	4.543	-	4.691	-	-	-	9.234
Voluntary reserves	101.108	-	13.140	(13.214)	(561)	-	100.473
Parent company retained earnings (prior-period losses)	(71.196)	-	27.528	-	-	-	(43.668)
Reserves in fully-consolidated companies	83.208	-	32.462	-	-	-	115.670
Interim dividend	(51.309)	-	51.309	-	-	-	-
Translation differences	13	(3)	-	-	-	-	10
Own shares	(4.352)	-	-	-	(10.018)	-	(14.370)
Valuation adjustments	25.778	2.436	-	-	-	-	28.214
Other equity instruments	14.065	-	-	-	-	1.151	15.216
Consolidated profit for the period	129.130	24.976	(129.130)	-	-	-	24.976
Total equity attributable to owners of the parent	**679.024**	**27.409**	**-**	**(13.214)**	**(10.579)**	**1.151**	**683.791**
Non-controlling interests	**18.272**	**1.435**	**-**	**(1.529)**	**-**	**(326)**	**17.852**
Total equity	**697.296**	**28.844**	**-**	**(14.743)**	**(10.579)**	**825**	**701.643**

30 June 2018 - Thousands of euros	Balance at 01/01/2018	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed (**)	Trading in own shares	Other movements	Balance at 30/06/2018 (*)
Issued capital	221.645	-	-	-	-	-	221.645
Share premium	170.776	-	-	-	-	-	170.776
Legal reserve	45.049	-	-	-	-	-	45.049
Cancelled capital reserve	10.566	-	-	-	-	-	10.566
Capitalisation reserve	1.848	-	2.695	-	-	-	4.543
Voluntary reserves	101.016	-	16.252	(16.158)	282	-	101.392
Parent company retained earnings (prior-period losses)	(92.436)	-	21.241	-	-	-	(71.195)
Reserves in fully-consolidated companies	61.210	-	21.975	-	-	-	83.185
Interim dividend	(29.623)	-	29.623	-	-	-	-
Translation differences	47	4	-	-	-	-	51
Own shares	(4.016)	-	-	-	(144)	-	(4.160)
Valuation adjustments	51.680	(16.792)	-	-	-	-	34.888
Other equity instruments	2.783	-	-	-	-	11.397	14.180
Consolidated profit for the period	91.786	50.314	(91.786)	-	-	-	50.314
Total equity attributable to owners of the parent	**632.331**	**33.526**	**-**	**(16.158)**	**138**	**11.397**	**661.234**
Non-controlling interests	9.903	1.017	-	(2.781)	-	-	8.139
Total equity	**642.234**	**34.543**	**-**	**(18.939)**	**138**	**11.397**	**669.373**

The accompanying notes 1 to 26 are an integral part of the consolidated statement of changes in equity for the six months ended 30 June 2019

(*) Unaudited figures

(**) Corresponds to the Appropriation of prior-year profit/(loss)

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

Thousands of euros	Note	1H19 (*)	1H18 (*)
OPERATING ACTIVITIES:			
Consolidated profit/(loss) for the period before tax		34.557	69.199
Adjustments for:			
Depreciation/amortisation of PP&E and intangible assets	10 & 11	40.246	34.325
Depletion of forest reserve	12	4.556	3.549
Changes in provisions and other deferred expense (net)		10.283	8.954
Impairment of and gains/(losses) on disposals of intangible assets, PP&E and finance assets		(1.600)	(4.024)
Net finance cost		12.253	28.173
Adjustments for accruals		(1.004)	(2.923)
Grants taken to income		(626)	(596)
		64.108	**67.458**
Changes in working capital:			
Inventories	15	(20.088)	(2.281)
Trade and other receivables	16	9.698	(14.185)
Financial and other current assets	20	(4.693)	2.503
Trade payables, other payables and other liabilities	17	11.594	4.629
		(3.489)	**(9.334)**
Other cash flows from operating activities:			
- Interest paid (net)	9 & 20	(8.156)	(23.873)
- Income tax received (paid)	22	(5.274)	(7.193)
- Other receipts / (payments)		-	(1.321)
		(13.430)	**(32.387)**
Net cash from operating activities (I)		**81.746**	**94.936**
INVESTING ACTIVITIES:			
Investments:			
Property, plant and equipment	11	(166.850)	(65.212)
Intangible assets	10	(2.931)	(22.212)
Other financial assets		(139)	1.503
		(169.920)	**(85.921)**
Proceeds:			
Property, plant and equipment	11	422	1.456
Other financial assets	13	4.123	-
		4.545	**1.456**
Net cash used in investing activities (II)		**(165.375)**	**(84.465)**
FINANCING ACTIVITIES:			
Proceeds from and payments for equity instruments			
Proceeds from issuance of convertible bonds, net of arrangement fees		-	14.552
Buyback of own equity instruments	18	(58.998)	(27.823)
Disposal of own equity instruments	18	48.419	27.961
		(10.579)	**14.690**
Proceeds from and repayments of financial liabilities:			
Proceeds from issuance of bonds, net of arrangement fees	20	(121)	142.947
Repayment of bonds and other marketable securities	20	-	(250.000)
Payments under finance leases	14	(2.511)	-
Increase/(decrease) in bank borrowings, net of issuance costs	20	(35.889)	37.774
Increase/(decrease) in other borrowings	20	(3.419)	19.103
Grants received		30	(49)
		(41.910)	**(50.225)**
Dividend payments			
Dividends (ENCE and non-controlling interests)	18	(14.059)	(16.158)
		(14.059)	**(16.158)**
Net cash used in financing activities (III)		**(66.548)**	**(51.693)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)		**(150.177)**	**(41.222)**
Cash and cash equivalents - opening balance		348.623	270.528
Cash and cash equivalents - closing balance		198.446	229.306

The accompanying notes 1 to 26 are an integral part of the consolidated statement of changes in cash flow for the six months ended 30 June 2019

(*) Unaudited figures

Notes to the condensed consolidated interim financial statements for the first half of 2019

Contents

Ence Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the condensed consolidated interim financial statements for the first half of 2019

1. Business activity, basis of preparation of the condensed consolidated interim financial statements, accounting policies and other information

1.1. Business activity

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;

b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law;

c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their sub-products. Forestry studies and projects;

d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

The Group has structured its activities around two business lines:

The Pulp business:

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

To carry out this activity, the Group has two biomills in Spain (located in Asturias and Pontevedra) with combined nominal capacity of approximately 1,120,000 tonnes per annum.

These mills use the kraft process to produce pulp. This productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin or biomass. The

Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra factories) is 112 megawatts (MW).

The Group also manages 62,440 hectares of forest in Spain, 43,280 hectares of which it owns.

The Renewable Energy business:

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

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

(*) The Group's solar thermal power plant

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

Listing of shares-

All of the Company's shares are represented by book entries and are listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

1.2. Basis of preparation of the condensed consolidated interim financial statements under the IFRS adopted by the European Union

The accompanying condensed consolidated interim financial statements were prepared from the accounting records of the Group companies and are presented under the International Financial Reporting Standards adopted by the European Union as of 30 June 2019 and, specifically, in accordance with IAS 34 - Interim Financial Information, the standard which establishes the accounting principles applicable to condensed financial statements, as provided for in article 12 of Royal Decree 1362/2007, and factoring in the disclosures required under CNMV Circular 5/2015 (of 28 October 2015), issued by Spain's securities market regulator.

In keeping with IAS 34, the interim financial information has been prepared solely for the purpose of providing an update with respect to the last complete set of annual consolidated financial statements authorised for issue and accordingly focuses on new activities, events and circumstances arising in the six-month period and does not include all of the information and disclosures required in consolidated annual financial statements under IFRS. Accordingly, for adequate reader comprehension, the information included in these condensed consolidated interim financial statements should be read in conjunction with the Group's 2018 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 28 March 2019.

The accompanying condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 30 July 2019.

1.3. Accounting policies applied and basis of consolidation

In drawing up the accompanying condensed consolidated interim financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2018 consolidated financial statements, as detailed in notes 3.2 and 4 thereof, except as outlined in section 2 below.

1.4. Comparative information

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2018 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2019.

The reader should consider the following aspects when comparing the information for the two reporting periods:

- The changes in the consolidation scope and the business combinations detailed in note 1.7 of this report and in note 2 of ENCE's annual consolidated financial statements for 2018.

- The new accounting standards applicable from 1 January 2019 (note 2).

Lastly, the comparative information for the six-month period ended 30 June 2018 has been changed in respect of the calculation of diluted earnings per share for that period, which declined from €0.20/share to €0.19/share, in order to factor in the potentially dilutive effects of the bonds issued on 5 March 2018, which are convertible into ordinary ENCE shares (note 20).

1.5. Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes. The biomills in Pontevedra and Asturias carried out their annual maintenance stoppages during the first half of 2019, as did most of the independent biomass power plants.

In this respect, an asset has been recognised within "Other current assets" in the amount of €836 thousand at 30 June 2019 (€3,570 thousand at 30 June 2018) corresponding to fixed costs accrued during the stoppages which, in keeping with the income and expense matching principle, will be recognised in the income statement during the second half of 2019.

1.6. Materiality

In determining the information to be disclosed in the explanatory notes for the various headings of the condensed consolidated interim financial statements, the Group assessed materiality in relation to the financial statements themselves, in accordance with IAS 34.

1.7. Changes in the Group's consolidation scope and business combinations

Incorporation of Liptoflor, S.A. following the spin-off of Iberflorestal, S.A.

On 2 April 2019, Norte Forestal, S.A.U. incorporated Liptoflor, S.A., with registered office in Portugal, by means of the contribution of the spun-off business consisting of the purchase and sale of timber formerly carried out by its subsidiary Iberflorestal, S.A. The transaction value, €882 thousand, coincides with the carrying amount of that business in the ENCE Group's consolidated financial statements as of the transaction date. The transaction did not give rise to significant costs.

Sale of Iberflorestal, S.A.

On 30 May 2019, Norte Forestal, S.A., an entity belonging to ENCE's Pulp business, sold 100% of its shares in Iberflorestal, S.A.U., a company whose business at the time of the sale consisted of the plantation of timber for use in pulp production, to which end it was exploiting 1,743 hectares in Portugal under leases and/or consortia. The transaction price was €4,423 thousand (€4,123 thousand of which has already been collected and €300 thousand of which has been deferred), generating a loss of €140 thousand, which has been recognised under "Impairment of and gains/(losses) on disposal of financial instruments" in the consolidated income statement for the six months ended 30 June 2019.

The main assets of Iberflorestal, S.A. were classified under "Non-current assets held for sale" in the consolidated statement of financial position at 31 December 2018 (note 13).

2. Accounting policies and measurement criteria

2.1. New and amended standards taking effect during the reporting period

Below is a summary of the accounting standards which took effect in 2019 and have had a significant impact on these financial statements:

IFRS 16 - Leases

Leases are recognised as a right-of-use asset along with the corresponding liability at the present value of the outstanding lease payment obligations from the date on which the leased asset is available for use. The finance cost is charged to the income statement over the lease period and the right-of-use asset is depreciated during the lease term on a straight-line basis.

The lease liability is determined at the start of the contract at the present value of the lease payments, considering the initial duration and the extensions deemed probable, discounted for the most part at ENCE's incremental borrowing rate (the rate of interest that the lessee would have to pay, at the start of the lease, to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset). That rate has been estimated, based on available market information, within a range of 2.5%-2.7% for contacts with a term of between one and five years; of 2.9%-3.2% for contracts with a term of between 10 and 20 years; and of 3.3%-4.2% for leases with longer terms.

At the inception of a lease contract, the lessee measures the right-of-use asset by reference to the lease liability, plus any upfront direct costs incurred, less any incentives received in connection with the lease.

Following initial recognition, the lease liability is measured at amortised cost using the effective interest rate method and the right-of-use asset is measured at cost less accumulated depreciation and any impairment losses, in keeping with IAS 16 - Property, plant and equipment.

Payments under short-term leases (with terms of less than 12 months) and low-value leases are expensed directly as accrued.

ENCE has applied IFRS 16 retrospectively from 1 January 2019, opting not to restate the comparative information, recognising the cumulative effect of first-time application of the standard as an adjustment to the opening balance of equity at 1 January 2019.

Below is a list of the accounting standards which took effect in 2019 but have not had a significant impact on these condensed consolidated interim financial statements: Standard	Contents
Amended standards:	
IFRIC 23 - Uncertainty over income tax treatments	Clarifies the application of the recognition and measurement requirements in IAS 12 - Income taxes when there is uncertainty over income tax treatments
Annual Improvements to IFRSs, 2015-2017 Cycle	Narrow-scope amendments to a series of standards
Amendments to IFRS 9 - Prepayment features with negative compensation	These amendments allow reporters to measure certain financial assets that are prepayable at an amount that could be less than the unpaid amounts of principal and interest at amortised cost.
Amendments to IAS 28 - Long-term interests in associates and joint ventures	These amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture if the equity method is not used.
Amendments to IAS 19 - Plan amendment, curtailment or settlement	These amendments clarify how to calculate the current service cost and net interest for the remainder of the annual reporting period when a defined benefit plan amendment, curtailment or settlement occurs during that period.
Amendments to IAS 10 and IAS 8 - Definition of 'material'	Aligns the definition of 'material' with that provided in the Conceptual Framework.

2.2. Standards and interpretations issued but not yet effective

At the date of authorising the accompanying condensed consolidated interim financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation, are the following:

Standard	Contents	Applicable in annual periods beginning on or after
New standards:		
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2021
Amended standards:		
Amendments to IFRS 3 - Definition of a 'business'	Clarifies the definition of a business.	1 January 2020
Amendments to IAS 1 and IAS 8 - Definition of 'material'	Amends both standards to align the definition of 'material' with that provided in the Conceptual Framework.	1 January 2020

Although the Group is in the process of analysing what impact these new and amended standards could have on its financial disclosures, their impact is not expected to be significant.

3. Key accounting estimates and judgements and sources of estimation uncertainty

3.1. Key accounting estimates and judgements

The preparation of these condensed consolidated interim financial statements for the first half of 2019 in accordance with generally accepted accounting principles requires the use of assumptions and estimates that affect the measurement of recognised assets and liabilities, the presentation of contingent assets and liabilities at the reporting date and the amounts of income and expense recognised during the reporting period. Actual results may differ significantly from these estimates.

The criteria used to calculate the estimates for these financial statements are the same as those used to prepare the ENCE Group's consolidated annual financial statements for 2018.

As stipulated in IAS 34 - Interim financial reporting, the calculation of the amount included under "Income tax" in the income statement for the six-month periods ended 30 June 2019 and 2018 was based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year.

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

3.2. Sources of estimation uncertainty

The key aspects which, as of the date of authorising the issuance of these financial statements, imply a source of estimation uncertainty are itemised in note 19.

4. Operating segments

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

The Pulp business:

This business line encompasses the following reportable segments:

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

The Renewable Energy business:

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

In order to expand the disclosures provided in this note, the appendices attached to these condensed consolidated interim financial statements include the consolidated statement of financial position at 30 June 2019 and 2018 and the consolidated income statement and consolidated statement of cash flows for the six-month periods then ended broken down between the Pulp and Renewable Energy businesses.

4.1. Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2019 and 2018, based on the management information reviewed regularly by senior management:

1H19 Income statement	Thousands of euros – PULP business: Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	303.674	3.689	-	-	307.363	80.800	(1.996)	386.167
Inter-segment revenue	352	5.426	-	(5.003)	775	18	(793)	-
Total revenue	**304.026**	**9.115**	**-**	**(5.003)**	**308.138**	**80.818**	**(2.789)**	**386.167**
Earnings:								
EBITDA (*)	**62.984**	**4.040**	**95**	**(482)**	**66.637**	**25.660**	**-**	**92.297**
Operating profit/(loss)	**36.249**	**(1.087)**	**37**	**-**	**35.199**	**11.810**	**-**	**47.009**
Finance income	2.846	15	-	(1.350)	1.511	252	(1.283)	480
Finance costs	(5.663)	(1.286)	(18)	1.350	(5.617)	(9.127)	1.283	(13.461)
Hedging derivatives	-	-	-	-	-	-	-	-
Net exchange gains/(losses)	683	(1)	-	-	682	(13)	-	669
Impairment of financial instruments	-	(140)	-	-	(140)	-	-	(140)
Income tax	(8.719)	844	27	-	(7.848)	(298)	-	(8.146)
Profit/(loss) for the period	**25.396**	**(1.655)**	**46**	**-**	**23.787**	**2.624**	**-**	**26.411**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	1.435	-	1.435
Profit/(loss) attributable to owners of the parent	**25.396**	**(1.655)**	**46**	**-**	**23.787**	**1.189**	**-**	**24.976**

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

1H2018 Income statement	Thousands of euros – PULP business: Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	329.638	1.974	-	-	331.612	68.737	-	400.349
Inter-segment revenue	756	6.637	425	(6.016)	1.802	119	(1.921)	-
Total revenue	**330.394**	**8.611**	**425**	**(6.016)**	**333.414**	**68.856**	**(1.921)**	**400.349**
Earnings:								
EBITDA (*)	**106.335**	**4.866**	**379**	**(491)**	**111.089**	**19.663**	**-**	**130.752**
Operating profit/(loss)	**85.994**	**1.487**	**136**	**-**	**87.617**	**11.013**	**(1.728)**	**96.902**
Finance income	11.130	17	83	(2.257)	8.973	245	(8.685)	533
Finance costs	(26.658)	(2.202)	(55)	2.257	(26.658)	(4.946)	2.111	(29.493)
Hedging derivatives	(1.329)	-	-	-	(1.329)	-	-	(1.329)
Net exchange gains/(losses)	2.618	-	(14)	-	2.604	(18)	-	2.586
Income tax	(16.381)	139	(52)	-	(16.294)	(1.574)	-	(17.868)
Profit/(loss) for the year	**55.374**	**(559)**	**98**	**-**	**54.913**	**4.720**	**(8.302)**	**51.331**
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	1.017	-	1.017
Profit/(loss) attributable to owners of the parent	**55.374**	**(559)**	**98**	**-**	**54.913**	**3.703**	**(8.302)**	**50.314**

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

4.2. Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp and energy production facility:

1H19	Thousands of euros						
	Pontevedra biomill	Navia biomill	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	218.202	247.142	-	-	465.344	-	465.344
Pulp sales volume (ADt)	204.942	233.008	-	-	437.950	-	437.950
Energy sales volume (MWh)	111.552	239.124	-	-	350.676	-	350.676
Continuing operations:							
Revenue	122.000	159.062	-	111.635	392.697	(21.244)	371.453
Cost of sales and other costs	(54.864)	(68.125)	-	(44.648)	(167.637)	22.107	(145.530)
GROSS PROFIT	**67.136**	**90.937**	**-**	**66.987**	**225.060**	**863**	**225.923**
Employee benefits expense	(10.162)	(13.292)	(17.510)	(4.909)	(45.872)	-	(45.872)
Other operating expenses	(25.581)	(26.946)	(4.664)	(29.699)	(86.890)	(863)	(87.754)
Overhead passed on	(8.033)	(9.867)	22.173	(4.274)	-	-	-
EBITDA	**23.360**	**40.832**	**-**	**28.106**	**92.298**	**-**	**92.298**
Asset depreciation/amortisation and impairment	(4.428)	(16.585)	-	(22.176)	(43.188)	-	(43.188)
Other non-recurring operating expenses	(2.100)	-	-	-	(2.100)	-	(2.100)
OPERATING PROFIT	**16.831**	**24.248**	**-**	**5.930**	**47.009**	**-**	**47.009**
Net finance cost	(1.054)	(1.288)	-	(10.111)	(12.452)	-	(12.452)
PROFIT BEFORE TAX	**15.778**	**22.960**	**-**	**(4.181)**	**34.557**	**-**	**34.557**
Income tax	(3.945)	(5.739)	-	1.538	(8.146)	-	(8.146)
PROFIT FOR THE PERIOD	**11.832**	**17.222**	**-**	**(2.643)**	**26.411**	**-**	**26.411**
Profit/(loss) attributable to non-controlling interests	-	-	-	1.435	1.435	-	1.435
Profit/(loss) attributable to owners of the parent	**11.832**	**17.222**	**-**	**(4.078)**	**24.976**	**-**	**24.976**

(a) Includes the forestry activity, the power plants comprising the Renewable Energy business (note 1), companies that are virtually inactive and the Group's subsidiaries in Uruguay.

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

30 June 2018	Pontevedra Biofactory	Navia Biofactory	Corporate	Other (a)	Subtotal	Eliminations	Total
	Thousands of euros						
Business metrics:							
Pulp output (ADt)	248.733	209.097	-	-	457.830	-	457.830
Pulp sales volume (ADt)	254.718	208.403	-	-	463.121	-	463.121
Energy sales volume (MWh)	111.069	244.557	-	447.485	803.111	-	803.111
Continuing operations:							
Revenue	140.513	184.306	-	109.789	434.608	(34.259)	400.349
Cost of sales and other costs	(53.375)	(69.986)	-	(53.859)	(177.220)	33.778	(143.442)
GROSS PROFIT	**87.138**	**114.320**	**-**	**55.930**	**257.388**	**(481)**	**256.907**
Employee benefits expense	(8.678)	(11.014)	(13.343)	(3.945)	(36.980)	-	(36.980)
Other operating expenses	(28.796)	(27.969)	(4.710)	(28.181)	(89.656)	481	(89.175)
Overhead passed on	(6.892)	(8.458)	18.053	(2.703)	-	-	-
EBITDA (*)	**42.772**	**66.879**	**-**	**21.101**	**130.752**	**-**	**130.752**
Asset depreciation/amortisation and impairment	(4.959)	(16.197)	-	(12.694)	(33.850)	-	(33.850)
OPERATING PROFIT/(LOSS)	**37.813**	**50.682**	**-**	**8.407**	**96.902**	**-**	**96.902**
Net finance cost	(8.692)	(12.117)	-	(6.894)	(27.703)	-	(27.703)
PROFIT BEFORE TAX	**29.121**	**38.565**	**-**	**1.513**	**69.199**	**-**	**69.199**
Income tax	(7.520)	(9.958)	-	(390)	(17.868)	-	(17.868)
PROFIT (LOSS) FOR THE YEAR	**21.601**	**28.607**	**-**	**1.123**	**51.331**	**-**	**51.331**
Profit/(loss) attributable to non-controlling interests				1.017	1.017		1.017
Profit/(loss) attributable to owners of the parent	**21.601**	**28.607**	**-**	**106**	**50.314**	**-**	**50.314**

(a) Includes the forestry activity, the power plants comprising the Renewable Energy business (note 1), companies that are virtually inactive and the Group's subsidiaries in Uruguay.

(*) A measure that is not disclosed in the consolidated income statement. It is calculated as operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Group's ordinary operating activities and therefore undermine the comparability of the numbers. This metric is not defined in IFRS.

5. Revenue

The breakdown of Group revenue by segment in the first six months of 2019 and 2018 is as follows:

Thousands of euros	1H19 Pulp	1H19 Renewable Energy	1H19 Consol. Group	1H18 Pulp	1H18 Renewable Energy	1H18 Consol. Group
Business metrics						
Pulp sales volume (tonnes)	437.950	-	437.950	463.121	-	463.121
Energy sales volume (MWh)	350.676	482.580	833.256	355.626	447.469	803.095
Revenue						
Pulp	258.552	-	258.552	286.148	-	286.148
Electric energy	37.218	80.433	117.651	38.630	68.213	106.843
Timber and forestry services	9.605	359	9.964	6.836	522	7.358
Inter-segment sales	2.763	26	-	1.800	120	-
	308.138	**80.818**	**386.167**	**333.414**	**68.855**	**400.349**

(*) The difference between the figures presented under "Consolidated Group" for 1H19 and 1H18 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2019 and 2018 in the amounts of €2,789 thousand and €1,920 thousand euros, respectively.

The revenue associated with the generation of electricity includes an estimate of the 'adjustment for tariff shortfall/surplus' concept contemplated in electricity sector regulations in order to correct the impact of deviations between the variables estimated by the regulator, for the purpose of calculating remuneration on operations, most important of which estimated pool prices, and those that ultimately materialise. That adjustment is made every three years and settlement of the differences is usually allocated over the remaining useful life of each facility for regulatory purposes. Accrual of that adjustment had the effect of reducing revenue by €2,851 thousand in first half of 2019 (1H18: by €1,521 thousand).

During the first six months of 2019, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €121.4 million (1H18: €138.3 million).

5.1. Geographic revenue split

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

Percentage of pulp sales	1H19	1H18
Germany	19,0	22,9
Spain	15,4	15,3
France	12,0	8,4
Turkey	10,7	3,3
Poland	7,9	11,1
China	5,5	-
UK	4,6	3,9
Austria	4,6	8,9
Italy	3,5	9,9
Greece	2,2	2,6
Portugal	1,8	2,9
Slovenia	1,0	2,2
Other	11,8	8,6
	100,0	**100,0**

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

Two customers accounted for 22% of pulp sales volumes in the first half of 2019 (each of which accounting for over 10%).

6. Cost of sales

Consumption of raw materials and other consumables in the first six months of 2019 and 2018 breaks down as follows:

Thousands of euros	1H19 Pulp	1H19 Renewable Energy	1H19 Consolidated Group	1H18 Pulp	1H18 Renewable Energy	1H18 Consolidated Group
Purchases	127.507	22.714	147.757	119.561	19.324	137.531
Change in raw materials and other inventories	(6.812)	(3.138)	(9.950)	(4.807)	920	(3.887)
Other external expenses	15.542	2.766	17.983	11.497	1.952	12.884
	136.237	**22.342**	**155.790**	**126.251**	**22.196**	**146.528**

(*) The difference between the figures presented under "Consolidated Group" for 1H19 and 1H18 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2019 and 2018 in the amounts of €2,789 thousand and €1,919 thousand euros, respectively.

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

7. Employee benefits expense

The breakdown of the employee benefits expense incurred in the businesses carried on by ENCE in the first six months of 2019 and 2018 is provided below:

Thousands of euros	1H19 Pulp	1H19 Renewable Energy	1H19 Consolidated Group	1H18 Pulp	1H18 Renewable Energy	1H18 Consolidated Group
Wages and salaries	29.554	4.499	34.053	24.399	3.238	27.637
Social Security	6.951	1.120	8.071	5.800	801	6.601
Contributions to pension plans	1.087	91	1.178	1.012	37	1.049
Other benefit expense	554	42	596	588	15	603
	38.146	5.752	43.898	31.799	4.091	35.890
Long-term remuneration plans	1.723	249	1.972	848	73	921
Termination benefits	-	2	2	166	3	169
	39.869	**6.003**	**45.872**	**32.813**	**4.167**	**36.980**

7.1. Headcount

The average Group headcount during the first halves of 2019 and 2018:

	Average headcount during the year					
	30/06/2019			30/06/2018		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	2	9	7	2	9
Individual job contracts	270	114	384	241	96	337
Collective bargaining agreements	466	83	549	445	65	510
Temporary workers	118	33	151	109	43	152
	861	**232**	**1.093**	**802**	**206**	**1.008**

At 30 June 2019, the Board of Directors was made up of 14 members. Ten of them are men and three represent legal person directors.

7.2. Long-term remuneration plans

2016-2018 long-term bonus plan

As contemplated in the plan rules, the above plan was settled on 4 July 2019. Delivery of the plan objectives was determined at 84% on average, resulting in a cost of €7,211 thousand, €2,163 thousand of which was settled in cash and €5,048 thousand in shares (equivalent to 1,105 thousand shares net of the corresponding withholdings). Approximately 65% of the overall long-term bonus plan was awarded to key management personnel (note 23).

The charge accrued in this respect in the first half of 2019 amounted to €1,172 thousand (€921 thousand in 1H18) and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion settled in shares, in the amount of €820 thousand before the related tax effect (€645 thousand in 1H18); and ii) "Current provisions" in the consolidated statement of financial position (note 19) in respect of the portion settled in cash, in the amount of €352 thousand (€276 thousand at 30 June 2018).

2019-2023 long-term bonus plan

On 28 March 2019, at the Annual General Meeting, ENCE's shareholders approved the '2019-2023 long-term bonus plan', to be settled in a mix of cash and shares over several years.

The idea underpinning the new plan is to provide the management team with a performance incentive, reinforce their orientation towards delivery of the objectives set down in the 2019-2023 Business Plan, boost the group's sustainability efforts in order to create value in the long term and align management with shareholders' interests and the goal of improving the workplace climate.

The key terms and conditions are:

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

For the bonuses to accrue, it is vital that the minimum level of target delivery be met (minimum thresholds equivalent to 80% of the EBITDA and share price targets), measured using the criteria associated with the various targets, and for the beneficiaries to still be providing their services to ENCE (duly registered with the Social Security) on the corresponding vesting date, subject to the exceptions customary in incentive schemes such as these.

The bonus payment contemplated in this plan consists of a percentage of average annual fixed remuneration over the period covered by the plan, which ranges between 85% and 500%, and will vest depending on delivery of the following objectives:

i. EBITDA target: Forty-five per cent of the bonus is tied to the level of delivery of the cumulative EBITDA targets (determined using constant pulp sales prices, exchange rates and discount rates) for the Group and/or Pulp and Renewable Energy businesses, as set down in the 2016 - 2020 Business Plan.

ii. Share price target. Thirty per cent of the bonus pool is tied to the level of delivery of the target related with the performance of ENCE's share price as of the last quarter of each cycle relative to the performance of a basket of comparable stocks made up of seven companies from the pulp and renewable energy sectors.

iii. Sustainability target. Fifteen per cent is tied to the level of delivery of targets related with ENCE's sustainability efforts.

iv. Workplace climate target. Ten per cent is tied to the level of delivery of the workplace climate improvement related target.

The maximum payout under the plan, considering the current 108 beneficiaries and assuming 100% target delivery, amounts to €21,370 thousand. Of this total, 47.6% corresponds to key management personnel (note 23).

The bonuses will be paid 30% in cash and 70% in ENCE shares. The number of shares to be delivered will be determined using a benchmark share price of €5.8031 (the average share price during the 20 days before and after 31 December 2018). The CEO and members of the Management Committee who are beneficiaries of the plan have committed to holding a portion of the shares received for at least three years: a sum equivalent to two times his fixed remuneration in the case of the CEO and one times in the case of the committee members.

Estimates have been made, which are reviewed at each period end, to determine the accrual for this commitment; the impact of any changes is recognised in profit or loss. In estimating the amount corresponding to the share price target, the Group uses valuation techniques such as the Monte Carlo model for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model for the American options in stock option plans.

The charge accrued in this respect during the first half of 2019 amounted to €800 thousand and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€560 thousand before the related tax effect; note 20); and ii) "Current provisions" in the consolidated statement of financial position (note 19) in respect of the portion to be settled in cash (€240 thousand).

8. Other operating expenses

The breakdown of this heading of the condensed consolidated income statement for the six months ended 30 June 2019 and 2018 by ENCE's business lines:

Thousands of euros	1H19 Pulp	1H19 Renewable Energy	1H19 Consolidated Group	1H18 Pulp	1H18 Renewable Energy	1H18 Consolidated Group
External services	63.527	23.175	84.835	62.789	17.635	78.702
Use of emission allowances (note 19)	1.502	875	2.377	1.184	446	1.630
Taxes other than income tax and other management charges	1.169	649	1.818	1.453	385	1.838
Electricity generation levy	1.252	2.825	4.077	2.712	4.793	7.505
Change in trade and other provisions	1.711	43	1.754	199	(29)	170
Other non-recurring operating expenses (note 19)	2.100	-	2.100	4.002	-	4.002
	71.261	**27.567**	**96.961**	**72.339**	**23.230**	**93.847**

(*) The difference between the figures presented under "Consolidated Group" for 1H19 and 1H18 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2019 and 2018 in the amounts of €1,867 thousand and €1,722 thousand euros, respectively.

"Other non-recurring operating expenses" in the table above includes the costs accrued in the first six months of 2019 and 2018 in relation to the Environmental Pact with the environment department of the regional government of Galicia (note 25).

8.1. External services

The breakdown of "External services" in the interim reporting periods is as follows:

Thousands of euros	1H19 Pulp	1H19 Renewable Energy	1H19 Consolidated Group	1H18 Pulp	1H18 Renewable Energy	1H18 Consolidated Group
Transport, freight and business expenses	18.738	287	19.025	18.797	244	19.042
Utilities	19.108	1.170	20.278	18.054	672	18.725
Repairs and upkeep	7.369	9.018	16.388	8.028	6.150	14.178
Rent and fees	309	90	398	2.685	140	2.762
Insurance premiums	1.557	641	2.198	1.489	454	1.943
Independent professional services	3.407	842	4.241	3.737	662	4.391
Banking and similar services	374	91	464	436	105	541
Advertising, publicity and public relations	1.989	2	1.991	1.621	-	1.621
Research and development costs	195	-	195	285	-	285
Other services	10.481	11.034	19.657	7.657	9.208	15.214
	63.527	**23.175**	**84.835**	**62.789**	**17.635**	**78.702**

(*) The difference between the figures presented under "Consolidated Group" for 1H19 and 1H18 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2019 and 2018 in the amounts of €1,867 thousand and €1,722 thousand euros, respectively.

ENCE has arranged civil liability insurance which covers all its directors and executives against damages caused by acts or omissions in the course of discharging their duties. In the first half of 2019, this policy cost the Group €46 thousand euros.

9. Finance costs

The breakdown of this condensed consolidated income statement heading in the interim reporting periods:

Thousands of euros	1H19			1H18		
	Pulp	Renewable Energy	Total	Pulp	Renewable Energy	Total
High-yield / convertible bonds	2.377	-	2.377	6.031	-	6.031
Senior notes	-	1.613	1.613	-	867	867
Loans, credit facilities & other	1.782	2.244	4.026	1.060	1.110	2.170
Fees and other charges	721	1.886	2.607	792	620	1.412
Inter-business finance costs	-	1.283	-	-	2.111	-
Right-of-use assets (note 14)	674	133	807	-	-	-
	5.554	7.159	11.430	7.883	4.708	10.480
Costs associated with refinancing work:						
Interest due on €250m high yield bonds	-	-	-	6.741	-	6.741
Penalty for prepaying €250m high yield bonds	-	-	-	6.982	-	6.982
Derecognition of arrangement fees	-	1.375	1.375	5.052	-	5.052
	-	1.375	1.375	18.775	-	18.775
Derivatives:						
Settlement of interest-rate swap (note 21)	63	593	656	-	238	238
Fair value of IR swaps reclassified to profit or loss	-	-	-	1.329	-	1.329
	63	593	656	1.329	238	1.567
	5.617	**9.127**	**13.461**	**27.987**	**4.946**	**30.822**

(*) The difference between the figures presented under "Consolidated Group" for 1H19 and 1H18 and the addition of the figures corresponding to the "Pulp" and "Renewable Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2019 and 2018 in the amounts of €1,283 thousand and €2,111 thousand euros, respectively.

In the first half of 2019, having arranged a project finance facility to finance the acquisition of the 50-MW solar thermal power plant located in Puertollano (Ciudad Real) at the end of 2018 (note 20), the Group cancelled the bridge loan arranged on 30 November 2018, which had been used to temporarily finance that acquisition. The unamortised arrangement fees associated with the cancelled bridge loan - €1,375 thousand - were reclassified to profit and loss.

10. Goodwill and other intangible assets

The reconciliation of the opening and closing carrying amounts of the various components of intangible assets, including accumulated amortisation and impairment, for the first half of 2019 is as follows:

30 June 2019	Thousands of euros			
	Balance at 01/01/2019	Additions/ (charges)	Transfers	Balance at 30/06/2019
Goodwill	6.173	931	-	7.104
Software	22.581	138	1.576	24.295
Development costs	18.452	-	-	18.452
Prepayments	1.881	2.830	(1.576)	3.135
Right-of-use assets - Concession fee (note 14)	-	33.351	-	33.351
Other intangible assets	44.595	45	-	44.640
Total cost	**93.682**	**37.295**	**-**	**130.977**
Software	(16.728)	(1.488)	-	(18.216)
Development costs	(11.384)	(520)	-	(11.904)
Right-of-use assets - Concession fee (note 14)	-	(372)	-	(372)
Other intangible assets	(1.359)	(10)	-	(1.369)
Total amortisation	**(29.471)**	**(2.390)**	**-**	**(31.861)**
Goodwill	(498)	(124)	-	(622)
Development costs	(2.854)	-	-	(2.854)
Other intangible assets	(746)	-	-	(746)
Total impairment	**(4.098)**	**(124)**	**-**	**(4.222)**
Total	**60.113**			**94.894**

(*) The additions to "Goodwill" correspond to the acquisition at the end of 2018 of Ence Energía Termollano, S.A., for which the accounting is currently still provisional.

Goodwill at 30 June 2019 includes €2,115 thousand deriving from the acquisition by ENCE of interests in Energía de la Loma, S.A. and Energías de la Mancha ENEMAN, S.A., the cash-generating units to which it has been allocated, and €4,367 thousand arising on the acquisition of the 50-MW Termollano solar thermal plant.

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

11. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 1H19 and 1H18 is as follows:

30 June 2019	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Transfers	Translation differences	Balance at 30/06/2019
	Thousands of euros					
Forest land	83.794	-	-	-	-	83.794
Other land	10.580	-	(43)	-	3	10.540
Buildings	112.291	617	-	2.446	-	115.354
Plant and machinery	1.684.500	1.796	(99)	36.057	-	1.722.254
Other PP&E	54.065	3.406	-	1.976	-	59.447
Prepayments and PP&E in progress	205.256	152.510	-	(40.479)	-	317.287
Right-of-use assets - Land (note 14)	-	11.743	(2.537)	-	-	9.206
Right-of-use assets - Other assets (note 14)	-	11.098	(121)	-	-	10.977
Cost	**2.150.486**	**181.170**	**(2.800)**	**-**	**3**	**2.328.859**
Buildings	(66.261)	(1.046)	-	-	-	(67.307)
Plant and machinery	(1.032.402)	(33.574)	85	(1.763)	-	(1.067.654)
Other PP&E	(35.381)	(2.414)	-	1.763	-	(36.032)
Right-of-use - Land (note 14)	-	(691)	-	-	-	(691)
Right-of-use assets - Other assets (note 14)	-	(822)	21	-	-	(801)
Depreciation	**(1.134.044)**	**(38.547)**	**106**	**-**	**-**	**(1.172.485)**
Land and buildings	(1.985)	-	-	-	-	(1.985)
Plant and machinery	(26.170)	-	2.270	-	-	(23.900)
Other PP&E	(1.151)	-	-	-	-	(1.151)
Impairment	**(29.306)**	**-**	**2.270**	**-**	**-**	**(27.036)**
Carrying amount	**987.136**					**1.129.338**

11.1. Additions

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

	Thousands of euros	
	1H19	1H18
Pulp business:		
Pontevedra	36.154	39.631
Navia	58.417	42.431
Other	958	2.324
Renewable Energy business:		
46-MW Huelva (*)	17.989	53.236
41-MW Huelva	10.492	7.642
50-MW Puertollano (*)	24.417	55.753
Other	9.902	9.664
Total additions	**158.329**	**210.681**
Total right-of-use assets added (note 14)	22.841	-
	181.170	**210.681**

(*) Plants under construction

Renewable Energy

Through Ence Energía Puertollano, S.L.U., on 25 April 2018, the Group signed an EPC contract for the construction of a 50-MW renewable energy power plant fuelled by biomass. The plant is being built in Puertollano and it is expected to be commissioned during the fourth quarter of 2019. That project is expected to entail investments totalling €123 million.

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

Pulp business

Elsewhere, in 2018, the Group completed the project for adding 30,000 tonnes of pulp production capacity at the Pontevedra biomill and started work on the addition of 80,000 tonnes of capacity at the Navia biomill. The latter investment is slated for completion during the second half of 2019 and is expected to entail a total investment of €113 million. The Group also concluded the expansion of capacity at the Pontevedra biomill by a further 20,000 tonnes during the first half of 2019.

Other capital commitments

In the Pulp business, in addition to the undertakings detailed in note 11.2 in exchange for the 10-year extension of the concession term in Pontevedra, the Group was contractually committed to investing €40.1 million at the reporting date. The biggest capital commitment - €33.9 million at 30 June 2019 - relates to the plan to add 80,000 tonnes of capacity at the Navia biomill.

Capital commitments in the Renewable Energy business, in addition to the commitments outlined above in connection with the ongoing construction of two biomass power plants in Huelva and Puertollano, amounted to €16.9 million at 30 June 2019.

11.2. Public-domain concession - Pontevedra biomill

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

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

Of the agreed-upon 60-year extension, 10 years are conditional upon ENCE making certain investments at the biomill related with increasing its capacity and efficiency, improving its environmental performance and blending the facility into its surroundings.

Of that total, €49.6 million has already been invested and the Group is contractually committed to investing another €5.0 million.

The investment undertakings in Pontevedra have been similarly factored into the Environmental Pact entered into with the Environmental Department of the regional government of Galicia (note 25), along with other commitments entailing investment of up to an estimated €94 million.

11.3. Insurance cover

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

12. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". The movement in this heading during the first half of 2019:

	Thousands of euros			
30 June 2019	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Balance at 30/06/2019
Pulp business:				
Forest cover	136.646	3.223	(1.788)	138.081
Depletion of forest reserve	(45.760)	(4.532)	566	(49.726)
Provision for impairment	(8.478)	(162)	999	(7.641)
	82.408	**(1.471)**	**(223)**	**80.714**
Renewable Energy business:				
Forest cover	3.007	82	(315)	2.774
Depletion of forest reserve	(1.928)	(24)	-	(1.952)
Provision for impairment	(930)	-	315	(615)
	149	**58**	**-**	**207**
	82.557			**80.921**

In the first half of 2019, the Group planted 668 hectares of land and carried out forest preservation and protection work on 6,662 hectares, work which entailed investments totalling €3,290 thousand.

The Group also capitalised €15 thousand of borrowing costs under forest cover in the first half of 2019.

13. Non-current assets held for sale

The opening and closing first-half 2019 balances of "Non-current assets held for sale" reconcile as follows:

Thousands of euros - 30 June 2019	Balance at 01/01/2019	Amounts derecognised (note 1.7)	Balance at 30/06/2019
Biological assets	4.000	(4.000)	-
Total	**4.000**	**(4.000)**	**-**

14. Leases

The application with effect from 1 January 2019 of IFRS 16 - Leases has implied the recognition of the following balances in the consolidated statement of financial position at 30 June 2019 and the consolidated income statement for the six months then ended:

14.1. Amounts recognised in the consolidated statement of financial position:

The consolidated statement of financial position at 30 June 2019 recognises the following amounts in connection with leases:

Right-of-use assets - Assets

		Thousands of euros			
	Note	Initial recognition	Additions/ (charges)	Derecognitions	30/06/2019
Cost:					
Pontevedra biomill concession	10	33.351	-	-	33.351
Forest leases	11	11.088	655	(2.537)	9.206
Other (*)	11	8.910	2.188	(121)	10.977
Cost		**53.349**	**2.843**	**(2.658)**	**53.534**
Depreciation:					
Pontevedra biomill concession	10	-	372		372
Forest leases	11	-	691		691
Other (*)	11	-	822	(21)	801
Depreciation		**-**	**1.885**	**(21)**	**1.864**
Carrying amount		**53.349**	**958**	**(2.637)**	**51.670**

(*) Mainly includes the lease of the land on which the 50-MW Puertollano solar thermal plant is located, as well as office and vehicle leases.

Right-of-use assets - Liabilities

		Thousands of euros					
	Note	Initial recognition	Additions	Instalments paid	Derecognitions	Interest	30/06/2019
Current	20.3	4.333	110	(2.511)	(201)	938	2.669
Non-current	20.3	49.015	3.850	-	(2.414)	-	50.451
		53.348	**3.960**	**(2.511)**	**(2.615)**	**938**	**53.120**

14.2. Amounts recognised in the consolidated income statement:

The consolidated income statement for the six months ended 30 June 2019 recognises the following amounts in connection with leases:

		Thousands of euros
	Note	30/06/2019
Depreciation of right-of-use assets:		
Pontevedra biomill concession	10	372
Land	11	691
Other assets	11	822
		1.885
Depreciation charges capitalised		(691)
		1.194
Interest expense		938
Borrowing costs capitalised		(131)
	9	**807**
Gain on disposal of right-of-use asset		**22**

The Group did not recognise any expenses in connection with short-term or low-value leases.

15. Inventories

The breakdown of the Group's inventories at 30 June 2019 and 31 December 2018 is as follows:

Thousands of euros	30/06/2019	31/12/2018
Timber and biomass	19.566	9.703
Other raw materials	2.111	2.758
Spare parts (*)	8.799	8.830
Emission allowances	2.528	2.692
Finished goods and work in progress	28.980	18.720
Prepayments to suppliers	862	842
	62.846	**43.545**

(*) Presented net of impairment allowances of €14,303 thousand and €13,837 thousand at 30 June 2019 and 31 December 2018, respectively.

There are no restrictions on title to inventories.

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

15.1. Emission allowances

The reconciliation of the opening and closing Group-owned emission carbon allowance balances for the six months ended 30 June 2019 is provided in the next table:

	1H19	
	Number of allowances	Thousands of euros
Opening balance	190.642	2.692
Allocated	117.073	2.925
Utilised (*)	(211.526)	(3.089)
Closing balance	**96.189**	**2.528**

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

In November 2013, the Spanish Parliament approved the New National Allocation Plan for the allocation of emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 117,073 tonnes of carbon emissions, valued at €2,925 thousand, in the first half of 2019.

"Current provisions" on the liability side of the consolidated interim statement of financial position includes €2,377 thousand in this respect at 30 June 2019, corresponding to the liability derived from the consumption of 117,604 tonnes of carbon in the first half of 2019 (note 19).

16. Trade and other receivables

The breakdown at 30 June 2019 and 31 December 2018 of "Trade and other receivables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2019	31/12/2018
Trade receivables:		
Pulp	49.844	74.121
Energy	33.174	33.663
Other items	3.596	893
Sundry receivables	3.489	1.380
Provision for impairment	(4.264)	(3.135)
	85.839	**106.922**

The balance receivable by the Group in respect of its share of the financing of the Spanish electricity tariff deficit stood at €19,733 thousand at 30 June 2019.

16.1. Factoring facilities

The Group has drawn down €51,040 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €95,000 thousand at 30 June 2019 (€49,278 thousand and €95,000 thousand, respectively, at 31 December 2018). The Group pays interest equivalent to 3-month EURIBOR plus a spread ranging between 1.0 % and 1.25% on the receivables discounted under these agreements.

17. Trade and other payables

The breakdown at 30 June 2019 and 31 December 2018 of "Trade and other payables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2019	31/12/2018
Trade and other payables	164.414	161.258
Payable to fixed-asset suppliers	66.913	65.195
Employee benefits payable	4.766	8.571
	236.093	**235.024**

The average payment period on goods and services purchased ranges between 59 and 63 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group has drawn down €105,672 thousand under non-recourse reverse factoring agreements with an aggregate limit of €153,000 thousand at 30 June 2019 (€79,097 thousand and €147,000 thousand, respectively, at 31 December 2018).

€152 million of the Group's accounts payable were denominated in US dollars at 30 June 2019.

18. Equity

18.1. Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2019 was represented by 246,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

The table below depicts the Company's shareholder structure at 30 June 2019 and 31 December 2018:

	%	
Shareholder	30/06/2019	31/12/2018
Juan Luis Arregui / Retos Operativos XXI, S.L.	29,44	29,28
Víctor Urrutia / Asúa Inversiones, S.L.	6,34	6,34
Jose Ignacio Comenge / La Fuente Salada S.L.	6,38	6,01
Systematica Investments Limited	-	1,02
Norges Bank	3,05	-
Own shares	1,63	0,64
Directors with ownership interest of < 3%	0,44	0,43
Free float	52,72	56,28
Total	**100,00**	**100,00**

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

18.2. Earnings per share

The basic and diluted earnings per share calculations for the six-month period ended 30 June 2019 are shown below:

Earnings per share	1H19
Group profit attributable to owners of the parent (€ 000)	24,976
Weighted average ordinary shares outstanding (*)	242,263,211
Weighted average diluted shares (**)	261,503,370
Basic earnings per share (€)	**0.10**
Diluted earnings per share (€)	**0.09**

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

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

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

18.3. Own shares

The reconciliation of "Equity - Own shares" at the beginning and end the six-month period ended 30 June 2019 is as follows:

	30/06/2019	
	No. of shares	Thousands of euros
Opening balance	1.566.289	4.352
Purchases	11.435.690	58.998
Sales	(8.992.690)	(48.980)
Closing balance	**4.009.289**	**14.370**

On 30 April 2019, the Company's Board of Directors agreed to execute a share buyback programme in order to allow it to meet the Group's obligations under ENCE's 2019-2023 long-term bonus plan (note 7). Under the scope of that programme, which was completed by 17 May 2019, 2,439,000 shares were repurchased for a total of €10,410 thousand, yielding an average price of €4.27/share.

The own shares held by the Company at 30 June 2019 represent 1.63% of its share capital (0.64% at 31 December 2018) and were carried at €3,608 thousand (€1,410 thousand at 31 December 2018). Those shares were acquired at an average price of €3.58 per share. The own shares held as treasury stock are intended for trading in the market and for delivery under the 2016-2018 long-term bonus plan and the 2019-2023 long-term bonus plan (note 7.2). On 4 July 2019, 1,105 thousand own shares held as treasury stock were delivered to the beneficiaries of the 2016-2018 long-term bonus plan (note 7).

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

18.4. Valuation adjustments

The breakdown of "Valuation adjustments" at 30 June 2019:

	30/06/2019		
Thousands of euros	Fair value	Tax effect	Adjustment in equity
Land revaluation reserve	54.102	13.509	40.593
Hedging transactions (note 21)			
IR swap	(8.115)	(2.029)	(6.086)
Exchange rate	(8.391)	(2.098)	(6.293)
	37.596	**9.382**	**28.214**

There was no movement in the land revaluation reserve during the first half of 2019. The changes in the fair value of the hedging transactions recognised directly against equity are recognised in the consolidated statement of comprehensive income for the six-month period ended 30 June 2019.

18.5. Non-controlling interests

The reconciliation of the carrying amount of this condensed consolidated statement of financial position heading at the beginning and end of the first half of 2019 is as follows:

30 June 2019	Thousands of euros				
Company	Balance at 01/01/2019	Profit/(loss) attributable to NCI	Dividend payments	Other movements	Balance at 30/06/2019
Energía de la Loma, S.A.	4.661	218	(314)	-	4.565
Energías de la Mancha Eneman, S.A.	4.429	689	(684)	-	4.434
Bioenergía Santamaría, S.A.	550	374	(531)	-	393
Ence Energía Termollano, S.A.	8.632	154	-	(326)	8.460
Total	**18.272**	**1.435**	**(1.529)**	**(326)**	**17.852**

18.6. Shareholder remuneration

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

At a meeting held on 30 July 2019, the Board of Directors of the Parent resolved to pay an interim dividend from 2019 profits of €0.051 per share (before withholdings), in cash. This dividend will entail the payment of up to €12.5 million on 19 September 2019.

The table below sets out the related forecast liquidity position, as required under article 277 of the Consolidated Text of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity at Ence Energía y Celulosa, S.A. to justify payment of the above interim dividend:

	Euros
Available liquidity as of 30 June 2019:	
Cash	104.607.750
	104.607.750
Interim dividend payment (maximum amount)	(12.493.277)
Forecast net cash flows until date of approval of interim dividend	-
Forecast liquidity as of date of approval of interim dividend	**92.114.474**
Forecast cash receipts until 30 June 2020	
Cash flows from operating activities (proceeds net of payments)	36.514.576
Dividends	66.500.000
Forecast cash outflows until 30 June 2020	
Capital expenditure & income tax	(57.136.980)
Financing transactions (principal repayment, interest and dividend payments)	(4.000.000)
Forecast liquidity as of 30 June 2020	**133.992.070**

19. Provisions, impairment charges, guarantees and contingent liabilities

19.1. Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions for the six months ended 30 June 2019 is as follows:

	Thousands of euros			
30 June 2019	Balance at 01/01/2019	Additions/ (charges)	Derecognitions or decreases	Balance at 30/06/2019
Non-current:				
Employee commitments (note 7.2)	-	240	-	240
Discontinuation of pulp production in Huelva	59	-	-	59
Dismantling provision	9.155	95	-	9.250
Other	3.073	124	(211)	2.986
	12.287	**459**	**(211)**	**12.535**
Current				
Employee commitments (note 7.2)	1.801	352	-	2.153
Emission allowances (note 15)	3.089	2.377	(3.089)	2.377
Discontinuation of pulp production in Huelva	1.767	25	(406)	1.386
Pontevedra Environmental Pact (note 26)	5.000	2.100	-	7.100
Other provisions	10.700	-	-	10.700
	22.357	**4.854**	**(3.495)**	**23.716**

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

19.2. Guarantees extended to third parties

At 30 June 2019, several financial institutions had extended the various Group companies the following guarantees:

	Thousands of euros
Government permitting - renewable energy power generation plants	35.830
Subsidised loans (note 20)	12.442
Receivables discounting lines (note 16)	7.000
Participation in irrigation community works	4.046
Tax claims (note 19.3)	4.836
Execution of forest projects	3.854
Pontevedra concession (note 11)	3.050
Electricity market security deposit	2.101
Environmental	1.602
Payments to suppliers	1.406
Puertollano works performance bond	1.241
Other	2.511
	79.919

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

19.3. Contingent assets and liabilities

At the June 2019 close, the Group is party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below:

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

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass.

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

As a result, on 14 July 2014, for the unlawful economic damages caused directly to ENCE and certain Group companies (Ence Energía, S.L. Unipersonal; Ence Energía Huelva, S.L. Unipersonal; Ence Energía Extremadura, S.L. Unipersonal; Silvasur Agroforestal, S.A. Unipersonal; and Ence Investigación y Desarrollo S.A. Unipersonal; hereinafter, the "ENCE Group Companies") on account of the undue retroactive application to periods prior to 14 July 2013 of the new remuneration regime introduced for facilities generating power from biomass sourced from energy crops, the ENCE Group Companies presented a claim for damages from the Spanish state (hereinafter, the "Claim") before the Spanish Ministry of Industry, Energy and Tourism (the "Energy Ministry"). Quantification of the award sought was conditional upon presentation of a report compiled by an independent expert.

Accordingly, on 14 July 2014, the ENCE Group Companies delivered a first report compiled by an independent expert which quantified the ongoing damages already sustained in respect of 'costs incurred' at €52,070 thousand, albeit noting that the harmful consequences of the government's actions would continue to materialise in the immediate future.

Having delivered the documentation required by the Energy Ministry in order to complement/remedy the Claim on 28 January and 27 February, on 5 December 2017, another report was submitted, similarly compiled by the same independent expert, quantifying the damages caused by the application of the above-mentioned remuneration regime with retroactive effect at €63,300 thousand.

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

Pontevedra public-domain concession

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

That case was resolved by means of a resolution by the-then Ministry of Agriculture, Food and the Environment (currently the Ministry of Ecological Transition, hereinafter, the "Environmental Ministry") on 24 July 2015. That resolution declared the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant in Placeres, the existing underwater discharge pipeline and the sports facilities, enabling the continuation of ENCE's activities at the Pontevedra Operations Centre.

The 24 July 2015 resolution was challenged by the town council of Pontevedra and a local association, *Asociación pola Defensa da Ría de Pontevedra* (hereinafter, the "APDR"), before the National Appellate Court (Chamber for Contentious Administrative Proceedings), giving rise to two separate proceedings. In both cases ENCE is acting as co-defendant, upholding the legality of the Environmental Ministry's actions. The proceedings brought by the APDR are ongoing. The second set of proceedings, appeal no. 85/2016, brought by the town council of Pontevedra, seeking a full concession termination declaration, was dismissed by section four of the National Appellate Court on 7 December 2018, ordering the claimant to bear the legal costs. That sentence has not been appealed and is thus now a final ruling.

Elsewhere, the Environmental Ministry issued another resolution on 20 January 2016 granting the extension of the public-domain concession for the land on which ENCE's factory in Pontevedra is located for a total term of 60 years (10 years of which subject to the performance of specific investments in the energy efficiency, water savings and environmental areas). That resolution has also been challenged firstly through administrative channels and subsequently in court by the town council of Pontevedra and two environmentalist associations: Greenpeace Spain and the APDR.

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

In all three lawsuits, the state/Environmental Ministry has since acquiesced to the claimants claims by means of written deeds submitted on 8 March 2019, despite having maintained strenuously and unanimously throughout the proceedings that the Ministerial Order/Resolution of 20 January 2016 was fully lawful. ENCE is opposing the state's acquiescence vehemently. The Environmental Ministry's decision to concede came at a time when the two cases taken by the APDR and Greenpeace Spain had already been heard.

As a result of the state's acquiescence, the Works Committees at ENCE's head offices and at the biomill in Pontevedra have appeared in court for all three cases.

The cases taken by Greenpeace Spain and the APDR are pending sentencing. As for the lawsuit taken by the City Council of Pontevedra, the National 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.

The Company, in an act of transparency, published a price-sensitive notice on 15 March 2019, outlining 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.

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, which, as opposed to the prevailing legislation, which contemplates the possibility of extending the term by a maximum of 75 years, features 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. In the event that the above regulatory change materialises and is applied to ENCE, the concession term could be extended until 2033.

Tax contingencies

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

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

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

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

Several ENCE Group companies have paid and subsequently claimed (firstly before the tax authorities and subsequently before the National Economic-Administrative Court) the reimbursement of sums unduly paid in the returns corresponding to the generation levy in 2013-2017, based on the grounds that the tax in question is not environmental in purpose and the fact that the regulations governing the tax go against European Community law and the principles of legal certainty, equality, ability to pay and non-confiscatory taxation enshrined in the Spanish Constitution. The amount being sought amounted to €83.7 million at 30 June 2019.

20. Financial instruments

20.1. Financial instruments by category

The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings at 30 June 2019:

30 June 2019					
Thousands of euros	Note	Amortised cost	Fair value through OCI	Fair value through profit or loss	Total at 30/06/2019
Derivative financial instruments	21	-	1.800	-	1.800
Trade and other receivables	16	85.839	-	-	85.839
Other financial assets	20.6	13.580	-	-	13.580
Cash and cash equivalents	20.5	198.446	-	-	198.446
Total financial assets		**297.865**	**1.800**	**-**	**299.665**
Derivative financial instruments	21	-	22.025	-	22.025
Trade payables	17	236.093	-	-	236.093
Other accounts payable	20.4	20.821	-	6.300	27.121
Bonds and other marketable securities	20.2	237.967	-	-	237.967
Bank borrowings	20.2	336.692	-	-	336.692
Other financial liabilities	20.3	95.549	-	-	95.549
Total financial liabilities		**927.122**	**22.025**	**6.300**	**955.447**

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable either directly or indirectly using valuation techniques (Level 2 inputs).

The convertible bonds issued by ENCE in 2018 were trading at 94.47% of par at 30 June 2019. The fair value of the rest of the Group's financial assets and liabilities is not significantly different from their carrying amounts.

20.2. Bank borrowings and capital markets issues

The breakdown of bank borrowings at 30 June 2019 corresponding to loans and discounting facilities, classified by their respective maturities, is as follows:

			Maturity					
30 June 2019 - Thousands of euros	Limit	Drawn down	2019	2020	2021	2022	2023	Beyond
Borrowings - Pulp business								
Notes issued	149.072	149.072	-	-	-	-	149.072	-
Revolving credit facility	70.000	-	-	-	-	-	-	-
Bank loans	110.000	110.000	-	4.000	22.900	35.500	47.600	-
Arrangement fees	-	(2.090)	-	(552)	(561)	(570)	(407)	-
Interest and coupons payable and other	-	910	910	-	-	-	-	-
	329.072	**257.892**	**910**	**3.448**	**22.339**	**34.930**	**196.265**	**-**
Borrowings - Renewable Energy business								
Notes issued	93.000	93.000	-	-	-	-	-	93.000
Revolving credit facility	20.000	-	-	-	-	-	-	-
Bank loans	160.000	129.500	7.000	16.350	24.372	24.696	22.396	34.686
Project finance facilities	107.123	100.823	5.182	6.998	6.997	6.197	7.397	68.052
Arrangement fees	-	(6.738)	-	(2.138)	(1.316)	(1.069)	(816)	(1.399)
Interest and coupons payable and other	-	182	182	-	-	-	-	-
	380.123	**316.767**	**12.364**	**21.210**	**30.053**	**29.824**	**28.977**	**194.339**
	709.195	**574.659**	**13.274**	**24.658**	**52.392**	**64.754**	**225.242**	**194.339**

Going forward, debt service payments in the Pulp Business, assuming current borrowing levels, will be approximately €3.5 million to €4.7 million per annum. In the Renewable Energy business, those future payments are estimated at approximately €5.8 million to €8.0 million.

In addition, the Group has receivables factoring facilities with a limit of €95,000 thousand (note 16) and reverse factoring lines with a limit of €153,000 thousand (note 17).

At the date of authorising the accompanying financial statements for issue, ENCE and its subsidiaries were in full compliance with their financial obligations, including any covenants that could trigger the prepayment of their borrowings.

ENCE's general risk management policy, as described in detail in the consolidated financial statements for the year ended 31 December 2018, remains fully effective as of the date of issuance of these condensed consolidated interim financial statements.

Borrowings - Pulp business

Convertible bond issue and revolving credit facility

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

The main terms and conditions of the issue:

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

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

The terms and conditions include, as is customary in convertible bond issues, a change of control clause in favour of the bondholders and clauses under which the conversion price may be adjusted depending on the annual dividends paid out by ENCE.

The convertible bonds are unsecured and imply no restrictions on the use of capital. The bonds rank *pari passu* with the rest of the Company's unsecured and unsubordinated borrowings.

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

Loans

In 2018, ENCE arranged several loans to finance specific investments contemplated in its 2019-2023 Business Plan, raising a combined amount of €110 million, all of which falling due in 2023.

A portion of the loans, with a face value of €90 million, accrues interest at fixed rates ranging between 1.75% and 1.80%. The remaining loans accrue interest at EURIBOR plus spreads of between 1.35% and 1.90%. The loans are guaranteed by several Group companies belonging to the Pulp business.

Borrowings - Renewable Energy business

Recourse borrowings

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

On 8 December 2018, Ence Energía, S.L., the holding company for the Renewable Energy business, arranged to increase the limit on that senior loan by €17 million and placed €43 million of notes in a private placement, which was subscribed by two fixed-income funds. The size of that loan was increased in order to finance the new 50-MW biomass power facility being built by ENCE in Puertollano (note 11).

The key terms of those loans are as follows:

	Thousands of euros			Interest
	Undrawn	Drawn	Maturity	rate (*)
Senior notes (iv)	50.000	50.000	Dec. 2025 (ii)	3,45%
Tranche 1	70.000	70.000	dic-2024	1.75% - 3.25%
Tranche 2	6.000	6.000	Dec. 2025 (ii)	3,45%
Tranche 3 (iii)	60.000	47.000	dic-2024	1.75% - 3.25%
Tranche 4	20.000	-	dic-2024	1.25% - 2.75%
Senior notes (iv)	43.000	43.000	Dec. 2025 (ii)	3,45%
Tranche 5 (v)	17.000	6.500	dic-2025	1.75% - 3.25%
	266.000	**222.500**		

(i) Except for the bonds/notes that carry a fixed rate of interest, the rate is 6-month EURIBOR plus a spread which varies depending on the leverage ratio (net debt / EBITDA) in the Renewable Energy business.
(ii) Due in a single bullet payment on the date indicated.
(iii) Finances the ongoing construction of a 46-MW biomass power plant in Huelva (note 11).
(iv) Those notes have been admitted to trading on the Frankfurt exchange (Freiverkehr).
(v) Finances the ongoing construction of a 50-MW biomass power plant in Puertollano (Ciudad Real).

The main collateral provided to secure those loans is a pledge over the shares of the Group companies encompassed by the Renewable Energy business (other than those associated with the thermal solar power plant acquired in 2018) and over their present and future assets and collection claims.

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

The covenants also stipulate a minimum cash sweep in the Renewable Energy business of €34.3 million, including any amounts drawn down under tranche 4, compliance with certain ratios related with the business's leverage, financial position and cash flow generation capabilities and certain restrictions regarding the payment of dividends and ability to secure additional financing.

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

In order to hedge the risk deriving from this floating-rate facility, ENCE restructured the hedge agreements it had arranged for the purposes of its previous facilities. The new interest-rate swaps cover 83% of the financing drawn down and lock in an average rate of 1.35% (note 22).

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

Project finance facility at the Puertollano thermal solar power plant

On 29 March 2019, Ence Energía Solar, S.L.U., 100%-owned by ENCE Energía, S.L.U., and Ence Energía Termollano, S.A., 90%-owned by Ence Energía Solar, S.L.U., arranged a project finance facility with a syndicate of four financial institutions to finance the acquisition of a 50-MW thermal solar power plant located in Puertollano (Ciudad Real); that acquisition closed at the end of 2018.

The project finance facility totals €109,570 thousand, of which €103,270 thousand was initially drawn down. It matures on 31 December 2031. The key terms of the facility:

	Thousands of euros			Interest
	Undrawn	Drawn	Maturity	rate
Tranche 1	26.670	20.370	dic-2026	6m Euribor + 1.95% - 2.3%
Tranche 2	80.453	80.453	dic-2031	6m Euribor + 1.95% - 2.3%
	107.123	**100.823**		

The proceeds were used to cancel the bridge loan arranged on 30 November 2018 by Ence Energía Solar, S.L.U. to initially finance the above-mentioned acquisition (note 9) and also to cancel €7,002 thousand contributed by IDAE (acronym in Spanish for the energy savings and diversification institute), the plant's minority shareholder.

The facility accrues interest at a floating rate benchmarked to EURIBOR plus a spread ranging between 1.95% and 2.30%, depending on the length of time elapsing since the facility's arrangement date. The arrangement and other costs incurred to obtain this facility totalled €2,178 thousand.

The project finance facility includes guarantees related exclusively to the asset it finances, including a pledge over 90% of the shares of ENCE Energía Termollano, S.A. (the plant owner), over 100% of the shares of ENCE Energía Solar, S.L.U., and over its current and future assets and credit claims. It also implies a series of obligations related to the disclosure of certain business and financial information, which are customary in these types of facilities, and the requirement to comply with certain solvency and profitability financial ratios based on the consolidated financial information of Ence Energía Solar, S.L.U. Lastly, the facility includes certain restrictions, mainly related to the ability to pay dividends and obtain new financing and the requirement to maintain a cash sweep equivalent to coverage of 6 months' debt service.

In order to hedge the risk deriving from this floating-rate financing facility, ENCE arranged interest-rate hedges with the project financiers for a notional amount equivalent to 70% of the drawdowns estimated over the term of the loan, locking in a fixed rate of 2% (note 22).

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

20.3. Other financial liabilities

An analysis at 30 June 2019:

30 June 2019 - Thousands of euros	Total	Maturity					
		2019	2020	2021	2022	2023	Beyond
Other financial liabilities - Pulp business							
Financing granted by public organisms	39.405	2.292	3.191	3.359	5.848	4.878	19.837
Liabilities for right-of-use assets (note 14)	44.675	1.292	2.144	1.510	1.279	1.091	37.359
Other	3.024	3.024	-	-	-	-	-
	87.104	**6.608**	**5.335**	**4.869**	**7.127**	**5.969**	**57.196**
Other financial liabilities - Renewable Energy business							
Liabilities for right-of-use assets (note 14)	8.445	177	363	276	272	268	7.089
	8.445	**177**	**363**	**276**	**272**	**268**	**7.089**
	95.549	**6.785**	**5.698**	**5.145**	**7.399**	**6.237**	**64.285**

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

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

20.4. Other non-current liabilities:

The breakdown at 30 June 2019:

30 June 2019 - Thousands of euros	Total	2020	2021	2022	2023	Beyond
Other non-current liabilities - Pulp business						
Adjustments for tariff shortfall	3.420	136	146	157	168	2.813
	3.420	**136**	**146**	**157**	**168**	**2.813**
Other non-current liabilities - Renewable Energy business						
Adjustments for tariff shortfall	13.089	853	916	984	1.057	9.279
Other (*)	10.612	10.612	-	-	-	-
	23.701	**11.465**	**916**	**984**	**1.057**	**9.279**
	27.121	**11.601**	**1.062**	**1.141**	**1.225**	**12.092**

(*) Includes contingent consideration in the amount of €6.3 million associated with the acquisition of 90% of the share capital of Ence Energía Termollano, S.A. (refer to note 2 of ENCE's annual consolidated financial statements for 2018).

The line item "Other non-current liabilities" on the accompanying consolidated statement of financial position includes the Group's payment obligation to the sector regulator, the CNMC, under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste, in respect of the "Adjustments for tariff shortfall/surplus" concept (note 5).

20.5. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short-term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These accounts are not remunerated.

The Group had €198,446 thousand of cash and cash equivalents at 30 June 2019 (€104,889 thousand of which corresponding to the Pulp business and €93,557 thousand to the Renewable Energy business).

In assessing the availability of the Group's cash, readers should note that the financing taken on by the Renewable Energy business requires it to maintain a minimum cash balance of €14.3 million, a sum that could rise to €34.4 million depending on the extent to which it uses the credit facility contemplated in tranche 4. There is an additional cash sweep requirement of €4.82 million under the terms of the Termollano project finance facility to cover a forward six months' debt service requirement.

20.6. Other financial assets

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

	30/06/2019		31/12/2018	
Thousands of euros	Current	Non-current	Current	Non-current
ENCE's share liquidity agreement (note 18.3)	4.336	-	295	-
Account receivable from Iberdrola - Regulator claim	-	-	-	11.787
Security deposits and other accounts receivable	2.581	6.663	1.929	1.671
	6.917	**6.663**	**2.224**	**13.458**

20.7. Corporate credit ratings

Standard & Poor's improved the long-term credit rating assigned to ENCE to BB with a stable outlook (from BB-) on 27 April 2018. Moody's, meanwhile, confirmed its long-term credit rating of Ba2 on 21 June 2019 (from Ba3), similarly reiterating the stable outlook.

21. Derivative financial instruments

The breakdown of this consolidated statement of financial position heading at 30 June 2019 and 31 December 2018, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

Thousands of euros	Non-current assets		Non-current liabilities		Current liabilities	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Cash flow hedges:						
IR swap	-	-	9.530	6.221	4.039	3.129
IR swap arrangement fee	-	-	(1.278)	(1.548)	-	-
Currency hedges	1.800	268	-	-	9.734	15.847
Total	**1.800**	**268**	**8.252**	**4.673**	**13.773**	**18.976**

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

The changes in the fair value of the derivatives designated as hedging instruments that were reclassified to profit or loss in 1H19 and 1H18 are shown below:

Fair value reclassified to profit or loss

Thousands of euros - gain/(loss)	1H19	1H18
Impact on operating profit		
Currency hedges	(14.714)	5.160
Impact on net finance costs		
IR swap (note 9)	(656)	(238)
Total	**(15.370)**	**4.922**

The derivatives currently arranged by ENCE qualify for hedge accounting under the prevailing standard.

21.1. Currency hedges

ENCE hedges its exposure to fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, using tunnel options (Asian options). The breakdown at 30 June 2019:

Underlying	Maturity	Strike price Call	Strike price Put	otional amour (USD m)
EUR/USD	3Q19	1,188	1,268	140,5
EUR/USD	4Q19	1,180	1,257	119,0
				259,5
EUR/USD	1Q20	1,157	1,233	107,0
EUR/USD	2Q20	1,158	1,202	111,0
EUR/USD	3Q20	1,141	1,196	103,0
EUR/USD	4Q20	1,131	1,189	25,0
				346,0

The contracts in effect at 30 June 2019 cover approximately 75% of forecast pulp sales for the next 18 months and lock in predictable cash flows in the context of a period of heavy investments by the Group.

Those instruments presented a negative market value of €7,934 thousand at 30 June 2019 (a negative market value of €15,579 thousand at year-end 2018).

Considering the hedges arranged at the reporting date, dollar depreciation of 5% relative to the spot price as at 30 June 2019 would imply a cash outflow of €3,018 thousand in the second half of 2019. In contrast, dollar appreciation against the euro of 5% would imply a cash inflow of €22,055 thousand during the second half of 2019.

21.2. Interest rate swaps

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

Thousands of euros	Fair value	Notional amounts at reporting date: 2019	2020	2021	2022	2023	2024	2025
Pulp business	400	20.000	20.000	16.000	4.000	-	-	-
Renewable Energy business	13.169	263.411	259.250	233.502	203.597	173.584	147.092	42.186

In order to hedge the interest rate risk associated with the floating-rate project finance facility funding the Termollano power plant, ENCE has arranged an interest-rate swap over 70% of the amount arranged at a variable rate, locking in a fixed rate of 0.49% (note 20).

Considering the hedges arranged at 30 June 2018, a 10% increase in the EURIBOR forward curve would imply a cash inflow of €45 thousand in the second half of 2019. In contrast, a 10% decline in the EURIBOR interest rate curve would result in a cash outflow of the same magnitude in the second half of the year.

22. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2019 and 31 December 2018 are shown below:

	Thousands of euros			
	30/06/2019		31/12/2018	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	54.090	-	56.477	-
Deferred tax liabilities	-	39.920	-	40.017
Total	**54.090**	**39.920**	**56.477**	**40.017**
Current:				
VAT	30.349	755	14.669	2.789
Current tax on profits for the year	1.213	3.543	1.363	1.828
Electricity generation levy	357	4.198	357	16
Sundry other taxes	526	3.522	459	5.020
Total	**32.445**	**12.018**	**16.848**	**9.653**

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

Tax expense for the first half of 2019 was calculated using an estimated effective tax rate of 23.7%.

22.1. Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position heading at the beginning and end of the first half of 2019 is as follows:

	Thousands of euros				
	Deferred tax assets				**Deferred tax liabilities**
	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	**Total**	
Opening balance	30.576	5.579	20.322	56.477	40.017
Estimated 2H19 income tax	(1.990)	-	-	(1.990)	-
Change in fair value of hedging instruments	-	(702)	-	(702)	40
Other	-	-	306	306	(136)
	28.586	**4.877**	**20.628**	**54.090**	**39.920**

(*) Utilisation of tax losses is limited to 25% of taxable income

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

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

22.2. Years open to inspection and tax inspections

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

23. Director and key management personnel pay and other benefits

Note 28 of the Group's 2018 consolidated financial statements details the agreements in force regarding the remuneration and other benefits provided to the members of the Company's Board of Directors and its key management personnel. The table below summarises the most significant items of remuneration and benefits accrued during the six months ended 30 June 2019:

	Thousands of euros
Board of Directors - in their capacity as directors.	
Type of remuneration-	
Fixed remuneration	357
Per diems & other	419
	776
Key management personnel:	
Total remuneration (*)	**2,581**

(*) The remuneration accrued by the Group's "key management personnel" in the first half of 2019 includes that accrued for the chairman and chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement.

The directors did not conclude any transactions with ENCE or any its subsidiaries outside the ordinary course of business or on terms other than on an arm's length basis in the first half of 2019.

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

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

Below is a list of the Group's key management personnel:

Name	Position
Ignacio de Colmenares y Brunet	Chairman and Chief Executive Officer
Alfredo Avello de la Peña	Finance and Corporate Development Officer
Jordi Aguiló Jubierre	Pulp Operations Officer
Felipe Torroba Maestroni	Independent Energy Plants Officer
Alvaro Eza Bernaola	Supply Chain Officer
Reyes Cerezo Rodríguez-Sedano	General Secretary
Modesto Saiz Suárez	Pulp Sales and Logistics Manager
María José Zueras Saludas	Human Capital Officer
Faustino Martínez Rodríguez (*)	Health, Safety and Environment Manager
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer
Ángel J. Mosquera López-Leyton	Internal Audit Manager

(*) Joined ENCE on 1 April 2019
(**) Joaquín Bohórquez Crespi de Valldaura joined the Finance and Corporate Development Department during the first half of 2019, at which point he ceased to qualify as a member of key management personnel.

“Key management personnel” remuneration includes the fixed and estimated variable remuneration corresponding to the first half of 2019. Elsewhere, the Company provides the members of its Management Committee with a range of in-kind compensation, including company cars, health insurance and an annual medical check-up. The contracts with the Pulp Operations Officer, the Independent Energy Plants Officer and the Supply Chain Officer include non-compete clauses ranging between one and two year vis-a-vis firms and activities considered analogous to those of ENCE.

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

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

Lastly, the Chairman and CEO and the key management personnel are beneficiaries of the 2016-2018 and the 2019-2023 long-term bonus plans (note 7).

24. Related-party transactions

The Company arranged the following transactions with related parties in the first halves of 2019 and 2018:

		Thousands of euros	
Related party	Item	1H19	1H18
Pedro Barato Triguero (*)	Services rendered	33	167

(*) Pedro ceased to be a member of ENCE's Board of Directors on 28 March 2019

Those transactions were arranged on an arm's length basis. The transaction with Pedro Barato corresponds to the services provision agreement entered into on 1 March 2018 and terminated on 1 March 2019.

25. Environmental disclosures

ENCE is Europe's leading producer of eucalyptus pulp, Spain's number-one producer of renewable power from agricultural biomass and the leading end-to-end and responsible manager of forest land and crops in Spain.

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

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

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

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

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

- Reducing odour pollution
- Improving the quality of wastewater
- Boosting energy efficiency

- Reducing the consumption of raw materials
- Cutting waste generation

Environmental management systems

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

The integrated management system complies with the following international standards:

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

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

Environmental regulations

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

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

However, ENCE's environmental management strategy seeks to go beyond mere compliance with prevailing legislation. ENCE wants to set an example with its environmental management. To this end, under the scope of the TQM model, it has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

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

By way of example of what can be achieved by means of environmental excellence, the pulp produced in Pontevedra and Navia has carried the Nordic Swan seal certifying compliance with the most stringent environmental standards since 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.

25.1. Pulp business

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

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

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

Navia biomill

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

- Expanding existing pulp production capacity by 80,000 tonnes by eliminating several existing bottlenecks. Since work began on expanding the facility's capacity in 2015, capacity has increased by 13%; in the first half of 2019, this biomill produced a total of 247,142 tonnes.

- Improving the facility's environmental performance by enhancing equipment and system technology throughout the productive process, specifically technology focused on improving its environmental performance framed by best available techniques.

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

In addition, the integrated management system at the Navia biomill was consolidated with renewal of its environmental and quality management certifications in accordance with the new versions of the UNE-EN-ISO 14001 and UNE-EN-ISO 9001 standards, respectively. Adaptation of the ISO standards for the criteria introduced in 2015 implies progress on adapting the integrated management system for risk assessment analysis in all areas of the Company's management as the initial premise for implementing change.

Capital expenditure on environmental projects totalled €4.2 million at this biomill in the first half of 2019.

Pontevedra biomill

“Zero odours” is the priority target at the Pontevedra biomill, one on which the firm is working tirelessly. To this end, in the first half of 2019, it carried out a number of projects clearly focused on this goal, such as the construction of a roof cover in the wastewater treatment areas (high-rate reactor and mixing tank) and a new system for treating steam in the desorption towers.

Thanks to these investments, coupled with enhanced process control, the odour impact index used to track progress on the odour reduction project and monitor, in addition to the number of minutes of odour episodes at point and diffuse sources, the perception of the smell from the industrial activity in the surrounding areas, has declined by 99% since the start of the project.

As for liquid discharges, the results remain excellent. The discharge readings consolidate the Pontevedra biomill's position as a sector benchmark. For example, chemical oxygen demand was 2.40 kg/ADt, which is 88% below the threshold recommended in the pulp and paper BAT reference document. Suspended solids are similarly improving, with the facility outperforming the BREF recommendations by 77% in this respect.

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

Lastly among the investments undertaken in 2019, work is underway on phase three of the landscape integration project, which includes the recovering of the furnace buildings. This phase entails total investment of €3.2 million.

On the waste management front and framed by its circular economy strategy, the Pontevedra biomill has obtained *'Zero Waste'* certification, which singles out the organisations that are committed to sustainability by reusing the waste generated by their business activities. Indeed, in the first half of 2019, over 99% of the waste generated at this biomill was reused.

Elsewhere, the process of getting the Madrid regional environmental authorities to authorise a subsidiary called *Sostenibilidad y Economía Circular S.L.* as a waste manager continued. The aim is to create a mobile plant capable of making soil improvers for use in the recovery of degraded land (mines, refills, etc.).

Capital expenditure on environmental projects totalled €4.0 million at this biomill in the first half of 2019.

Pontevedra Environmental Pact

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

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

Under the pact, ENCE has committed to:

- Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- Fostering job creation by using regional forest resources.
- Creating a a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- Installing a biomass-fuelled co-generation plant and three bioenergy centres.
- Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their

safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:

I. A commitment to contribute up to €15 million to any investments mandated by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the city of Pontevedra;

II. A commitment to contribute up to €5 million to the refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to the construction of a football pitch in the vicinity of Lourizán;

III. Creation of a framework agreement for application in tandem with ENCE's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

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

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

In addition, a second addendum was signed on 5 March 2018 under which, exceptionally and with effect solely in 2018, ENCE assumed the commitments outlined in the "Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy", in respect of the annual funding provided for of up to €3 million. That second addendum also included the commitment to contribute up to €5 million to upgrading and modernising the urban waste treatment plant located in the city of Pontevedra. A new addendum is in the process of being negotiated for 2019.

Forestry

ENCE maintained its position and role as the leading private forest manager and a key player in the timber-based product market in Spain throughout the first half of 2019. It also reinforced its position as benchmark buyer of agricultural biomass for conversion into energy.

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

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

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

All of these activities are compliant with prevailing laws and regulations. Indeed, ENCE is a sector benchmark in terms of compliance with labour, technical and regulatory requirements, particularly in the timber market, which puts it in a position to assure that all of the the activities performed by it and its partners are compliant with the European due diligence regulation with respect to the legal origin of timber (EUTR). The biggest challenge lies with the development of stakeholder policies (owners, suppliers, sellers of standing timber, associations, etc.). Accordingly, the Group's specific environmental and social policies are transmitted to the organisation's stakeholders before work begins. This management approach is focused on ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. 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 1Q19. It is particularly worth highlighting ENCE's widespread efforts to promote dual certification (PEFC+FSC): similarly since 2011, the percentage of incoming timber that boasts dual certification has risen from 0% at both biomills to 89% at Navia and 63% at Pontevedra.

The optimisation of the acreage managed by ENCE enabled the production of 121,718 cubic metres of timber and 33,134 tonnes of forestry biomass during the first half. Elsewhere, ENCE invested €3.2 million in its forest assets as a whole, which was earmarked primarily to forestry care and infrastructure upgrade work and reforestation.

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

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

- Rollout of the RENOVA project, designed to make use of every last bit of the tree.
- Project for the recovery of eucalyptus plantations affected by fire or managerial shortcomings.
- Continuation of the GONIPTERUS project for the biological treatment of this pest in eucalyptus plantations for the fourth year running. Since the company embarked on this pest control strategy in 2016, over 145,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner.
- Rollout of a programme for the selection of trees that are more resistant to the *Teratosphaeria nubilosa* fungus.

- Expansion of the experimental network in the Forestry R&D area with the installation and rollout of over 30 new test plots for genetic and forestry care experimentation purposes in forestry land owned by the Group and other plots owned by individuals and associations.
- Improvements in the supply of Eucalyptus globulus and E. nitens plants to the sector. This falls under the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best materials for planting and recommendations regarding the best forestry care solutions for each situation.
- The project dubbed "Improved ownership accreditation" designed to pinpoint the location of mature and extra-mature eucalyptus plantations in Galicia and Asturias in order to inform their owners of their value, mobilise existing idle resources and possibly present bids, getting them into the market.
- Agricultural biomass supply project at the energy plants in southern Spain designed to foster the recovery of waste, and not only forest but above all agricultural sub-products, preventing it from being burned, thereby unlocking value from these products while helping to generate carbon-neutral power.

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

During the first half of 2019, ENCE also carried out the corresponding traceability audits in accordance with the FSC and PEFC regimes encompassing all of its business activities (the entire chain, from timber production through purchases and procurements to pulp and timber sales to other customers). ENCE's overall certification figures remain very impressive, with 1,242,128.21m^3 of certified timber going through its factories during the first six months of the year.

On the forestry logistics fronts, the reorganisation of the logistics effort, coupled with market adjustments, enabled the streamlining of timber displacements. As for the companies working on forest logistics tasks, the number of trucks stood at 202 in the northern region and 53 in the south, rendering the fleet in use highly flexible and well-diversified. In addition, the first trucks fuelled by liquid natural gas (LNG) have been added to the fleet, thus reducing emissions and injecting efficiency into the transportation of timber to the productive facilities. Elsewhere, geolocation technology is being used when assigning vehicles, which is delivering a substantial improvement in the process of allocating and controlling transportation loads.

On the safety front, the Group continues to foster implementation of a safety culture by the firms it works with by means of initiatives on the ground related with employee health and safety awareness-raising by means of seminars, talks and oversight of critical interventions such as manual felling.

25.2. Renewable Energy business

In the first half of 2019, execution of the projects aimed at adapting the energy operations centres for implementation of best available techniques ahead of effectiveness in 2021 of the BREF for Large Combustion Plants continued. The focus during the initial phase of adaptation has been on preparing for compliance with the new emission limits, planning different emission treatment systems depending on each power plant's needs. The rest of the interventions needed will be concentrated in 2019 and 2020 and will focus on the introduction of all the required technological, operational and managerial improvements which, while not associated with specific new thresholds, will enable ENCE not only to guarantee compliance with the various regulatory requirements but also to achieve sustained environmental excellence. That work will be evident in the revisions to the environmental permits planned for 2019-2020.

During the first half of 2019, ENCE also continued to execute the so-called Reliability of Environmental Indicator Measurements project, investing in redundant continuous emissions measurement equipment and equipment for the automated capture and processing of data. This effort was complemented by specific internal and external training initiatives.

Huelva operations centre

The Huelva operations centre is a prime example of the production of power from biomass as it is home to two important plants (HU41 and HU50) with another one under construction (HU46). Considerable progress was made on the construction of the new plan during the first half of 2019, with the various processes undergoing their first tests in May and June.

On the environmental front, all of this facility's wastewater readings, both the volume discharged and the main indicators tracking the quality of the effluents discharged, remained below the thresholds stipulated in the environmental permit. New investments are planned for 2019 to improve the analysis of the centre's water readings in order to make further progress on the targets for enhancing the use of water and for separating the effluents and treating them onsite.

As for air emissions, following the annual stoppage at the HU-41 MW biomass furnace, both the bag filter and the emissions desulphurisation system contemplated in the plan for getting ready for the sector BAT are operational.

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

As for waste, in the first half of 2019 a range of projects are under study for the use of ash and slag in mine restoration, soil improvers and also as a byproduct in the manufacture of fertilisers.

Framed by the circular economy model, virtually all of the waste generated was reused.

Lastly, in terms of the dismantling of the pulp production facilities, the related work has continued throughout 2019.

ENCE has obtained the required 'non-substantial modifications' permit for the capacity to be added via the new biomass plant and for the related changes in the emission limits and the addition of new emission points.

It has also secured the environmental permit for the plans to include photovoltaic panels to enable generation for self-consumption.

Environmental capital expenditure totalled €1.9 million at this centre in the first half of 2019.

Merida operations centre

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

The project for the installation of a desulphurisation system and a system for the non-catalytic reduction of nitrogen oxide emissions in combustion gases is in the warranty testing phase and the results to date are very positive. That project is framed by the process of readying the centre for more stringent emissions controls ahead of the looming effectiveness of the Best Available Techniques.

Within the plant's operational management, a series of periodic activities have been adapted and introduced at the centre to encourage ENCE's employees, operations and maintenance subcontractors and other people working at the plant to keep sustainability in mind. For example, waste handling awareness courses, the implementation of a suggestions box for ideas for how to improve the plant's environmental performance and monitoring of the environmental oversight programme designed for the facility.

With the aim of furthering the sustainable economy model at this centre, meetings have taken place with the Extremadura regional government's sustainability team addressing the possibility of introducing the degraded mine land recovery project in Salamanca into the region. The authorities have expressed interest in this circular economy initiative and work is underway to speed up the permitting process.

Lastly, the plant continues to collaborate with other companies in the region on the LIFE ICIRBUS Circular Economy project, researching how to recover the ash produced in the furnace. This project is in its final phase and the results for the harvests collected at which this fertiliser was used are being analysed. The prototype has been installed at the Lobón (Badajoz) urban waste treatment plant is operating continuously.

It is also worth highlighting the financial effort being made to reduce the activity's noise impact in the surrounding areas: phase one, involving a number of interventions at the furnace area, is underway and will be expanded on during a second phase that will start following the corresponding assessment.

Environmental capital expenditure at this plant totalled €0.4 million in the first half of 2019.

Enemansa operations centre

The priority at Enemansa for 2019 in terms of improving the plant's environmental performance is to enhance the management of the discharges by making progress on the project for connecting up with the municipal treatment facility, so that the ability to send discharges outside of the plant has been re-established while the separation of the various flows within the plant has been improved.

Another area of significant improvement at this facility has been to consolidate the environmental data reliability initiative. Indeed, that was this plant's most significant project/investment, entailing an investment of €300 thousand and an annual maintenance agreement worth around €80 thousand. That project has been executed and was fully functioning throughout the first half of 2019.

As for air emissions, all of the plant's existing emission points comply with the limits stipulated in its integrated environmental permit.

Lastly, with respect to noise emissions, having completed phases one and two of the related plan in 2018, noise readings at this plant have improved.

Environmental capital expenditure at this plant totalled €0.4 million in the first half of 2019.

La Loma operations centre

Among the various environmental improvement initiatives planned for 2019, the aim is to process a number of projects for upgrading the plan such as improvements to the forced evaporation system for the plant's discharges and the diversification of the evaporation systems, modification of the discharge point and separation of the discharges. The plans also include projects for which the required changes to the environmental permit have already been authorised, such as the installation of noise screens and improving the outside discharge deposit.

As for emissions, aware of the air quality situation in the town near Villanueva del Arzobispo, the plant boasts excellent results in terms of the particle emissions from the biomass plant.

On the waste management front, again taking a circular economy approach, this facility continues to manage its ash as a byproduct and not as waste, having filed the corresponding information with Spain's environment ministry and notified the regional department of the environment.

Capital expenditure on environmental projects at this centre totalled €0.3 million in the first half of 2019.

Lucena operations centre

Execution of a range of efficiency and environmental performance improvement projects continued at this plant in the first half of 2019. Those projects include fitting a bag filter at the biomass furnace emissions point, a noise emissions reduction project and plans for improving the reliability of the plant's environmental readings.

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

In 2019, within the stipulated deadline, the application was duly filed for the allocation of free emission allowances for Phase 4 of the European Union Emissions Trading System (EU ETS), which are granted in two periods: 2021-2025 and 2026-2030. The CHP plant has successfully completed the application verification and registration process and awaits notice of the linear reduction factors applicable to the plant as a new entrant.

Environmental capital expenditure at this plant totalled €0.3 million in the first half of 2019.

Termollano operations centre

During the first half of 2019, the work at this plant consisted of integrating the Renewable Energy business's dynamics and standards, starting with implementation of the UNE EN ISO 14001-based environmental management system.

Among the various environmental upgrade investments undertaken at this plant, it is worth highlighting the installation of thermal imaging cameras for the early detection of possible heat transfer fluid leaks and the improvements made to the solar field connection systems. A benchmarking exercise is also underway with respect to the improvements being made to heat transfer fluid management at the plant to ensure sustained application of prevailing best available techniques at the Puertollano plant.

Environmental capital expenditure at this plant totalled €0.1 million in the first half of 2019.

26. Events after the reporting date

No significant events have taken place since 30 June 2019, other than those already disclosed in the accompanying condensed consolidated interim financial statements, that would imply having to modify them.

Appendix

Statements of financial position at 30 June 2019 and 31 December 2018 and income statements and statements of cash flows for the six-month periods ended 30 June 2019 and 2018 for the PULP and ENERGY businesses.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2019 AND 31 DECEMBER 2018

	30 June 2019				31 December 2018			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets	46.161	63.123	(14.390)	94.894	12.381	47.732	-	60.113
Property, plant and equipment	559.490	571.577	(1.729)	1.129.338	475.441	513.424	(1.729)	987.136
Biological assets	80.713	208	-	80.921	82.408	149	-	82.557
Non-current investments in group companies								
Equity instruments	277.378	-	(277.378)	-	277.378	-	(277.378)	-
Loans to group companies	75.178	-	(75.178)	-	75.177	-	(75.177)	-
Other financial assets								
Hedging derivatives	1.800	-	-	1.800	268	-	-	268
Other financial assets	1.546	5.117	-	6.663	1.432	12.026	-	13.458
Deferred tax assets	39.148	14.930	12	54.090	42.817	13.648	12	56.477
	1.081.414	**654.955**	**(368.663)**	**1.367.706**	**967.302**	**586.979**	**(354.272)**	**1.200.009**
CURRENT ASSETS:								
Non-current assets held for sale	-	-	-	-	4.000	-	-	4.000
Inventories	52.290	10.556	-	62.846	35.980	7.565	-	43.545
Trade and other receivables								
Trade receivables, third parties	70.971	11.394	-	82.365	89.485	16.044	-	105.529
Trade receivables, related parties	12.426	22.327	(34.753)	-	6.445	16.644	(23.089)	-
Other receivables	2.087	1.387	-	3.474	1.198	195	-	1.393
Receivable from public authorities	30.554	678	-	31.232	12.937	2.548	-	15.485
Income tax receivable from tax authorities	-	1.213	-	1.213	-	1.363	-	1.363
Current financial assets:			-				-	
Derivatives	-	-	-	-	-	-	-	-
Other financial assets	6.910	7	-	6.917	2.218	6	-	2.224
Cash and cash equivalents	104.889	93.557	-	198.446	148.161	200.462	-	348.623
Other current assets	5.033	(645)	(1.195)	3.193	2.023	33	-	2.056
	285.160	**140.474**	**(35.948)**	**389.686**	**302.447**	**244.860**	**(23.089)**	**524.218**
TOTAL ASSETS	**1.366.574**	**795.429**	**(404.611)**	**1.757.392**	**1.269.749**	**831.839**	**(377.361)**	**1.724.227**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2019 AND 31 DECEMBER 2018

	30 June 2019				31 December 2018			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share capital	221.645	22.604	(22.604)	221.645	221.645	22.604	(22.604)	221.645
Share premium	170.776	74.955	(74.955)	170.776	170.776	74.955	(74.955)	170.776
Parent company reserves	165.322	729	(729)	165.322	161.266	729	(729)	161.266
Reserves in fully-consolidated companies	159.470	(10.202)	(33.598)	115.670	129.892	(75)	(46.609)	83.208
Valuation adjustments	34.000	(5.786)	-	28.214	27.720	(1.942)	-	25.778
Parent company retained earnings (prior-year losses)	(43.668)	(26.714)	26.714	(43.668)	(71.196)	(45.912)	45.912	(71.196)
Shareholder contributions	-	187.890	(187.890)	-	-	173.500	(173.500)	-
Profit for the period	23.787	1.189	-	24.976	126.246	9.072	(6.188)	129.130
Interim dividend	-	-	-	-	(51.309)	-	-	(51.309)
Translation differences	10	-	-	10	13	-	-	13
Own shares - parent company shares	(14.370)	-	-	(14.370)	(4.352)	-	-	(4.352)
Other equity instruments	14.850	366	-	15.216	13.830	235	-	14.065
Equity attributable to owners of the parent	**731.822**	**245.031**	**(293.062)**	**683.791**	**724.531**	**233.166**	**(278.673)**	**679.024**
Non-controlling interests	-	17.852	-	**17.852**	-	**18.272**	-	**18.272**
TOTAL EQUITY	**731.822**	**262.883**	**(293.062)**	**701.643**	**724.531**	**251.438**	**(278.673)**	**697.296**
NON-CURRENT LIABILITIES:								
Borrowings:								
Bonds and other marketable securities	146.982	90.985	-	237.967	145.443	90.719	-	236.162
Bank borrowings	110.000	202.919	-	312.919	110.000	108.164	-	218.164
Other financial liabilities	79.467	8.123	-	87.590	37.196	6.562	-	43.758
Derivative financial instruments	246	8.006	-	8.252	142	4.531	-	4.673
Grants	6.887	1.819	-	8.706	6.257	1.583	-	7.840
Deferred tax liabilities	21.019	19.321	(420)	39.920	21.029	19.408	(420)	40.017
Non-current provisions	3.218	9.317	-	12.535	3.087	9.200	-	12.287
Payable to Group companies	-	75.177	(75.177)	-		75.178	(75.178)	-
Non-current accruals and deferred income	2	3.405		3.407	-	1.470	-	1.470
Other non-current liabilities	3.420	17.401	-	20.821	2.608	16.357	-	18.965
	371.241	**436.473**	**(75.597)**	**732.117**	**325.762**	**333.172**	**(75.598)**	**583.336**
CURRENT LIABILITIES:								
Borrowings:								
Bank borrowings	910	22.863	-	23.773	893	151.758	-	152.651
Other financial liabilities	7.637	322	-	7.959	4.494	440	-	4.934
Derivative financial instruments	9.891	3.882	-	13.773	15.971	3.005	-	18.976
Trade and other payables								
Trade payables, third parties	183.722	53.566	(1.195)	236.093	150.721	84.303	-	235.024
Trade payables, related parties	30.268	4.489	(34.757)	-	16.823	6.267	(23.090)	-
Income tax payable	3.294	249	-	3.543	1.608	220	-	1.828
Other payables to public authorities	5.106	3.369	-	8.475	7.459	366	-	7.825
Other current liabilities	-	6.300	-	6.300	-	-	-	-
Current provisions	22.683	1.033	-	23.716	21.487	870	-	22.357
	263.511	**96.073**	**(35.952)**	**323.632**	**219.456**	**247.229**	**(23.090)**	**443.595**
TOTAL EQUITY AND LIABILITIES	**1.366.574**	**795.429**	**(404.611)**	**1.757.392**	**1.269.749**	**831.839**	**(377.361)**	**1.724.227**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

	1H19				1H18			
Thousands of euros	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	308.138	80.818	(2.789)	386.167	333.414	68.856	(1.921)	400.349
Gains/(losses) on hedging transactions	(14.714)	-	-	(14.714)	5.160	-	-	5.160
Changes in inventories of finished goods and work in progress	10.260	-	-	10.260	(2.074)	-	-	(2.074)
Cost of sales	(136.237)	(22.342)	2.789	(155.790)	(126.253)	(22.196)	1.921	(146.528)
GROSS PROFIT	**167.447**	**58.476**	**-**	**225.923**	**210.247**	**46.660**	**-**	**256.907**
Own work capitalised	4.502	199	-	4.701	1.896	112	-	2.008
Other operating income	2.145	40	(1.867)	318	3.240	88	(1.722)	1.606
Grants taken to income	1.573	515	-	2.088	859	199	-	1.058
Employee benefits expense	(39.869)	(6.003)	-	(45.872)	(32.814)	(4.166)	-	(36.980)
Depreciation and amortisation charges	(26.522)	(13.724)	-	(40.246)	(25.808)	(8.517)	-	(34.325)
Depletion of forest reserve	(4.532)	(24)	-	(4.556)	(3.549)	-	-	(3.549)
Impairment of and gains/(losses) on disposal of fixed assets	1.716	(102)	-	1.614	5.885	(133)	(1.728)	4.024
Other operating expenses	(71.261)	(27.567)	1.867	(96.961)	(72.339)	(23.230)	1.722	(93.847)
OPERATING PROFIT/(LOSS)	**35.199**	**11.810**	**-**	**47.009**	**87.617**	**11.013**	**(1.728)**	**96.902**
Finance income:								
From interests in equity instruments in group companies	-	-	-	-	6.574	-	(6.574)	-
From marketable securities & other financial instruments:				-				-
Related parties	1.283	-	(1.283)	-	2.111	-	(2.111)	-
Third parties	228	252	-	480	288	245	-	533
Finance costs:								-
Related-party borrowings	-	(1.283)	1.283	-	-	(2.111)	2.111	-
Third-party borrowings	(5.617)	(7.844)	-	(13.461)	(26.658)	(2.835)	-	(29.493)
Change in fair value of financial instruments	-	-	-	-	(1.329)	-	-	(1.329)
Exchange differences	682	(13)	-	669	2.604	(18)	-	2.586
Impairment of and gains/(losses) on disposal of financial assets	(140)	-	-	(140)	-	-	-	-
NET FINANCE COST	**(3.564)**	**(8.888)**	**-**	**(12.452)**	**(16.410)**	**(4.719)**	**(6.574)**	**(27.703)**
PROFIT/(LOSS) BEFORE TAX	**31.635**	**2.922**	**-**	**34.557**	**71.207**	**6.294**	**(8.302)**	**69.199**
Income tax	(7.848)	(298)	-	(8.146)	(16.294)	(1.574)	-	(17.868)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	**23.787**	**2.624**	**-**	**26.411**	**54.913**	**4.720**	**(8.302)**	**51.331**
CONSOLIDATED PROFIT FOR THE PERIOD	**23.787**	**2.624**	**-**	**26.411**	**54.913**	**4.720**	**(8.302)**	**51.331**
Profit/(loss) attributable to non-controlling interests	-	1.435	-	1.435	-	1.017	-	1.017
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**23.787**	**1.189**	**-**	**24.976**	**54.913**	**3.703**	**(8.302)**	**50.314**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 2018

Thousands of euros	1H19				1H18			
	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp	Renewable Energy	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Consolidated profit/(loss) for the period before tax	31.635	2.922	-	34.557	71.207	6.294	-8.302	69.199
Adjustment for:								
Depreciation and amortization	31.536	13.267	-	44.803	29.847	8.027	-	37.874
Changes in provisions and other deferred expense (net)	7.404	1.874	-	9.278	3.990	2.041	-	6.031
Impairment of and gains/(losses) on fixed assets	-1.702	102	-	(1.600)	-5.885	133	1.728	(4.024)
Net finance cost	3.379	8.874	-	12.253	16.899	4.700	6.574	28.173
Grants taken to income	-499	-127	-	-626	-519	-77	-	(596)
	40.118	**23.990**	**-**	**64.108**	**44.332**	**14.824**	**8.302**	**67.458**
Changes in working capital:								
Inventories	-17.093	-2.995	-	(20.088)	-2.979	698	-	(2.281)
Trade and other receivables	4.855	4.843	-	9.698	-15.332	1.147	-	(14.185)
Short-term investments	-4.693	-	-	(4.693)	2.503	-	-	2.503
Trade payables, other payables and other liabilities	8.600	2.994	-	11.594	7.112	-2.483	-	4.629
	(8.331)	**4.842**	**-**	**(3.489)**	**(8.696)**	**(638)**	**-**	**(9.334)**
Other cash flows from operating activities:								
- Interest paid (net)	(1.382)	(6.774)	-	(8.156)	(18.952)	(4.921)	-	(23.873)
- Income tax received (paid)	(5.119)	(155)	-	(5.274)	(6.396)	(797)	-	(7.193)
- Other receipts / (payments)	-	-	-	-	(1.321)	-	-	(1.321)
	(6.501)	(6.929)	-	(13.430)	(26.669)	(5.718)	-	(32.387)
Net cash from operating activities (I)	56.921	24.825	-	81.746	**80.174**	**14.762**	**-**	**94.936**
CASH FLOWS FROM INVESTING ACTIVITIES:								
Investments:								
Property, plant and equipment and biological assets	(91.248)	(89.992)	14.390	(166.850)	(28.313)	(39.441)	2.542	(65.212)
Intangible assets	11.693	(14.624)	-	(2.931)	(1.026)	(21.186)	-	(22.212)
Other financial assets	(114)	(25)	-	(139)	(2.518)	1.561	2.460	1.503
	-79.669	**-104.641**	**14.390**	**-169.920**	**-31.857**	**-59.066**	**5.002**	**-85.921**
Proceeds:								
Property, plant and equipment and biological assets	399	23	-	422	3.998	-	(2.542)	1.456
Other assets	4.123	-	-	4.123	-	-	-	-
	4.522	**23**	**-**	**4.545**	**3.998**	**-**	**-2.542**	**1.456**
Net cash used in investing activities (II)	**-75.147**	**-104.618**	**14.390**	**-165.375**	**-27.859**	**-59.066**	**2.460**	**-84.465**
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from and payments for equity instruments								
Proceeds from issuance of own equity instruments	-	14.390	(14.390)	-	14.552	-	-	14.552
Proceeds from issuance of convertible bonds, net of arrangement fees	-	-	-	-	-	2.460	(2.460)	-
Buyback of own equity instruments	(58.998)	-	-	(58.998)	-27.823	-	-	(27.823)
Disposal of own equity instruments	48.419	-	-	48.419	27.961	-	-	27.961
	-10.579	**14.390**	**-14.390**	**-10.579**	**14.690**	**2.460**	**-2.460**	**14.690**
Proceeds from and repayments of financial liabilities:								
Group companies and associates	(222)	222	-	-	(7.475)	7.475	-	-
Proceeds from issuance of convertible bonds	(121)	-	-	(121)	142.947	-	-	142.947
Repayment of bonds and other marketable securities	-	-	-	-	(250.000)	-	-	(250.000)
Increase/(decrease) in bank borrowings, net of issuance costs	-	(35.889)	-	(35.889)	19.285	18.489	-	37.774
Repayment of other borrowings	1.178	(4.597)	-	(3.419)	19.103	-	-	19.103
Payments under finance leases	(2.149)	(362)	-	(2.511)	-	-	-	-
Grants received	61	(31)	-	30	(25)	(24)	-	(49)
	-1.253	**-40.657**	**-**	**-41.910**	**-76.165**	**25.940**	**-**	**-50.225**
Dividends and payments on other equity instruments								
Dividends paid to ENCE shareholders	(13.214)	(845)	-	(14.059)	(16.158)	-	-	(16.158)
	(13.214)	**(845)**	**-**	**(14.059)**	**(16.158)**	**-**	**-**	**(16.158)**
Net cash used in financing activities (III)	**(25.046)**	**(27.112)**	**(14.390)**	**(66.548)**	**(77.633)**	**28.400**	**(2.460)**	**(51.693)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(43.272)**	**(106.905)**	**-**	**(150.177)**	**(25.318)**	**(15.904)**	**-**	**(41.222)**
Cash and cash equivalents, opening balance	148.161	200.462	-	348.623	167.294	103.234	-	270.528
Cash and cash equivalents, ending balance	104.889	93.557	-	198.446	141.976	87.330	-	229.306

ENCE Energía y Celulosa, S.A. and subsidiaries

Interim Group management report for the six months ended 30 June 2019

Contents

Ence Energía y Celulosa, S.A. and subsidiaries

Group Management Report
At 30 June 2019

1. Introduction

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

An integral part of this Management Report, and appended thereto, is the Group earnings report for the first half of 2019, which includes a detailed assessment of ENCE's business performance during the period and provides additional details about the markets it operates in and the key trends in the main income statement, cash flow and capital structure indicators. That report also includes information about ENCE's share price performance.

2. Organisational structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of Ence Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders, framed by the observation of its corporate social responsibility and sustainability criteria.

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

The Board of Directors is made up of executive, proprietary, external and independent directors. The Board has an Executive Chairman; the chairmanship is currently held by the CEO. The positions of Board Secretary and Vice-Secretary are currently held by two individuals who are not directors.

The Board is supported by an Executive Committee (in which it has delegated all of the powers that can be delegated) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Sustainability Committee.

The Chairman and Chief Executive Officer (CEO) is responsible for the Company's everyday management. He is supported in this work by the Management Committee, specifically the heads of the various business units and corporate departments: the Pulp Operations Officer, the Independent Energy Plants Officer, the Supply Chain Officer, the Chief Financial & Corporate Development Officer, the Human Capital Officer, the Communication and

Institutional Relations Officer, the Pulp Sales and Logistics Manager, the Health, Safety and Environment Manager and the General Secretary. These officers report directly to the CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

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

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

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

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

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

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

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

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

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

3. Business activity

ENCE has articulated its activities around two core businesses: the production of pulp, which represented 72% of Group EBITDA in the first half of 2019, and the generation of energy from renewable sources at standalone power plants, which accounted for the remaining 28%.

3.1. Pulp production:

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.

As an integral part of its pulp production process, ENCE uses the lignin and forest waste derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra 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 produced at these power plants is sold to the grid and subsequently repurchased.

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

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

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

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

3.2. Renewable power generation:

The Renewable Energy business encompasses the generation of power from renewable sources - forestry and agricultural biomass - at plants that have no relation to the pulp production process. ENCE currently has seven biomass plants: two in the Huelva industrial complex, with capacity of 50 MW and 41 MW, respectively, one in Merida (20 MW), one in Ciudad Real (16 MW), one in Jaen (16 MW) and a complex in Cordoba with two separate facilities (with capacity of 14 MW and 13 MW). In addition, ENCE is finalising the construction of a new 46-MW independent generation plant in Huelva and another 50-MW plant in Puertollano which are expected to be commissioned towards the end of 2019. This business also includes a 50-MW solar thermal power plant in Puertollano.

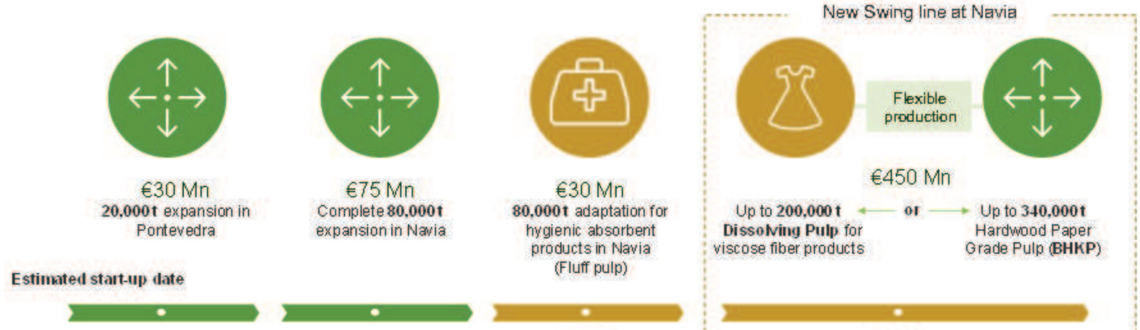
These assets position ENCE as one of Europe's largest hardwood pulp (BHKP) producers, with installed capacity of 1,120,000 tonnes between the two biomills in Galicia and Asturias, and as the leading generator of biomass-fuelled renewable energy, with installed capacity of 112 MW integrated within the pulp biomills and another 220 MW distributed between seven standalone plants located in Andalusia, Extremadura and Castile la Mancha. Moreover, ENCE is the leading player in the end-to-end and responsible management of forest land and crops in Spain.

3.3. 2019-2023 Business Plan

The Business Plan presented to the market at the end of 2018 constitutes the roadmap for delivery of the Group's objectives for 2023. The new plan is articulated around growth, diversification and excellence in sustainability in order to position the Group to leverage the opportunities arising in the pulp and renewable energy markets.

In the case of the pulp industry, rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in demand for absorbent personal care products and for viscose for use in the textile industry.

The Business Plan contemplates investments of €585 million to lift the Group's capacity to produce hardwood for making paper to 1.5 million tonnes per annum and enable diversification into absorbent personal care and viscose products. The latter products present higher growth rates than the various types of pulp currently sold by ENCE for manufacture into paper.



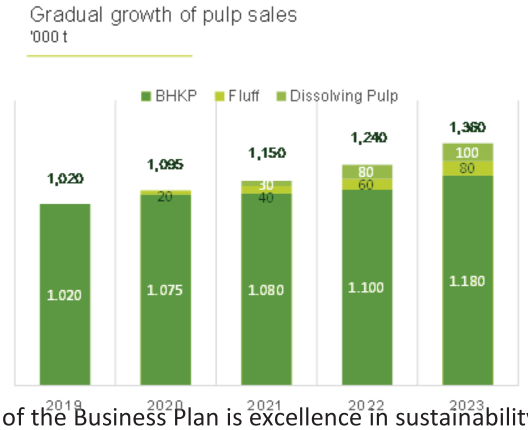
In March 2019, during the annual stoppage at the Pontevedra biomill, the Group executed phase one of the project for increasing annual capacity by 20,000 tonnes, making investments in the recovery boiler and condensation turbine. That capacity will be brought online gradually during the second half of the year, as the upgrades at the evaporators and digestors are fine-tuned.

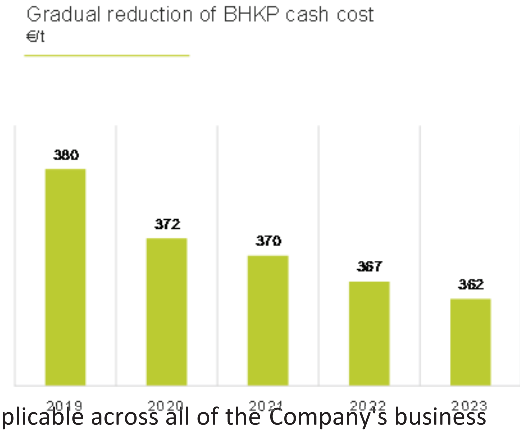
Given the legal uncertainty generated by the change in criteria regarding the extension of ENCE's concession in Pontevedra, in March 2019, the Board of Directors decided to freeze all capital expenditure at this biomill not already contracted and to concentrate the Group's investments at the Navia biomill,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

The addition of 80,000 tonnes of capacity at the Navia biomill will be executed in October 2019, a milestone which will be followed by the start-up of production and sale of fluff pulp for absorbent personal care products in 2020.

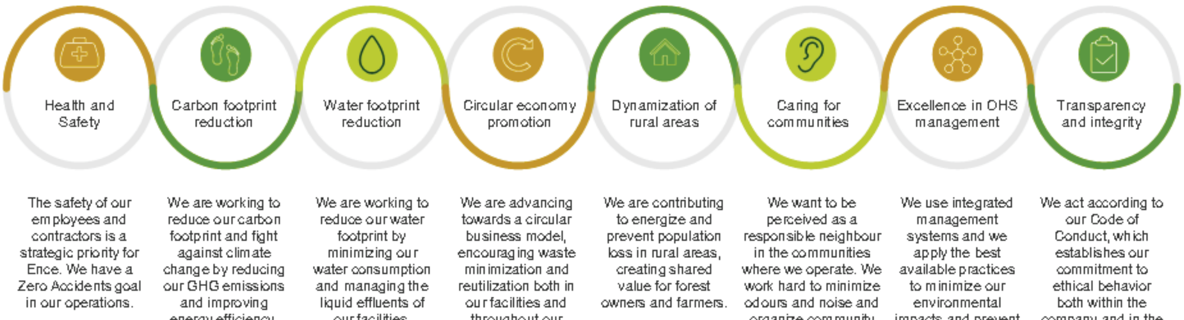
Progress is being made on the engineering work and building permitting required to add a new swing line in Navia. The new line will be configured such that it can produce up to 340,000 tonnes of BHKP pulp for making paper or, alternatively, up to 200,000 tonnes of dissolving pulp for viscose. The amount of capacity devoted to each type of fibre will ultimately depend on market conditions. This line is initially slated for commissioning in 2021. 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 2.5 times.

The gradual growth in pulp sales, as these projects are executed, will gradually enable the dilution of the fixed manufacturing costs, helping to reduce the current BHKP pulp cash cost. The new types of pulp for absorbent personal care products (fluff pulp) and for viscose (dissolving pulp) will command higher estimated sales prices and margins, albeit also entailing higher costs.





The third pillar of the Business Plan is excellence in sustainability, applicable across all of the Company's business activities. Ence has earmarked a budget of up to €140 million over the time horizon contemplated by the Business Plan to reinforcing the reliability, flexibility, environmental excellence and safety of its facilities.



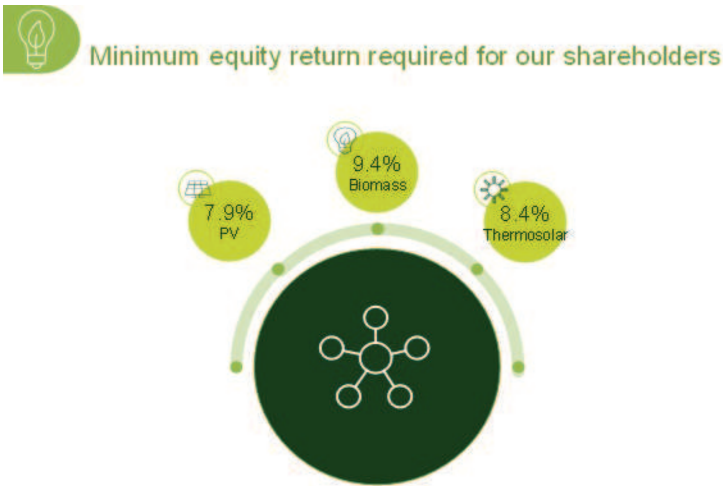
Safety, reducing the carbon and water footprints of its productive processes and promoting a circular economy model are vital for the Company. ENCE is also committed to revitalising rural areas, giving back to the communities it operates in and introducing best available practices in order to minimise the environmental impacts of its activities and prevent workplace risks, all of which underpinned by a policy of transparency and integrity.

In the Renewable Energy business, ENCE plans to increase its power generation capacity, helping Spain to meet its EU-stipulated renewable energy targets for 2030. To do so, it has an investment budget of €615 million, which will enable it to multiply EBITDA in this business line by a factor of three with respect to 2018 to €150 million by 2023, while providing earnings stability and resilience versus the cyclicality that characterises the pulp business.

In December 2018, ENCE took its first step towards diversifying into new renewable energy technologies when it acquired a 50-MW solar thermal power plant in Puertollano (Ciudad Real) for €140 million (net), which is expected to contribute an estimated €18 million to annual EBITDA. With that acquisition, ENCE is committing strategically to the hybridisation of this technology and biomass in order to boost the manageability of renewable energy.

In addition, ENCE expects to invest €115 million in 2019 in finalising the construction of two new biomass plants in Huelva and Puertollano (Ciudad Real) with aggregate capacity of 96 MW, which are slated for commissioning at the end of 2019 and are expected to lift EBITDA in this business by approximately €30 million per annum to between €95 and 100 million.

ENCE continues to analyse a number of investment opportunities in the fields of biomass, solar thermal and photovoltaic power that will enable it to meet its EBITDA target for 2023.



Financial discipline is the common denominator running through both businesses' investment plans, which will be executed in stages. Each plan has to be first re-approved by the Board in order to:

1. Ensure compliance with the return criteria;

2. Ensure that the leverage thresholds set for each business are not surpassed (net debt / EBITDA of 2.5x in the Pulp business and 4.5x in the Renewable Energy business);

3. After paying out 50% of net profit in dividends.

4. Human resources

The strategic projects contemplated for 2019 are:

- Workplace Climate Improvement Plan
- Professional development (coaching, teamwork, leadership, career planning and development)
- Talent: Talent programme and firm-wide talent review
- Labour Relations Improvement Plan
- Comprehensive 3-year training: technical, workplace safety, Six Sigma and project management
- Fulfilment of working hours at all levels
- Human Capital as Business Ally
- Equality targets
- ENCE 10

Workplace climate/motivation

Of all the projects mentioned above, the Workplace Climate Improvement Plan is the priority, not only for the human resources team but for all of the professionals who work for ENCE. The initiatives set in motion under the scope of this plan include:

Initiatives - 2019

- **One-on-one meetings**: 5,751 65 %
- **ENCE 10**

  Alliances reached: 160 100%

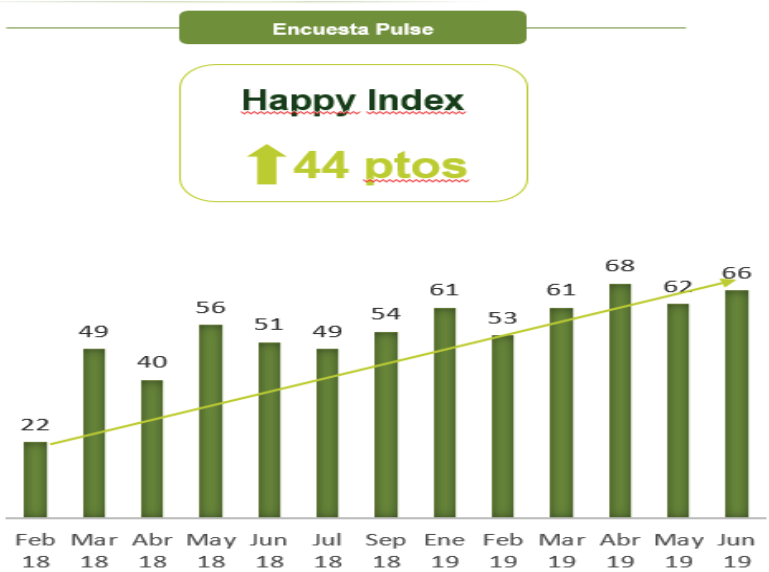
  Team coaching sessions: 66
- **Job description interviews:** 562 72.07%
- **Career development interviews:** 433 75%
- **Prizes:** 120 awarded
- **Work-life balance policies and working hours policy**
- **Active listening**

  Working breakfasts: 265 participants

  Suggestions: 321 gathered

  Participation in improvement activities: 3,014 participants

  Pulse surveys: 63.2% participation



Recruitment

The recruitment process is a priority component of the Group's human resource management effort and is divided into different phases.

The first phase is to define the job description and the essential requirements for the position. Before initiating an external search, ENCE conducts an internal search to fill the position in order to provide all its employees with opportunities for development and growth: the internal search process is an open one and any ENCE employee who meets the job requirements can apply for the positions offered.

Later, during the job interview, mutual commitments are established in keeping with the Company's values.

During the subsequent hiring phase, specifically through the induction training programme, the new hires learn about the organisation and its values and principles, as well as receiving initial job training. The final stage of the selection process entails on-the-job monitoring. Job performance and team/company commitment and engagement are assessed by means of follow-up interviews.

The merit-based hiring process is based on objective, technical and management skills, merit and alignment with ENCE's values and leadership model. In addition, as part of its commitment to fostering gender equality and non-discrimination, ENCE requires that at least one of the final-round candidates in all selection processes be female.

People

ENCE's headcount increased by over 8% in the first six months of 2019

We generate quality jobs **1,134** people **+8.20%** vs. year-end 2018 **84.56%** Indefinite contracts

Talent management and retention

ENCE strives to ensure that it attracts, develops and retains the professionals it needs to successfully execute its 2016-2020 Business Plan.

In 2019 it is focusing on the reinforcement of internal promotions as the basis for the professional development of its employees, specifically raising the profile of all internal vacancies and promotions.

Knowledge management

The overriding goal of the professional training programme is to encourage personal and professional development at all levels with a view to improving employee integration in the Company and commitment to the organisation's strategic goals. The aim is to give employees the skills they need to do their jobs, while fostering a culture of development, value creation and continuous improvement and paving the way for them to assume new responsibilities in the future.

Training is an important aspect of the Strategic Human Resources Plan, which contemplates the following corporate training initiatives in addition to each Operations Centre's specific training plans:

Diversity management

The Equality Plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation.

Under that plan ENCE offers the following measures which go beyond its obligations under prevailing labour legislation:

- ✓ Leaves for breast-feeding (with scope for accumulating leave to take full days off)
- ✓ Paid maternity leave
- ✓ The ability to structure maternity leave into a part-time arrangement
- ✓ The use of video-conferencing to reduce travel requirements
- ✓ The requirement to finish work meetings by 6pm
- ✓ At least one candidate in the final round of selection processes must be female
- ✓ Integration measures for foreign employees (2.8% of the headcount) in the form of support and assistance with moves and the settling in of their families.

The Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Management-employee relations

Management-employee relations are based on dialogue and joint responsibility, the idea being to foster a labour relations climate that is propitious to working towards efficiency and productivity gains. To this end ENCE engages in open and continuous dialogue with its employees' various representatives at all of its places of work.

Human capital: Business ally

Under this initiative the core mission is to raise employee awareness about the business from the strategic and operational angles so that they can incorporate business needs and requirements into their everyday work.

The idea is to transmit and help ensure effective operational execution of new strategies, policies and procedures at the organisation. Core principles:

- ➢ We are strategic colleagues
- ➢ We are agents of change
- ➢ We strive to do our best
- ➢ We want to be close to our employees
- ➢ We can solve problems

5. Environmental management

The required environmental disclosures are provided in note 25 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2019.

6. Research, development and innovation (R&D&i)

Sustainability and continuous improvement are two of the cornerstones underpinning the Group's activities and its R&D effort is of vital importance to delivering these strategic goals.

In the industrial arena, it continues to execute projects designed to enhance the properties of its pulp, such as its dimensional stability, smoothness, opacity and the stability of its whiteness. It is also working to develop products adapted for the needs of the packaging sector and new non-paper products.

Framed by the commitment to continuous process improvement, ENCE has tested the introduction of an acid stage in the TCF bleaching sequence, as well as the use of new raw materials.

Work continued on the NOVACELL project, which is being spearheaded by ENCE with the participation of several sector players, public centres and the University of Valladolid. The goal of this project is to develop viable methods for obtaining nanocellulose materials from kraft pulp and adapting it for applications of interest in the chemicals, plastics-composites production, paper, packaging, cosmetics and water treatment sectors. This project is supported by the CDTI, the acronym in Spanish for the centre for the development of industrial technology.

In the timber measurement arena, tests have been conducted using a prototype scanner based on laser triangulation and the absorption of microwaves in order to measure humidity and volume.

A technical and economic study was also conducted to research implementation of LIGNOBOOST technology at the Pontevedra operations centre. The project generated knowledge about the reactivity of the lignin produced and its potential for development: the hope is to carry out projects to increase reactivity and the production of polyurethanes (flexible and rigid foams alike).

The LIGNOPRIZED (2016-2020) project, focused on expanding the field of application of black liquors and the lignin they contain, continues: plasticisers for concrete, fillers for composite materials, the development of polyamides, additives for textiles, building-block molecules from depolymerisation, etc. Precipitation techniques (use of ceramic membranes and selective precipitation) were also studied. The development of a precipitation and lignin washing plant is currently at the design phase.

The KL VAINILLINA project (2017-2019), in which ENCE is one of the leading participants, is focused initially on reusing kraft lignin to generate vanillin and derivatives thereof. That project will generate information about the separation and extraction of products.

CEASA has concluded the PROQUILÍN project (2017-2019), facilitated by aid from IDEPA. That project researched the viability of introducing a partial humid oxidation operation in the black liquor line, paying special attention to the impact on the production of organic acids (for financial monetisation purposes) and the behaviour of the treated liquor during the concentration, combustion and regeneration phases due to cuasticising.

In the forestry area, the R&D work carried out in the first half of 2019 was framed by ENCE's Forestry Continuous Improvement Plan, whose foundations were established over three decades ago. That Plan encompasses three improvement programmes: the genetic enhancement programme; the silviculture programme and the pest and disease control programme. The specific projects implemented under the umbrella of this Plan during the first half included:

- The GONIPTERUS project - improving the phytosanitary properties of *Eucalyptus globulus* plantations by combating the *Gonipterus platensis* (eucalyptus tree weevil) by means of genetic modifications and biological control treatments.
- The MICOS project - investigating new clones that tolerate *Mycosphaerella* and *Gonipterus*.

Within the GONIPTERUS project, 22,178 hectares affected by the weevil were treated biologically, with 57% of the treatment sourced from the Group's biomills. Among the new developments in this line of initiative it is worth highlighting the use of innovative devices to release the parasitoids in the field which were developed by the Forestry R&D Department in collaboration with a specialist firm and produced using biodegradable material fed through a 3D printer. With that improvement, the parasitoid survival rate has been boosted by 20% and the damage caused by weather conditions (mainly rain and wind) has been cut by half.

Since the Company embarked on this pest control strategy in 2016, over 145,000 hectares of eucalyptus plantations, including proprietary plantations and others owned by individuals and associations in Galicia and Asturias, have been treated in this manner. The criteria used to identify and select the areas for treatment are: *E. globulus* plantations with reversible damage (defoliation of < 50%) in the first half of the trees' growth cycle and all perimeters around harvested areas and areas affected by forest fires in prior years. This work is being coordinated with the biological treatment campaign being conducted by the regional government of Galicia. Two of the key advantages ENCE sees in this strategy are the opportunity to improve the process of mass producing the parasitoid *Anaphes nitens* at its biomills and the sustainability of the treatment. In addition, ENCE R&D collaborates with the regional governments of Galicia and Asturias on the biological control of the *Gonipterus* pest as well as with other research and technology centres such as the 'Do Areeiro' plant pathology centre and SERIDA (the government of Asturias' regional food research and development service). In February, ENCE organised the fourth edition of its International workshop for improving the biological treatment of the Gonipterus in Pontevedra.

Within that project, ENCE is working on research in collaboration with the CEQA (Agricultural Chemical Ecology Group) from Valencia's Polytechnic University to identify and isolate eucalyptus weevil aggregation pheromones.

The Forest Improvement Plan saw significant growth in its experimental network with the installation and rollout of over 30 new test plots for genetic and forestry care experimentation purposes at forestry land owned by the Group and other plots owned by individuals and associations. That initiative marks the start of the assessment of over 200 new genetically enhanced materials, notable among which a collection of 80 *Eucalyptus nitens* seed families from the leading programmes researching the enhancement of this species around the world.

Within the MICOS project, it is worth highlighting the rollout of a programme for the selection of trees that are more resistant to the disease caused by the *Teratosphaeria nubilosa* fungus. During the first half of 2019, plantation of the first four candidate trees began; the trees were selected for their resistance to this disease, which is causing serious damage to the eucalyptus plantations along the Cantabrian coast in northern Spain.

ENCE is also participating in GOSSGE, a supra-regional initiative looking at the *Gonipterus* in eucalyptus plantations led by the regional health authorities. The aim of the GOSSGE project is to ensure the sustainability of the eucalyptus plantations in northern Spain which are currently in grave danger as a result of infestation by the *Gonipterus platensis* pest. Specifically, the project is working on improving the phytosanitary properties of the eucalyptus plantations in Cantabria affected by this defoliator and reducing the associated production losses, all of which will improve returns for local forest owners and industries. The project encompasses three key lines of initiative, namely the development of innovative techniques for (i) detecting pest infestation levels, (ii) treating them biologically and (iii) controlling infestation using phytosanitary materials that are natural in origin or compatible with integrated control.

Lastly, it is worth noting the initiatives pursued in the area of supplying enhanced *Eucalyptus Globulus* and *E. nitens* saplings. Under the strategy of transferring technology to the sector, ENCE continued to provide technical advice to owners with respect to selecting the best plant materials for planting and recommendations regarding the best forestry care solutions for each situation. Two technology transfer days were organised with leading forest care service providers. At those sessions, operating procedures for the plantation and maintenance of eucalyptus plantations were reviewed and the portfolio of enhanced plants offered by the company's nurseries was updated.

7. Key risks and sources of uncertainty

ENCE's enterprise risk management (ERM) system is a process that is embedded within the organisation and is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. Various areas of the Company participate in the process, each with specific responsibilities which, combined, constitute the end-to-end system.

ENCE identifies and evaluates emerging risks continuously and systematically. It also monitors developments with respect to risks identified and those that have dissipated or materialised in prior years. The purpose of this monitoring and control process is to ensure execution and effectiveness of the agreed-upon action plans and guarantee continuous supervision of the Company's key risk factors.

The result of this process is the Risk Register and Map, which is presented to the Management Committee for joint debate and review. Subsequently, the Risk Register and Map is presented to the Audit Committee for approval.

ENCE's risk control and management process assigns the following specific roles and responsibilities:

1. The risk management officers are tasked with executing the action plans and establishing the controls needed to provide the agreed-upon response to the risks identified within their respective purviews.
2. Throughout the year the Internal Audit Department closely monitors the level of progress on executing the risk mitigation plans, providing the Board's Audit Committee with regular updates on these matters.
3. The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.
4. Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's ERM system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

ENCE's ERM system takes into consideration the possible threats to delivery of the strategic objectives of all of the Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

This system encompasses the entire Group, understood as each and every one of the companies in which Ence Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investees.

The ERM contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

1. Strategic
2. Operational
3. Financial Information and Reporting

4. Compliance

The risks addressed by ENCE's ERM model are in turn classified as follows:

1. Environmental Risks
2. Risks associated with Decision-Making Information
3. Financial Risks
4. Organisational Risks
5. Operational Risks
6. Corporate Crime Risks
7. Tax Risks

In keeping with ENCE's Risk Management and Control Policy, the Company has a methodology for assigning specific risk appetite thresholds depending on the activities involved. Its risk tolerance levels are contingent upon ensuring that rewards and potential risks are fully understood before decisions are made, to which end it establishes reasonable risk management measures as required.

ENCE analyses each situation based on the risk-reward trade-off. This analysis contemplates multiple factors including strategy, stakeholder expectations, prevailing legislation, the environment and third-party relations.

1. ENCE takes a zero-tolerance stance towards any situation which could compromise the health or safety of its employees.
2. Its approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to the Company, particularly in respect of the impact of its operations on the environment or its facilities' surroundings, the Group's reputation in the eyes of others and business sustainability.
3. ENCE has a team of external advisors and expert in-house staff who lay down the guidelines for ensuring compliance with tax requirements so that it assumes no risk whatsoever in this arena.
4. ENCE's appetite for situations related to product research, development and innovation can be described as moderate, the aim being to provide solutions that fully satisfy its customers' needs so that the Company remains a benchmark in the pulp market.
5. In addition, aware of prevailing economic complexity, ENCE is committed to the pursuit of financial discipline such that it can control the organisation's overall debt and maintain enough liquidity to ensure its ability to service its payment obligations and fund its priority investments. Against this backdrop, its risk appetite for speculative financial trades is low.
6. Nevertheless, a significant percentage of ENCE's transactions are exposed to the exchange rate between the dollar ($) and the euro (€). ENCE, knowledgeable of the prevailing economic situation and trends in the rate of exchange between these two currencies, has defined a low risk appetite strategy in this arena, managing its currency exposure rigorously in keeping with the guidelines set by the Executive Committee of the Board of Directors and the Finance Department, as warranted.

The chief risks to delivery of the organisation’s fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

Objective: Financial discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to impose financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

To mitigate this risk factor, first and foremost, ENCE goes to lengths to reduce its production costs. In addition, ENCE has a Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, if necessary and the prices are right, financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on the Company's earnings.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically with the aim of arranging financial hedges to mitigate currency exposure if necessary.

The Group has currently hedged approximately 83% of estimated 2019 sales and approximately 52% of 2020 sales under different forward currency contracts.

c) TRADE CREDIT RISK - PULP BUSINESS

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

ENCE has a credit insurance policy, which has been renewed until 31 December 2019, that covers, depending on the country in which the customer is located, between 80% and 90% of the balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

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

d) LIQUIDITY AND CAPITAL RISK

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

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteed business continuity in any pulp price scenario.

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

3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp business is around 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Renewable Energy business is 4.5 times.

4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp business and using bank financing and raising money from institutional investors in the Renewable Energy business.

Each of the Group's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

The Group’s Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

e) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

It is feasible that the state, regional and/or local tax authorities could make further changes to current tax regulations, such as changes/reforms to corporate and/personal income tax, which could directly affect ENCE and its earnings.

To mitigate this risk, ENCE has a team of in-house specialists who work together with external tax advisors and experts and have established internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Objective: Enhancing the Company’s Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and uses total quality management (TQM) methodology to boost its competitive positioning and the quality of its products.

However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its productive facilities.

This target is exposed to factory obsolescence risk. In the absence of an investment and maintenance plan to address facility obsolescence, the firm cannot guarantee delivery of the various operations centres' targets and the biomills' and energy plants' installations, machinery and equipment could become impaired.

In order to manage the risks that could jeopardise delivery of this strategic objective, ENCE works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) review of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

Objective: New Product Development

ENCE attempts to differentiate its products from those of its competitors while building a globally recognised brand in parallel. Here the main risks include that of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

The strategy adopted to satisfy customers' needs is to reduce risk by enhancing productive processes and maintaining a customer complaints/claims management system. In the first half of 2019, ENCE continued to raise the profile of and assign new resources to its Customer Service Department. In addition, it shored up its salesforce quantitatively and qualitatively with a view to identifying customers' specific needs in order to factor them into the Company's product range.

Objective: Minimising the Cash Cost

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective: inflation in the cost of acquiring chemical products, fuel, gas, industrial supplies and spare parts, logistics and transportation costs, strike action, the economic fallout from sector and environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

ENCE attempts to mitigate the risk of price changes by having the Corporate Supply Chain Department periodically monitor the performance of its main suppliers with a view to taking corresponding action (search for alternative products, identification of more competitive goods and services, enhancement of the firm's bargaining power and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall of timber supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually with higher logistics costs, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers. Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of the development of superior technology by its competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility for the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Objective: Increasing ENCE's Market Share

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a deterioration in contractual sales terms, a shift in customers' production mixes, a contraction in demand for its products and evolving market preferences.

ENCE's Marketing Plan for 2019 is designed to reinforce the presence and positioning of the Company's products in the European market and materialises in initiatives aimed at: (i) increasing the customer base in order to reduce concentration risk; (ii) differentiating ENCE's products by means of plans to enhance the properties and qualities of its pulp; and (iii) improving customer service.

In addition, ENCE continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

Objective: Streamlining of Post-Production Logistics

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

End product stockouts can occur as a result of *ad-hoc* technical incidents in the productive process (breakdowns, bottlenecks, etc.) resulting in lower than initially-planned product availability. This situation can lead to the failure to deliver within the agreed-upon deadlines, causing damage to the end customer and to ENCE's reputation, generating costs deriving from contract non-performance and ultimately adversely impacting the Company's earnings. These events can also trigger the cancellation of orders by our customers thereby increasing stock levels. To minimise this risk, the Pulp Business reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

Objective: Minimising the Impact of our Operations on the Environment

Generally speaking, the activities performed by ENCE in both its Pulp and Energy Businesses are carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities where it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise or aesthetic contamination as a result of its industrial activities.

ENCE mitigates this risk by reducing the impact its operations have on the environment by means of its integrated quality, environment and safety management system which is certified under the UNE-EN-ISO 14001 environmental management standard, by means of education about how to prevent environmental risks, writing insurance policies, conducting audits and implementing inspection, oversight and control measures, framed by a preventative approach. Note that in the first half of 2019, the Group continued to invest to make its facilities more environmentally-friendly.

Objective: Business Continuity

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 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 National 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 ENCE and its legal counsel believe 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, 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 discontinued, that development would have an extraordinary impact on its income statement of €185 million. Of that sum, €74 million would entail an outflow of cash: €43 million for dismantling work; €16 million to terminate existing contracts (based on the prior experience of dismantling the former mill in Huelva); and €15 million related with employee layoffs. The remaining €111 million 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, which, as opposed to the prevailing legislation, which contemplates the possibility of extending the term by up to 75 years, features 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. In the event that the above regulatory change materialises and is applied to ENCE, the concession term could be extended until 2033.

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

ENCE engages continuously with the various authorities with a view to correctly executing the various agreed-upon investments, as well as a host of initiatives and projects in the local community.

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, regular audits, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

Objective: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, guided by stringent compliance with prevailing legislation in Spain. Certain situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk, the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. In parallel, it has drawn up contingency plans for specific situations to ensure safety compliance in the field.

ENCE is firmly committed to upholding its workplace safety plans, which include an action plan for preventing/reducing accidents that is based primarily on employee training initiatives, process upgrades, regular compliance audits and adequate oversight of the plans' effectiveness and any associated requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives to make harvesting safer and more cost effective.

Objective: Regulatory and Reporting Compliance

The EU-endorsed Best Available Techniques Reference Document (BREF) for the sector took effect in 2017. Companies have until 2020 to fully adapt to the new requirements. The BREF requirements are more stringent than the prior requirements in terms of production and emissions depending on process types, geographic location and local environmental conditions, triggering the need for new environmental investments and control systems.

The strategy employed by ENCE to tackle this risk factor is two-fold. Firstly, ENCE staff have reached out to the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account. In parallel, the most important environmental investments required at all of the Operations Centres to adapt to the new regulations were analysed and approved by ENCE's Investment Committee in 2018.

In addition, following effectiveness of Spanish Law 1/2015 (of 30 March 2015), amending the Criminal Code and regulating in greater detail the criminal liability of legal persons, in 2015, ENCE implemented a Corporate Crime Detection and Prevention Risk Management and Control System which includes a plethora of measures and controls designed to prevent or at least mitigate to the extent possible the risk of commission of any form of crime at the organisation and ensure the lawfulness of all actions taken by the Company's staff and executives in the course of discharging their professional duties.

In the first half of 2019, ENCE formulated and implemented policies and procedures for mitigating its exposure to specific crimes, framed by its commitment to complying with the corporate crime prevention model certified by AENOR in accordance with the UNE 19601:2017 standard on criminal compliance management systems.

Objective: Tax Risk Control

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining ENCE's tax risk management and control policy.

ENCE has a dedicated tax division and receives specific tax counselling to ensure its in-house guidelines guarantee compliance with prevailing tax regulations, framed by a zero risk tolerance approach in this arena.

8. Events after the reporting date

No significant events have occurred between the reporting date and the date of authorising these condensed consolidated interim financial statements for issue that have not been disclosed therein.

9. Corporate governance

Complete information about the Company's corporate governance system is available on its website:www.ence.es.

10. Purchase-sale of own shares

The disclosures concerning own shares and related transactions in the first half of 2019 are provided in note 18 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2019.

11. Alternative performance measures

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 in the "Second-quarter 2019 earnings report" attached as an appendix.

Appendix

Second-quarter 2019 earnings report

Second-quarter 2019 earnings report

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

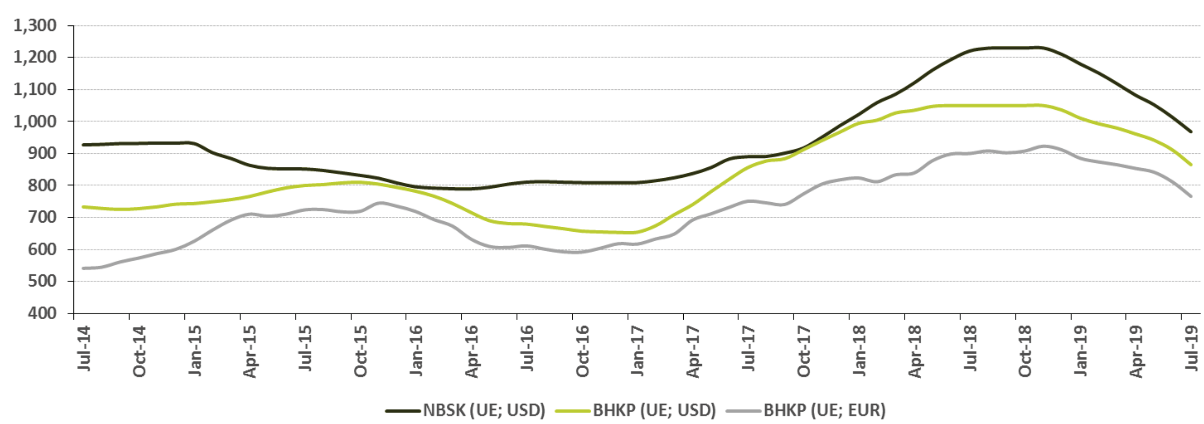
Global demand for hardwood pulp (BHKP) contracted by 6.0% in the first five months of 2019, which is equivalent to a year-on-year decline of 0.8 million tonnes, according to PPPC estimates.

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

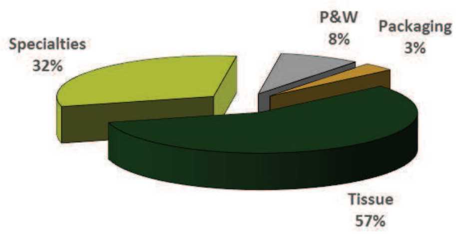
	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Pulp sales (t)	**218,846**	**230,386**	*(5.0%)*	**219,104**	*(0.1%)*	**437,950**	**463,121**	*(5.4%)*
Average sales price (€/t)	575.8	634.5	*(9.2%)*	604.9	*(4.8%)*	590.4	617.9	*(4.5%)*
Pulp sales revenue (€ m)	**126.0**	**146.2**	*(13.8%)*	**132.5**	*(4.9%)*	**258.6**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

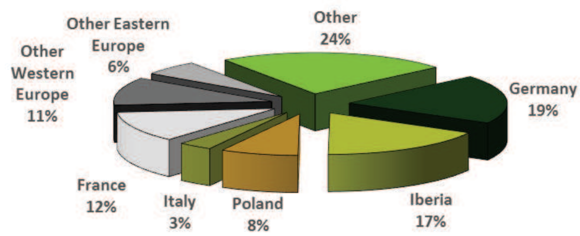
Elsewhere, pulp sales volumes declined by 5.0% compared to 2Q18 due to the growth in inventories, which ended June at 80,700 tonnes. The increase in inventories during the first half of the year is largely related with the stoppage programmed at the Navia biomill in October in order to increase its production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

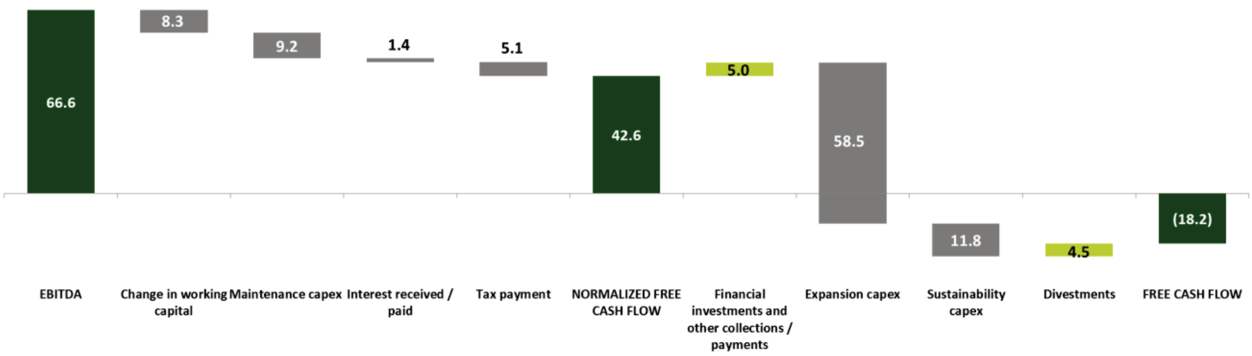
The cash outflow from investing activities amounted to €52.2m in 2Q19 and €79.7m in 1H19, year-on-year growth of 146.4% and 150.1%, respectively, evidencing intensified capital expenditure under the scope of the new Business Plan.

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.



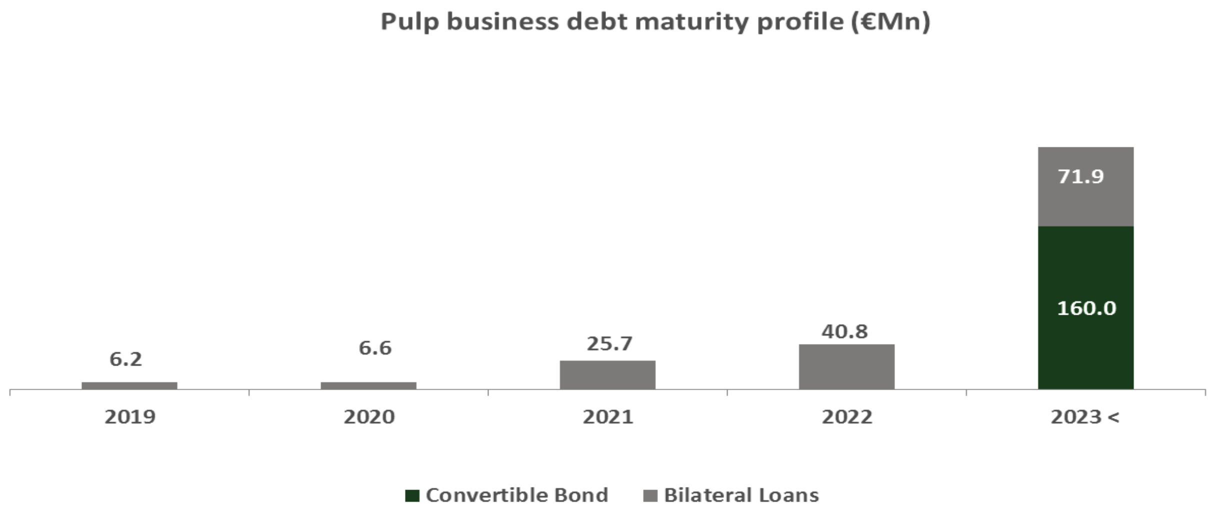
1.6. Change in net debt

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.



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.

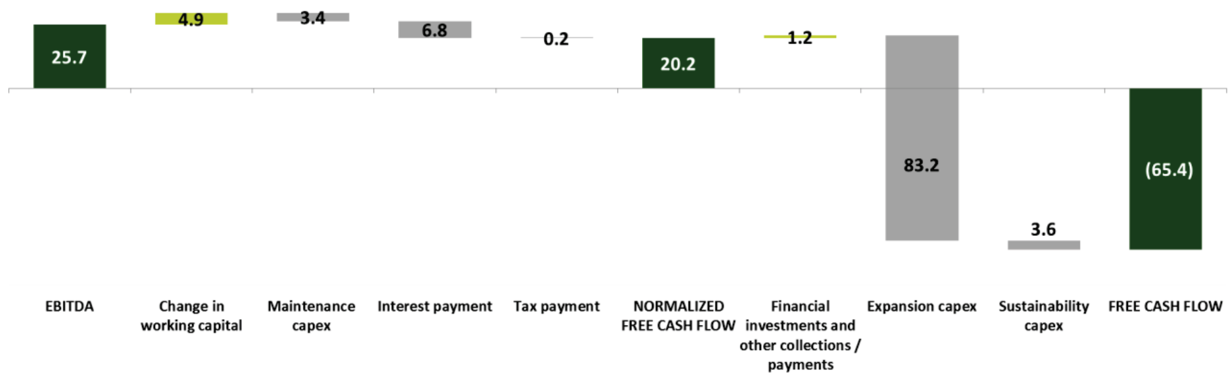
Figures in € m	2Q19	2Q18	Δ%	1Q19	Δ%	1H19	1H18	Δ%
Inventories	(1.1)	0.2	*n.s.*	(1.9)	*(45.3%)*	(3.0)	0.7	*n.s.*
Trade and other receivables	6.7	(0.0)	*n.s.*	(1.8)	*n.s.*	4.9	1.1	*n.s.*
Trade and other payables	5.0	1.1	*n.s.*	(2.0)	*n.s.*	3.0	(2.5)	*n.s.*
Change in working capital	**10.7**	**1.3**	*n.s.*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

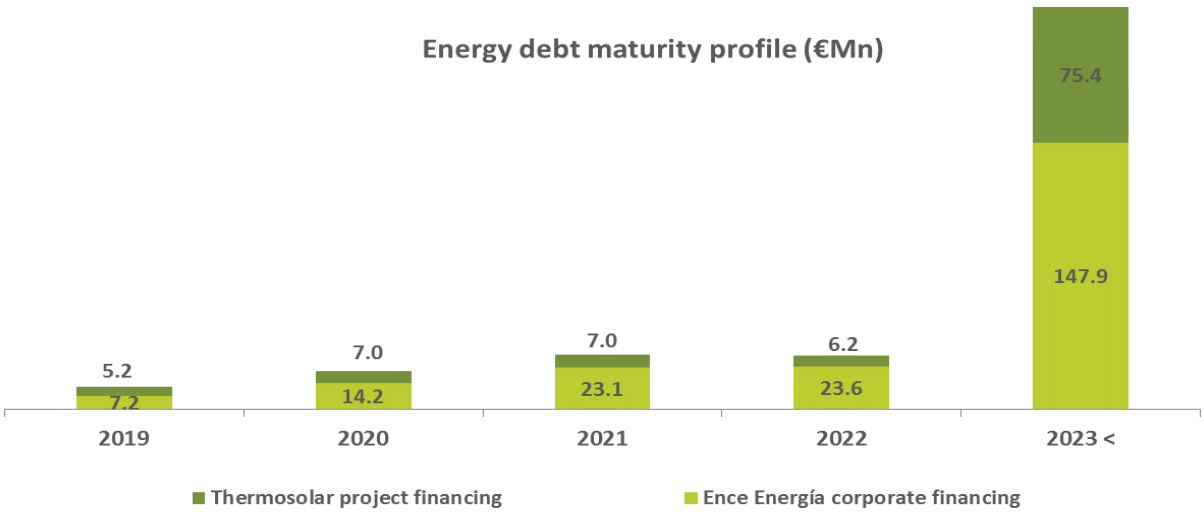
The ratio of net debt-to-LTM EBITDA (including the annualised contribution by the solar thermal plant consolidated for the first time in December) in the Renewable Energy business stood at 3.9x at the June close.

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

Figures in € m	1H19 Pulp	1H19 Energy	1H19 Adjustments	1H19 Consolidated	1H18 Pulp	1H18 Energy	1H18 Adjustments	1H18 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

Figures in € m	Jun - 19 Pulp	Jun - 19 Energy	Jun - 19 Adjustments	Jun - 19 Consolidated	Dec - 18 Pulp	Dec - 18 Energy	Dec - 18 Adjustments	Dec - 18 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.

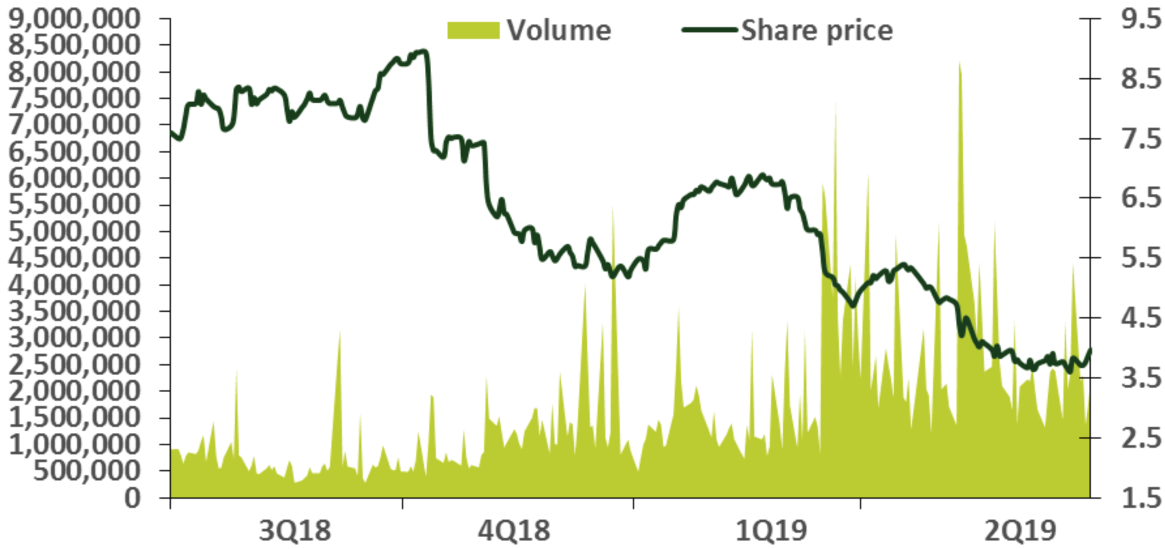
As for its biomass-fuelled Renewable Energy business, Ence has pioneered the segment, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew 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