Earnings Report 2nd Quarter 2017

26 July 2017

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1. EXECUTIVE SUMMARY

Market figures	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
BHKP (USD/t) average price	782.9	695.0	*12.6%*	679.4	*15.2%*	729.9	728.9	*0.1%*
Average exchange rate (USD/€)	1.10	1.13	*(2.9%)*	1.06	*3.4%*	1.08	1.11	*(3.0%)*
BHKP (€/t) average price	713.1	614.7	*16.0%*	639.9	*11.4%*	675.6	654.3	*3.3%*
Average pool price (€/MWh)	47.2	29.7	*58.9%*	55.4	*(14.9%)*	51.2	30.2	*69.7%*

Source: Bloomberg

Operating Magnitudes	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Pulp production (t)	**226,522**	**220,757**	***2.6%***	**226,603**	***(0.0%)***	**453,124**	**440,512**	***2.9%***
Navia pulp production	115,026	107,826	*6.7%*	131,990	*(12.9%)*	247,015	236,921	*4.3%*
Pontevedra pulp production	111,496	112,931	*(1.3%)*	94,613	*17.8%*	206,109	203,590	*1.2%*
Pulp sales (t)	**234,728**	**231,140**	***1.6%***	**246,139**	***(4.6%)***	**480,866**	**448,643**	***7.2%***
Average sale pulp price (€/t)	520.6	459.8	*13.2%*	465.7	*11.8%*	492.5	485.1	*1.5%*
Cash cost (€/t)	346.3	362.7	*(4.5%)*	343.6	*0.8%*	344.5	369.0	*(6.6%)*
Wood cost €/m3	64.2	63.9	*0.4%*	64.0	*0.3%*	64.1	64.6	*(0.8%)*
Energy sales from Energy business (MWh)	**154,741**	**98,611**	***56.9%***	**211,045**	***(26.7%)***	**365,786**	**238,201**	***53.6%***
Average selling price - Pool + Ro (€/MWh)	97.6	85.9	*13.6%*	114.8	*(15.0%)*	107.6	98.2	*9.6%*
Investment remuneration (€Mn)	9.4	6.9	*36.9%*	9.4	*(0.4%)*	18.9	14.6	*28.8%*

P&L €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Revenues from Pulp business	143.8	123.8	*16.1%*	141.4	*1.7%*	285.2	253.4	*12.6%*
Revenues from Energy business	24.6	15.5	*58.5%*	33.6	*(26.9%)*	58.2	38.0	*53.1%*
Consolidation adjustments	(0.8)	(0.3)		(0.9)		(1.7)	(2.3)	
Total net revenue	**167.6**	**139.0**	*20.6%*	**174.2**	*(3.8%)*	**341.8**	**289.2**	*18.2%*
Pulp business Adjusted EBITDA	39.1	19.1	*104.8%*	30.1	*30.1%*	69.2	44.8	*54.7%*
Margin %	**27%**	**15%**	*11.8 p.p.*	**21%**	*5.9 p.p.*	**24%**	**18%**	*6.6 p.p.*
Energy business Adjusted EBITDA	8.0	0.7	*n.s.*	10.7	*(25.7%)*	18.7	8.4	*120.9%*
Margin %	**32%**	**5%**	*27.7 p.p.*	**32%**	*0.5 p.p.*	**32%**	**22%**	*9.8 p.p.*
EBITDA	**47.1**	**19.8**	*137.4%*	**40.8**	*15.4%*	**87.9**	**53.2**	*65.2%*
Adjusted EBITDA margin	*28%*	*14%*	*13.8 p.p.*	*23%*	*4.7 p.p.*	*26%*	*18%*	*7.3 p.p.*
Amortization and forestry depletion	(17.7)	(14.3)	*23.3%*	(17.6)	*0.4%*	(35.3)	(29.8)	*18.6%*
Impairment of and gains/(losses) on fixed-asset disposals	2.2	0.4	*485.9%*	1.9	*15.8%*	4.1	0.3	*n.s.*
EBIT	**31.6**	**5.9**	*438.7%*	**25.1**	*26.0%*	**56.7**	**23.7**	*138.8%*
Net finance costs	(5.1)	(5.0)	*2.2%*	(5.0)	*2.6%*	(10.2)	(9.9)	*2.4%*
Other financial results	(2.3)	0.9	*n.s.*	(1.1)	*100.8%*	(3.3)	(1.2)	*180.2%*
Profit before tax	**24.2**	**1.8**	*n.s.*	**19.0**	*27.6%*	**43.2**	**12.6**	*242.7%*
Income tax	(6.1)	(0.5)	*n.s.*	(4.8)	*28.2%*	(10.9)	(3.4)	*221.0%*
Non-controlling interests	(0.4)	-	*n.s.*	(0.4)	*n.s*	(0.8)	-	*n.s.*
Atributable Net Income	**17.7**	**9.2**	*92.7%*	**13.7**	*29.0%*	**31.5**	**9.2**	*241.9%*

Note: First-time application of IFRS 9 in 2017 recommends retrospective application for 2016 of the new accounting treatment applicable to the time value of hedging derivatives. As a result, time value changes originally recognised in other finance income/costs in 2016 are now presented in equity.

Cash flow €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Pulp business recurrent free cash flow	30.4	14.1	*115.0%*	11.6	*162.8%*	42.0	19.4	*116.2%*
Energy business recurrent free cash flow	(0.2)	(3.4)	*(94.0%)*	7.1	*n.s.*	6.9	(1.6)	*n.s.*
Recurrent free cash flow	**30.2**	**10.7**	*181.3%*	**18.7**	*61.3%*	**48.9**	**17.8**	*174.3%*
Other charges / (payments)	0.1	(0.9)	*n.s.*	4.4	*n.s*	4.5	4.1	
Expansion capex	(3.1)	(14.0)	*(77.7%)*	(7.3)	*(57.2%)*	(10.4)	(20.4)	*(48.8%)*
Environmental capex	(1.2)	(1.4)	*(18.5%)*	(1.4)	*(18.6%)*	(2.5)	(2.9)	*(12.2%)*
Disposals	2.7	3.9	*(32.0%)*	0.0	*n.s.*	2.7	7.3	*(63.6%)*
Free Cash Flow	**28.7**	**(1.6)**	*n.s.*	**14.4**	*99.4%*	**43.0**	**6.0**	*n.s.*
Dividends	(11.6)	(24.9)	*(53.5%)*	-	*n.s*	(11.6)	(24.9)	*(53.5%)*

Net debt €Mn	Jun-17	Dec-16	Δ%	Mar-17	Δ%
Pulp business net financial debt	164.0	195.1	*(16.0%)*	194.1	*(15.5%)*
Energy business net financial debt	24.1	23.2	*3.7%*	13.8	*73.9%*
Net financial debt	**188.0**	**218.3**	*(13.9%)*	**208.0**	*(9.6%)*

- **Ence's first-half results once again endorse the solidity of its business model and the successful execution of its 2016 -2020 Business Plan.**
- **Group EBITDA was 65% higher year-on-year, with net profit tripling compared to 1H16.**
- **EBITDA in the Pulp business was 55% higher thanks to a 6.6% improvement in the cash cost (equivalent to €25/t), coupled with growth of 7.2% in sales volumes (in tonnes) and an incipient recovery in average sales prices (+1.5%).**
- **In the Energy business, EBITDA jumped 121%, 77% of which organic like-for-like growth and 44% due to earnings growth as a result of the first-time contribution of the two biomass plants acquired last December. These plants' earnings are trending in line with the goal of delivering EBITDA of €7.5m in 2017, compared to €5.5m in 2016.**
- **Strong cash flow generation in the first half of the year paved the way for earmarking €11.6m to shareholder remuneration and further deleveraging by €30.3m to leave Group leverage at just 1.2x.**
- **The Board of Directors has resolved to pay out an interim dividend of €14.9m against 2017 profits on 6 September.**
- **Short fibre (BHKP) prices in Europe recovered during the first half by $180/t to end June at $832/t, driven by ongoing growth in demand and limited growth in supply as a result of the very gradual start-up of APP's new mill in Indonesia and the intense pace of capacity conversions and integrations in Asia.**
- **The main BHKP producers have announced that they will increase prices to $880/t from July. Ence has already announced additional increases to $900/t from September.**
- **Ence continues to execute its 2016 - 2020 Business Plan. The next steps in the Pulp business include the addition of 30,000 tonnes of new capacity at the Pontevedra facility next year, followed by another 40,000 tonnes in 2019, and the expansion of the Navia facility by 80,000 tonnes between the second half of 2018 and the first half of 2019.**
- **In the Energy business the project for the construction of a new 40-MW biomass power plant in Huelva has already been set in motion. The works are due to begin in the fourth quarter with the plant slated for commissioning during the second half of 2019. The new power plant is expected to generate €11m of EBITDA in its first year in operation.**
- **In addition, Ence is analysing several investment alternatives for the acquisition of biomass power plants in Spain which would accelerate delivery of its stated target of generating €80m of EBITDA in the Energy business by 2020.**

2. PULP BUSINESS

Ence has two eucalyptus pulp mills in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 465,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally in abundant markets.

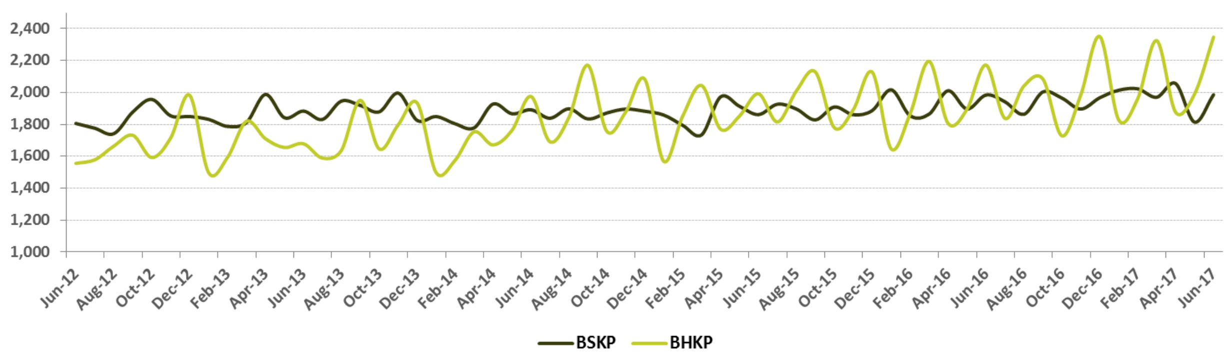
Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy at the plants involved in the productive process, as well as the supply of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

2.1. Pulp market trends

Strong growth in global demand for eucalyptus pulp continues, with global shipments up 7% year-on-year in the first half.

China remains the main driver of growth in global demand for eucalyptus pulp, having registered year-on-year demand growth of 15.1% in 1H17, followed by other emerging markets, where demand rose by 20.2%. This sharp growth in demand for eucalyptus pulp is being shaped by growing consumption of tissue paper on the back of rapid urban development and growing standards of living in these countries.

Monthly demand for pulp during the last five years (millions of tonnes)

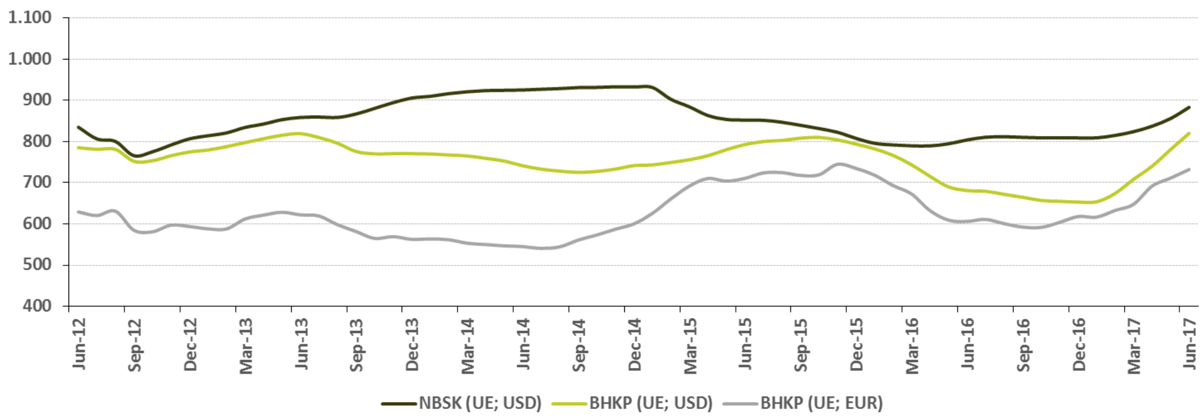


Source: PPPC (W-20)

On the other hand, the growth in supply via new short-fibre capacity is proving lower than initially anticipated by sector analysts as a result of a far more gradual than expected start-up of APP's new mill in Indonesia and the intense pace of capacity conversions and integrations in Asia.

As a result, short-fibre (BHKP) prices recovered by $180/t in Europe in 1H17 to end June at $832/t. The leading producers have announced additional price increases to $880/t from July.

Pulp prices in Europe during the last five years



Source: FOEX

The recovery in short-fibre prices during the first half had the effect of partially closing the gap between short- and long-fibre grades (BHKP vs. BSKP), which had started 2016 at an all-time low of $10/t and was still close to $60/t at the June close.

In early 2017, Ence secured forward pulp sales agreements covering 975,100 tonnes, which is equivalent to up to 100% of its targeted output for the year. It has also announced to its customers that it will increase the price of its pulp by $15/t from July, another $15/t from August and $20/t from September, putting prices at $900/t.

2.2. Revenue from pulp sales

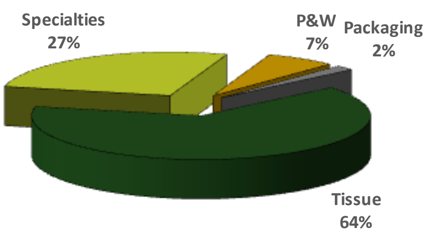
	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Pulp sales (t)	**234,728**	**231,140**	*1.6%*	**246,139**	*(4.6%)*	**480,866**	**448,643**	*7.2%*
Average selling price (€/t)	520.6	459.8	*13.2%*	465.7	*11.8%*	492.5	485.1	*1.5%*
Pulp sales revenues (€Mn)	**122.2**	**106.3**	*15.0%*	**114.6**	*6.6%*	**236.8**	**217.6**	*8.8%*

Pulp sales volumes rose by 7.2% year-on-year in 1H17, shaped by growth of 2.9% in output, coupled with sales of 27,742 tonnes from inventories.

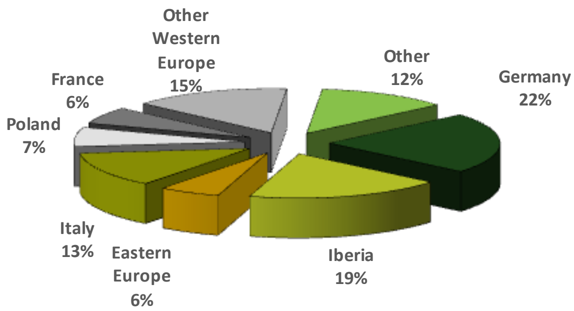
The growth in sales volumes, coupled with the incipient recovery in average sales prices of 1.5%, drove revenue from pulp sales 8.8% higher to €236.8m.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 64% of revenue from pulp sales in 1H17, followed by the specialty paper segment, at 27%. The tissue paper segment has been one of the fastest-growing paper segments in recent years and is expected to continue to gain weight in the company's sales mix relative to slower-growing segments such as printing and writing papers.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



Most of the pulp produced by Ence is sold in Europe, namely 88% of revenue from pulp sales in 1H17. Germany and Spain/Portugal accounted for 22% and 19% of total revenue, respectively, followed by Italy, Poland and France, at 13%, 7% and 6%, respectively. Western Europe accounted for 15% of the total, with the rest of Eastern Europe representing 6%.

2.3. Pulp production and the cash cost

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Navia pulp production	115,026	107,826	*6.7%*	131,990	*(12.9%)*	247,015	236,921	*4.3%*
Pontevedra pulp production	111,496	112,931	*(1.3%)*	94,613	*17.8%*	206,109	203,590	*1.2%*
Pulp production (t)	**226,522**	**220,757**	*2.6%*	**226,603**	*(0.0%)*	**453,124**	**440,512**	*2.9%*

Pulp production increased by 2.9% year-on-year in 1H17. Production at the Navia mill increased by 4.3%, compared to growth of 1.2% at the Pontevedra mill.

As is customary, the Pontevedra mill was stopped for maintenance for nine days in March and the Navia mill was halted for 12 days in June, which was three days longer than usual due to the clean-up of the pipeline into the Navia estuary.

During the maintenance shutdown in Pontevedra, the company eked out energy efficiency gains and prepared for the addition of 30,000 tonnes of capacity during next year's scheduled maintenance stoppage. In addition, it reinforced the complex's environmental excellence and continued to make progress on its Zero Odour programme by introduce several improvements to the facility's digesters and furnaces that will boost the quality of gas condensation and controls.

During the maintenance stoppage at Navia, this facility's environmental excellence was similarly reinforced, emphasising the reduction of odours but also making the cooking process more efficient. It also conducted an ad-hoc clean-up of the pipeline discharging into the Navia estuary.

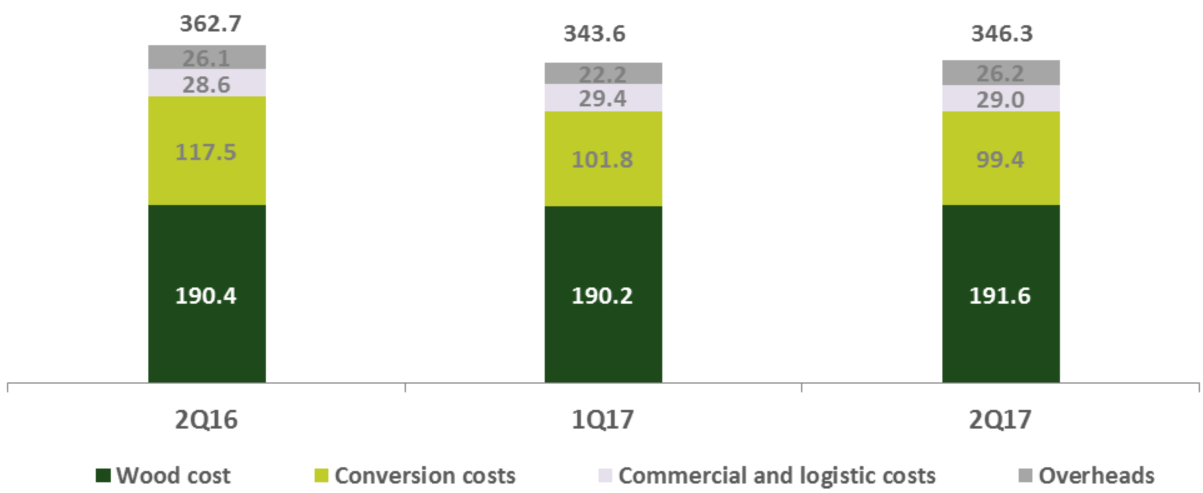
Figures in €/t	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Wood cost	191.6	190.4	*0.6%*	190.2	*0.7%*	190.9	192.0	*(0.6%)*
Conversion costs	99.4	117.5	*(15.4%)*	101.8	*(2.3%)*	100.2	120.3	*(16.7%)*
Commercial and logistic costs	29.0	28.6	*1.4%*	29.4	*(1.2%)*	29.2	28.4	*2.9%*
Overheads	26.2	26.1	*0.4%*	22.2	*18.0%*	24.2	28.3	*(14.6%)*
Total cash cost	**346.3**	**362.7**	*(4.5%)*	**343.6**	*0.8%*	**344.5**	**369.0**	*(6.6%)*

***Note** : These quarterly cash cost figures have been adjusted in 2016 to include the lower conversion costs by the energy component due to the adjustment derived from the deviation between the pool price limit set by the Regulator and the real pool price in 2016, according to Accounting Standards.*

The cash cost dropped by a significant €24.5/t year-on-year in 1H17 to €344.5/t, thanks mainly the successive investments in efficiency improvements and capacity additions at the Navia complex, coupled with savings in overhead and timber costs.

Quarter-over-quarter, the cash cost rose slightly (€2.7/t), mainly as a result of lower overheads cost dilution relative to sales volumes (234,728 tonnes), partially offset by the reduction in conversion costs.

Trend in cash cost per tonne (€/t)



Timber supply costs (€/m^3) were virtually flat quarter-over-quarter despite the fact that they are linked to pulp prices, which meant two price increases of €1/tonne (in March and May). These price increases were offset by the positive impact of initiatives such as the promotion of forest owner associations (*cotos redondos*), a shorter supply distance, lower certification costs and price differentiation with respect to less productive varieties of eucalyptus such as the nitens.

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Wood cost €/m3	64.2	63.9	*0.4%*	64.0	*0.3%*	64.1	64.6	*(0.8%)*
Timber consumption (m3)	726,003	746,644	*(2.8%)*	712,854	*1.8%*	1,438,800	1,443,086	*(0.3%)*
Suppliers	73%	75%		72%		72%	77%	
Standing timber acquired directly from land owners	38%	31%		28%		38%	28%	
Owned timber	0%	8%		0%		0%	6%	

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

As an integral part of its pulp production process, Ence uses the lignin and forest 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 mill, 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 facility.

The energy produced at these power plants is sold to the grid and subsequently repurchased. The net cost is included in the above-mentioned conversion costs within the cash cost metric.

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Navia energy sales	109,881	97,570	12.6%	135,482	(18.9%)	245,363	222,227	10.4%
Pontevedra energy sales	55,112	56,500	(2.5%)	45,680	20.6%	100,792	86,180	17.0%
Energy sales linked to the pulp process (MWh)	**164,993**	**154,070**	7.1%	**181,162**	(8.9%)	**346,155**	**308,408**	12.2%
Average selling price - Pool + Ro (€/MWh)	81.9	64.2	27.5%	98.4	(16.8%)	89.8	65.9	36.3%
Investment remuneration (€Mn)	2.6	2.6	(1.0%)	2.6	0.0%	5.1	5.2	(1.0%)
Revenues from energy sales linked to pulp (€Mn)	**16.1**	**12.5**	28.8%	**20.1**	(20.2%)	**36.2**	**25.5**	42.1%

The generation of energy in connection with pulp production increased by 12.2% year-on-year, 1Q16 output having been affected by the incident affecting the turbine rotor in Pontevedra.

Average sales prices meanwhile jumped 36.3%, due mainly to growth in pool prices to €51.2/MWh, compared to €30.2/MWh in 1H16. On top of this, the plants' remuneration for operations (Ro) parameter increased by €5.2/MWh on average following the recent update of the parameters applicable for 2017-2019.

Erring on the side of caution, Ence adjusts its average pool prices monthly as a function of the limits set by the regulator; this prudent accounting treatment led to the recognition of a provision of €0.9m in 1H17 which has been recognised as a reduction in the average sales price. In 2016, however, the company made a single adjustment in this respect, in the fourth quarter. Had that adjustment been made monthly last year, Ence would have accrued €2m more of revenue in this respect in 1H17.

As a result, revenue from energy sales in the Pulp business increased by 42.1% year-on-year to €36.2m in 1H17.

2.5. Revenue from forestry and other activities

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

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Forestry and other revenues (€Mn)	**5.5**	**5.1**	9.0%	**6.7**	(17.1%)	**12.2**	**10.3**	19.0%

Revenue from forestry increased by 19% year-on-year in 1H17 due to higher sales of timber to third parties.

2.6. Income statement

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Total net revenue	**143.8**	**123.8**	*16.1%*	**141.4**	*1.7%*	**285.2**	**253.4**	*12.6%*
EBITDA	**39.1**	**19.1**	*104.8%*	**30.1**	*30.1%*	**69.2**	**44.8**	*54.7%*
EBITDA margin	*27%*	*15%*	*0.8 p.p.*	*21%*	*5.9 p.p.*	*24%*	*18%*	*6.6 p.p.*
Amortization	(12.3)	(9.1)	*34.4%*	(12.8)	*(4.2%)*	(25.0)	(19.8)	*26.8%*
Forest depletion	(1.3)	(1.9)	*(32.4%)*	(1.2)	*12.3%*	(2.5)	(3.0)	*(17.9%)*
Impairment of and gains/(losses) on fixed-asset dis	2.3	0.4	*475.9%*	1.9	*19.6%*	4.2	0.5	*n.s.*
EBIT	**27.9**	**8.5**	*229.6%*	**18.0**	*54.4%*	**45.9**	**22.5**	*104.4%*
EBIT margin	*19%*	*7%*	*1.8 p.p.*	*13%*	*6.6 p.p.*	*16%*	*9%*	*7.2 p.p.*
Net finance costs	(3.6)	(3.5)	*3.0%*	(3.5)	*3.0%*	(7.0)	(7.2)	*(2.6%)*
Other financial results	5.9	0.9	*n.s.*	(1.1)	*n.s.*	4.6	(1.2)	*n.s.*
Profit before tax	**30.1**	**5.8**	*416.2%*	**13.4**	*124.9%*	**43.5**	**14.0**	*209.3%*
Income tax	(5.6)	(1.5)	*269.2%*	(3.4)	*66.3%*	(9.0)	(3.7)	*139.8%*
Net Income	**24.5**	**4.3**	*468.1%*	**10.0**	*144.6%*	**34.5**	**10.3**	*234.6%*

EBITDA in the Pulp business amounted to €69.2m in 1H17, up 54.7% from 1H16, thanks to the 6.6% drop in cash costs and growth of 7.2% in sales volumes, coupled with an incipient price recovery (average sales price: +1.5%).

Depreciation charges were 26.8% higher year-on-year at €25m, due mainly to the reclassification of the assets belonging to the Huelva industrial complex from assets held for sale to property, plant and equipment in 3Q16.

This higher depreciation charge was largely offset by the reversal of the impairment provision recognised against these assets in the amount of €3.9m and gains on asset disposals.

Net finance costs narrowed slightly to €7.0m in 1H17, whereas 'other finance income/costs' reflect the adverse impact of exchange rate movements in the second half and the collection during the second quarter of an €8m dividend from the Energy business.

First-time application of IFRS 9 in 2017 recommends retrospective application to 2016 of the new accounting treatment applicable to the time value of hedging derivatives. As a result, time value changes originally recognised in other finance income/costs in 2016 are now presented in equity.

In all, the Pulp business reported bottom-line growth of 234.6% to €34.5m in 1H17, compared to €10.3m in 1H16.

2.7. Cash flow statement

Net cash flows from operating activities amounted to €51.1m in 1H17, up 72.9% from 1H16, as a result of the growth in EBITDA.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
EBITDA	**39.1**	**19.1**	*104.8%*	**30.1**	*30.1%*	**69.2**	**44.8**	*54.7%*
Non cash expenses / (incomes)	(0.5)	(1.3)	*(61.8%)*	2.6	*n.s.*	2.1	(0.8)	*n.s.*
Other charges / (payments)	(0.9)	(2.2)	*(59.7%)*	0.5	*n.s.*	(0.4)	2.5	*n.s.*
Change in working capital	2.5	3.1	*(19.2%)*	(14.3)	*n.s.*	(11.8)	(8.8)	*33.6%*
Income tax received/(paid)	(2.0)	(0.7)	*171.2%*	-	*n.s.*	(2.0)	(0.6)	*219.8%*
Interest paid	(6.5)	(7.2)	*(10.1%)*	0.5	*n.s.*	(6.0)	(7.5)	*(19.2%)*
Net cash flow from operating activities	**31.7**	**10.8**	*194.7%*	**19.4**	*63.9%*	**51.1**	**29.6**	*72.9%*

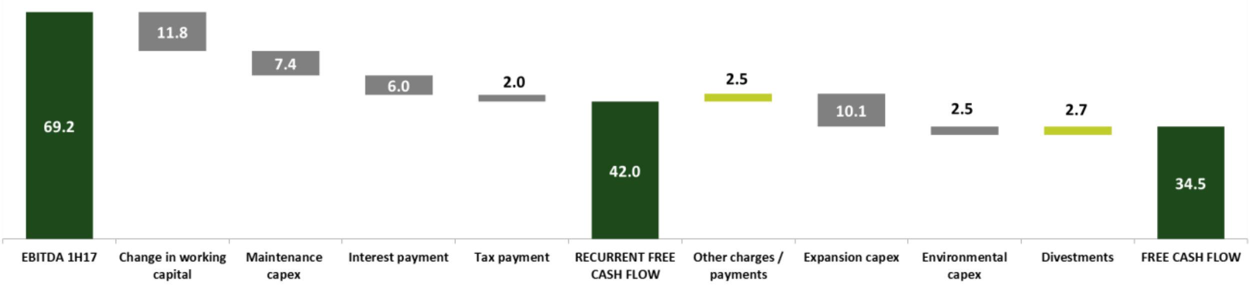
Working capital increased by €11.8m, reflecting growth in trade receivables, due mainly to the recovery in the net sales prices year-on-year, partially offset by the reduction in inventories.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Inventories	1.0	(0.4)	*n.s.*	4.6	*(79.0%)*	5.6	(1.9)	*n.s.*
Trade and other receivables	(5.5)	4.0	*n.s.*	(12.9)	*(56.9%)*	(18.4)	(0.2)	*n.s.*
Current financial and other assets	0.5	(2.0)	*n.s.*	(0.6)	*n.s.*	(0.1)	(2.6)	*(95.0%)*
Trade and other payables	6.6	1.5	*326.8%*	(5.4)	*n.s.*	1.2	(4.1)	*n.s.*
Change in working capital	**2.5**	**3.1**	*(19.2%)*	**(14.3)**	*n.s.*	**(11.8)**	**(8.8)**	*33.6%*

Net cash flows used in investing activities totalled €16.7m, including the collection of €2.7m corresponding to the sale of the last 165 hectares of forest plantations agreed in December 2016 (giving rise to a gain of €0.2m).

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Maintenance capex	(2.7)	(0.1)	*n.s.*	(4.7)	*(42.7%)*	(7.4)	(8.4)	*(12.0%)*
Environmental capex	(1.2)	(1.4)	*(18.5%)*	(1.4)	*(18.6%)*	(2.5)	(2.9)	*(12.2%)*
Efficiency and expansion capex	(2.9)	(14.0)	*(79.4%)*	(7.2)	*(60.3%)*	(10.1)	(20.4)	*(50.2%)*
Financial investments	0.8	1.0	*(16.6%)*	(0.0)	*n.s.*	0.8	1.0	*(21.9%)*
Investments	**(5.9)**	**(14.5)**	*(59.2%)*	**(13.4)**	*(55.9%)*	**(19.3)**	**(30.7)**	*(37.1%)*
Disposals	2.7	3.9	*(32.0%)*	0.0	*n.s.*	2.7	7.3	*(63.6%)*
Net cash flow from investing activities	**(3.3)**	**(10.6)**	*(69.2%)*	**(13.4)**	*(75.6%)*	**(16.7)**	**(23.4)**	*(28.8%)*

Maintenance capex amounted to €7.4m in 1H17, flat year-on-year. Environmental capital expenditure - €2.5m - was earmarked to multiple initiatives designed to reinforce the factories' environmental excellence, emphasising the reduction of odours and noise, and to the start of the landscaping project planned in Pontevedra. Investments in efficiency and expansion work - €10.1m - corresponded primarily to investments made in 2016 in connection with the capacity added in Navia.



As a result, recurring free cash flow in the Pulp business amounted to €42m in 1H17, while free cash flow net of efficiency, growth and environmental capex totalled €34.5m.

2.8. Change in net debt

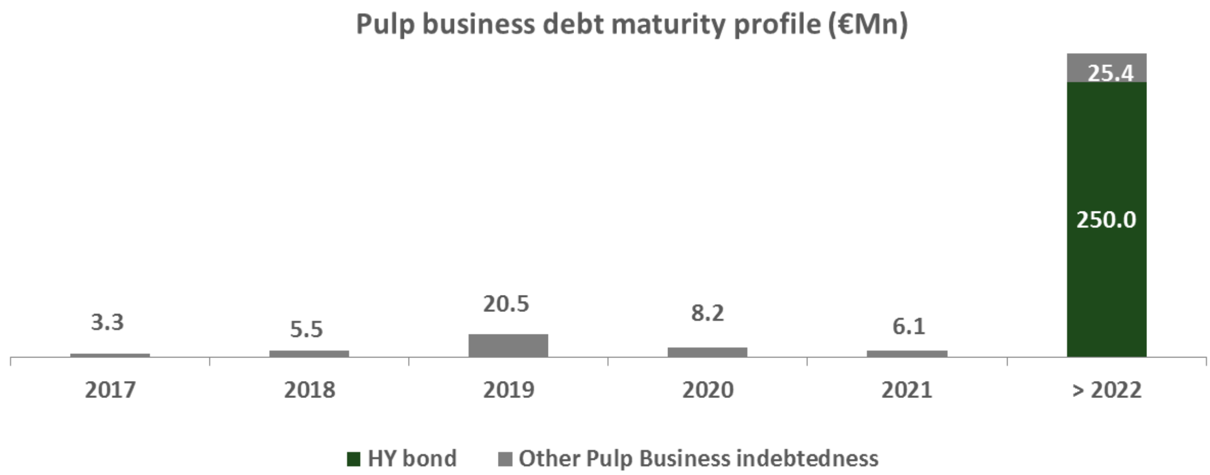
Net debt in the Pulp business declined by €31m from year-end 2016 to €164m.

In addition to the free cash flow generated (€34.5m), the company paid out a final dividend from 2016 earnings of €11.6m in the second quarter, while receiving an €8m dividend from the Energy business.

Figures in €Mn	Jun-17	Dec-16	Δ%	Mar-17	Δ%
Long term financial debt	307.0	308.7	*(0.5%)*	309.0	*(0.6%)*
Short-term financial debt	8.6	8.0	*7.5%*	11.9	*(27.4%)*
Gross financial debt	**315.7**	**316.8**	*(0.3%)*	**320.9**	*(1.6%)*
Cash and cash equivalents	141.9	112.1	*26.6%*	116.5	*21.8%*
Short-term financial investments	9.8	9.6	*2.0%*	10.2	*(4.6%)*
Pulp business net financial debt	**164.0**	**195.1**	*(16.0%)*	**194.1**	*(15.5%)*

The gross debt of €315.7 million at the June close corresponds mainly to the €250 million of corporate bonds due 2022, the outstanding balance of €28m on two bilateral loans due in 2019 and 2020 taken on to finance the capacity expansion work undertaken in Navia, and a series of loans totalling nearly €41 million 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; these loans fall due between 2021 and 2026.

At 30 June 2016, the company had cash and cash equivalents of €151.7m in addition to an undrawn €90m credit facility.



3. ENERGY BUSINESS

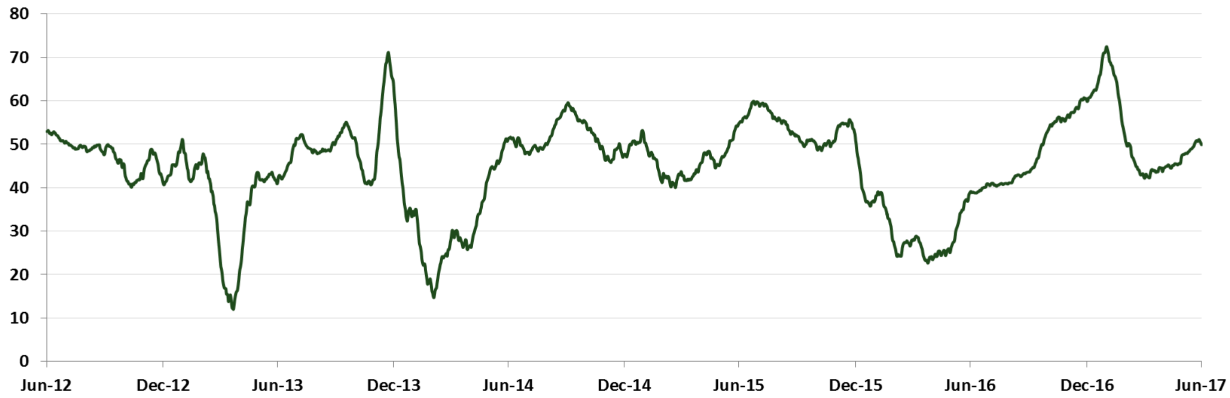
Ence's Energy business encompasses the generation of power from renewable sources - forestry and agricultural biomass - at plants that have no relation to the pulp production process.

Ence has two such power plants in Huelva, one with capacity of 50 MW and the other with capacity of 41 MW, as well as a 20-MW power plant in Merida. In addition, at the end of December, Ence acquired two new plants, each with capacity of 16 MW, one located in Ciudad Real and the other in Jaen.

3.1. Electricity market trends

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Average pool price (€/MWh)	47.2	29.7	*58.9%*	55.4	*(14.9%)*	51.2	30.2	*69.7%*

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



Average pool prices in mainland Spain were 69.7% higher year-on-year in 1H17, driven mainly by a drop of 51.7% in hydro output and of 12% in wind power generation compared to 1H16, with the coal- and gas-fired plants taking the baton. This situation was exacerbated by a 7.2% spike in demand for electricity in January due to a cold spell.

3.2. Revenue from energy sales

	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Huelva 50 MW	51,111	62,134	*(17.7%)*	85,919	*(40.5%)*	137,029	137,216	*(0.1%)*
Huelva 41 MW	39,931	9,271	*330.7%*	47,291	*(15.6%)*	87,221	50,474	*72.8%*
Mérida 20 MW	24,507	27,205	*(9.9%)*	33,276	*(26.4%)*	57,784	50,512	*14.4%*
Ciudad Real 16 MW	19,323	-		23,355		42,678	-	
Jaén 16 MW	19,869	-		21,205		41,074	-	
Energy sales (MWh)	**154,741**	**98,611**	*56.9%*	**211,045**	*(26.7%)*	**365,786**	**238,201**	*53.6%*
Average selling price - Pool + Ro (€/MWh)	97.6	85.9	*13.6%*	114.8	*(15.0%)*	107.6	98.2	*9.6%*
Investment remuneration (€Mn)	9.4	6.9	*36.9%*	9.4	*(0.4%)*	18.9	14.6	*28.8%*
Revenues (€Mn)	**24.6**	**15.5**	*58.5%*	**33.6**	*(26.9%)*	**58.2**	**38.0**	*53.1%*

It is worth highlighting the strong operating performances at the 50-MW Huelva, 41-MW Huelva and 20-MW Merida plants in 1H17, where energy sales volumes were 18.4% higher year-on-year on aggregate, averaging 2,587 equivalent hours.

During the second quarter, as is customary, all three plants were stopped for their annual revisions and maintenance work. Note that the overhaul of the turbine at the 41-MW Huelva plant in the second quarter of 2016 had resulted in a longer stoppage than is customary.

The growth in energy sales at these plants was boosted by the 83,752 MWh contributed by the two separate 16-MW biomass plants acquired last December, driving total energy sales 53.6% higher to 365,786 MWh in 1H17.

The 16-MW Ciudad Real plant was also stopped for its annual maintenance work during the second quarter; the 16-MW Jaen plant will be stopped for maintenance in 3Q17.

The 9.6% increase in average sales prices compared to 1H16 is attributable to several factors: Firstly, although mainland electricity sales prices averaged €51.2 €/MWh, 44% of the company's sales were made under the hedges arranged in 2016 at an average price of €45.3/MWh.

Secondly, remuneration for operations (Ro) for the 50-MW Huelva, 41-MW Huelva and 20-MW Merida plants increased by €5.6/MWh on average in the wake of the regulator's recent update of the remuneration parameters applicable in 2017-2019; note that the remuneration for operations parameter accruing to the recently-acquired 16-MW Ciudad Real and 16-MW Jaen plants is on average €15.8/MWh lower than that of the other three plants.

Thirdly, and erring on the side of caution, Ence adjusts its average pool prices monthly as a function of the limits set by the regulator; this prudent accounting treatment led to the recognition of a provision of €1m in 1H17 which has been recognised as a reduction in the average sales price. In 2016, however, the company made a single adjustment in this respect, in the fourth quarter. Had the adjustment been made monthly, the revenue accrued in 1H17 would have been €1.9m higher.

Average remuneration for investment also increased by 28.8% year-on-year thanks to the first-time consolidation of the 16-MW Ciudad Real and 16-MW Jaen plants.

In total, the Energy business reported topline growth of 53.1% in the first half, posting revenue of €58.2m.

3.3. Income statement

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Total net revenue	**24.6**	**15.5**	*58.5%*	**33.6**	*(26.9%)*	**58.2**	**38.0**	*53.1%*
EBITDA	**8.0**	**0.7**	*n.s.*	**10.7**	*(25.7%)*	**18.7**	**8.4**	*120.9%*
EBITDA margin	*32%*	*5%*	*27.7 p.p.*	*32%*	*0.5 p.p.*	*32%*	*22%*	*9.8 p.p.*
Amortization	(4.0)	(3.2)	*25.1%*	(3.5)	*14.7%*	(7.6)	(6.1)	*23.8%*
Forest depletion	(0.1)	(0.0)	*71.7%*	(0.1)	*(39.2%)*	(0.2)	(0.9)	*(76.1%)*
Impairment of and gains/(losses) on fixed-asset disposals	(0.1)	(0.0)	*278.9%*	0.0	*n.s.*	(0.1)	(0.2)	*(58.2%)*
EBIT	**3.8**	**-2.6**	*n.s.*	**7.0**	*(46.7%)*	**10.8**	**1.3**	*n.s.*
EBIT margin	*15%*	*-17%*	*31.9 p.p.*	*21%*	*(5.7) p.p.*	*19%*	*3%*	*15.2 p.p.*
Net finance costs	(1.6)	(1.5)	*8.9%*	(1.4)	*10.6%*	(3.0)	(2.7)	*11.4%*
Other financial results	(0.0)	-	*n.s.*	(0.0)	*383.3%*	(0.0)	-	*n.s.*
Profit before tax	**2.1**	**(4.0)**	*n.s.*	**5.6**	*(62.0%)*	**7.7**	**(1.4)**	*n.s.*
Income tax	(0.5)	1.0	*n.s.*	(1.4)	*(62.8%)*	(1.9)	0.3	*n.s.*
Net Income	**1.6**	**(3.0)**	*n.s.*	**4.2**	*(61.7%)*	**5.8**	**(1.1)**	*n.s.*
Non-controlling interests	(0.4)	-	*n.s.*	(0.4)		(0.8)	-	*n.s.*
Atributable Net Income	**1.2**	**(3.0)**	*n.s.*	**3.7**	*(66.7%)*	**5.0**	**(1.1)**	*n.s.*

EBITDA in the Energy business was 120.9% higher year-on-year at €18.7m, fuelled by the above-mentioned growth of 53.1% in energy sales. The growth was accentuated by the adverse accounting effect (€2.9m, recognised in 2Q16) of the classification of the Huelva 41-MW plant as a hybrid plant (85%-biomass; 15%-black liquor).

Earnings at the two plants acquired last December are trending in line with the goal of delivering EBITDA of €7.5m in 2017, compared to €5.5m in 2016.

Below the EBITDA line, it is worth highlighting the 23.8% increase in depreciation charges, due mainly to the consolidation of the newly-acquired power plants, and the first-time recognition of the profit attributable to the non-controlling interests in those same plants, which amounted to €0.8m in 1H17.

In all, the Energy business reported a net profit of €5.0m in 1H17, compared to €1.1m in 1H16.

3.4. Cash flow statement

Net cash flows from operating activities totalled €9.7m, compared to €0.8m in 1H16, thanks to EBITDA growth.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
EBITDA	**8.0**	**0.7**	*n.s.*	**10.7**	*(25.7%)*	**18.7**	**8.4**	*120.9%*
Non cash expenses / (incomes)	(0.3)	(1.0)	*(75.6%)*	1.6	*n.s.*	1.3	(0.5)	*n.s.*
Other charges / (payments)	(0.2)	2.5	*n.s.*	(0.3)	*(45.1%)*	(0.5)	1.8	*n.s.*
Change in working capital	(2.8)	0.3	*n.s.*	(1.6)	*71.8%*	(4.4)	(4.3)	*1.1%*
Income tax received/(paid)	(1.3)	(0.1)	*n.s.*	-	*n.s.*	(1.3)	(0.1)	*n.s.*
Interest paid	(3.5)	(3.8)	*(6.1%)*	(0.7)	*426.1%*	(4.2)	(4.5)	*(6.6%)*
Net cash flow from operating activities	**(0.0)**	**(1.4)**	*(96.5%)*	**9.7**	*n.s.*	**9.7**	**0.8**	*n.s.*

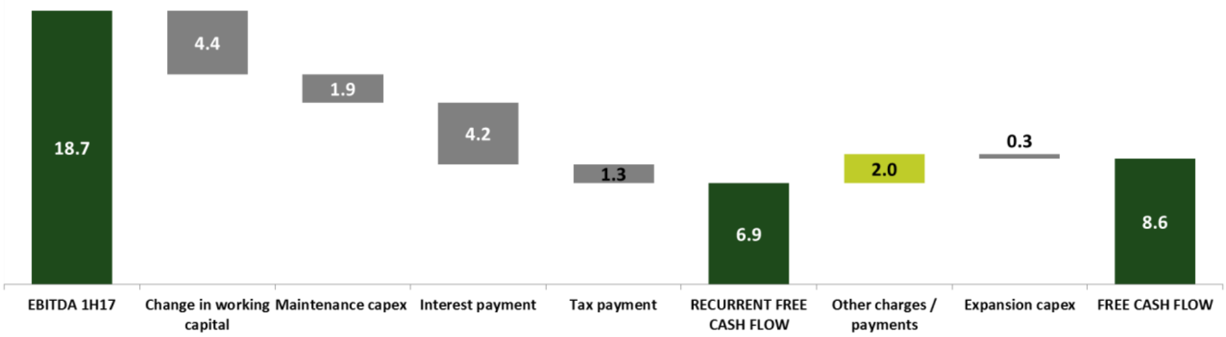
The movement in working capital implied a cash outflow of €4.4m, similar to that sustained in 1H16.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Inventories	(2.1)	(0.0)	*n.s.*	(0.5)	*347.5%*	(2.5)	0.2	*n.s.*
Trade and other receivables	1.4	(1.4)	*n.s.*	(3.5)	*n.s.*	(2.1)	(4.8)	*(56.7%)*
Trade and other payables	(2.1)	1.7	*n.s.*	2.4	*n.s.*	0.2	0.3	*(27.1%)*
Change in working capital	**(2.8)**	**0.3**	*n.s.*	**(1.6)**	*71.8%*	**(4.4)**	**(4.3)**	*1.1%*

Net cash flows used in investing activities amounted to €1.1m and related mainly to plant maintenance. Investments in efficiency and expansion work totalled €0.3m and corresponded to the first payments for the construction of the new 40-MW plant in Huelva.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Maintenance capex	(0.6)	(0.6)	*3.9%*	(1.3)	*(55.4%)*	(1.9)	(1.1)	*72.1%*
Efficiency and expansion capex	(0.2)	-	*n.s.*	(0.0)	*398.4%*	(0.3)	-	*n.s.*
Financial investments	1.0	0.2	*n.s.*	0.0	*n.s.*	1.1	0.1	*n.s.*
Investments	**0.2**	**(0.4)**	*n.s.*	**(1.3)**	*n.s.*	**(1.1)**	**(1.0)**	*12.7%*
Disposals	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Net cash flow from investing activities	**0.2**	**(0.4)**	*n.s.*	**(1.3)**	*n.s.*	**(1.1)**	**(1.0)**	*12.7%*

The net cash inflow of €1.1m from financing activities reflects the accounting provision recognised during the reporting period to adjust average pool prices for the limits set by the regulatory.



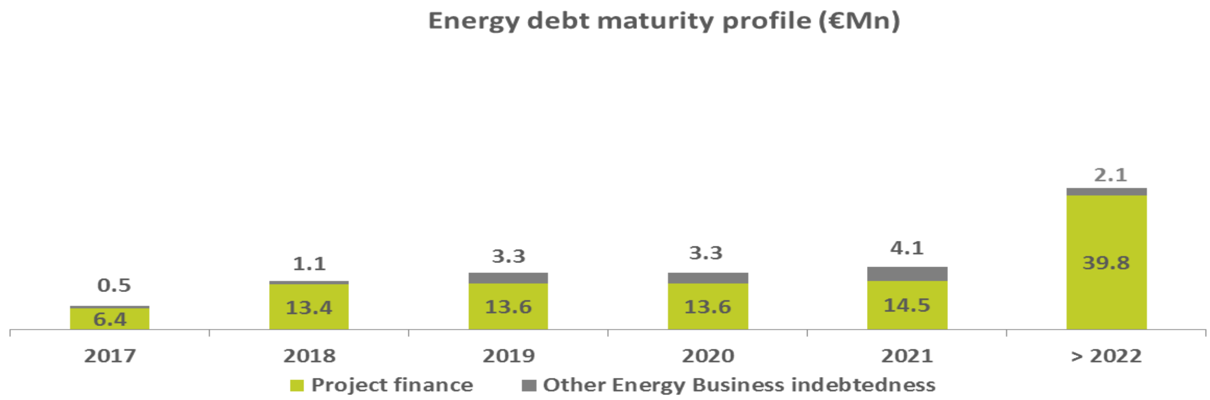
In all, the Energy business generated €8.6m of free cash flow in 1H17.

3.5. Change in net debt

Net debt in the Energy business increased by €0.9m from year-end 2016 to €24.1m, after the dividend payment of €8m.

Figures in €Mn	Jun-17	Dec-16	Δ%	Mar-17	Δ%
Long term financial debt	100.1	107.2	*(6.7%)*	106.9	*(6.4%)*
Short-term financial debt	14.1	13.8	*2.5%*	14.4	*(2.4%)*
Gross financial debt	**114.2**	**121.0**	*(5.6%)*	**121.4**	*(5.9%)*
Cash and cash equivalents	90.1	97.8	*(7.9%)*	107.5	*(16.2%)*
Short-term financial investments	0.0	0.0	*20.0%*	0.0	-
Energy business net financial debt	**24.1**	**23.2**	*3.7%*	**13.8**	*73.9%*

The €114.2m of gross debt at the June close corresponds essentially to the outstanding balance on the project finance facility arranged to fund construction of the Huelva 50-MW and Merida 20-MW plants (€100m) and €14m of loans taken on to finance the acquisition last December of 68.4% and 64.1% of the 16-MW Ciudad Real and the 16-MW Jaen plants, respectively, for €22.5m in total.



Cash stood at €90.1m at the June close.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

Figures in €Mn	1H17 Pulp	1H17 Energy	1H17 Adjustments	1H17 Consolidated	1H16 Pulp	1H16 Energy	1H16 Adjustments	1H16 Consolidated
Total net revenue	**285.2**	**58.2**	**(1.7)**	**341.8**	**253.4**	**38.0**	**(2.3)**	**289.2**
Other income	8.1	(0.1)	(3.3)	4.7	19.0	3.1	(10.8)	11.3
Change in inventories of finished products	(8.9)	-	-	(8.9)	(3.5)	-	-	(3.5)
Cost of sales	(119.5)	(17.2)	1.7	(135.0)	(123.2)	(10.4)	2.3	(131.4)
Personnel expenses	(30.7)	(3.2)	0.0	(33.8)	(33.6)	(1.4)	(0.0)	(35.0)
Other operating expenses	(64.9)	(19.1)	3.3	(80.8)	(67.3)	(20.9)	10.8	(77.4)
EBITDA	**69.2**	**18.7**	**0.0**	**87.9**	**44.8**	**8.4**	**(0.0)**	**53.2**
EBITDA margin	*24%*	*32%*		*26%*	*18%*	*22%*		*18%*
Amortization	(25.0)	(7.6)	-	(32.6)	(19.8)	(6.1)	(0.0)	(25.9)
Forest depletion	(2.5)	(0.2)	0.0	(2.7)	(3.0)	(0.9)	-	(3.9)
Impairment of and gains/(losses) on fixed-asset disposals(a)	4.2	(0.1)	0.0	4.1	0.5	(0.2)	-	0.3
EBIT	**45.9**	**10.8**	**0.0**	**56.7**	**22.5**	**1.3**	**(0.0)**	**23.7**
EBIT margin	*16%*	19%		17%	*9%*	3%		*8%*
Net finance costs	(7.0)	(3.0)	-	(10.1)	(7.2)	(2.7)	-	(9.9)
Other financial results	4.6	(0.0)	(8.0)	(3.4)	(1.2)	-	(0.0)	(1.2)
Profit before tax	**43.5**	**7.7**	**(8.0)**	**43.2**	**14.0**	**(1.4)**	**(0.0)**	**12.6**
Income tax	(9.0)	(1.9)	0.0	(10.9)	(3.7)	0.3	0.0	(3.4)
Net Income	**34.5**	**5.8**	**(8.0)**	**32.3**	**10.3**	**(1.1)**	**(0.0)**	**9.2**
Non-controlling interests	-	(0.8)	0.0	(0.8)	-	-	-	-
Atributable Net Income	**34.5**	**5.0**	**(8.0)**	**31.5**	**10.3**	**(1.1)**	**(0.0)**	**9.2**

4.2. Balance sheet

Figures in €Mn	Jun-17 Pulp	Jun-17 Energy	Jun-17 Adjustments	Jun-17 Consolidated	Dec-16 Pulp	Dec-16 Energy	Dec-16 Adjustments	Dec-16 Consolidated
Intangible assets	14.0	2.9	(0.0)	16.9	15.2	2.7	-	17.9
Property, plant and equipment	443.0	230.2	(0.0)	673.1	451.4	234.9	0.0	686.3
Biological assets	78.4	4.5	-	82.9	79.0	4.4	0.0	83.4
Intercompany long term participation	198.6	-	(198.6)	-	198.6	-	(198.6)	-
Intercompany long term loan	75.2	0.0	(75.2)	-	71.8	-	(71.8)	-
Non-current financial assets	4.7	4.9	5.1	14.8	5.6	6.0	(0.0)	11.6
Assets for deferred tax	52.3	10.9	-	63.2	57.8	11.3	(0.0)	69.1
Total fixed assets	**871.3**	**253.3**	**(273.8)**	**850.8**	**879.4**	**259.3**	**(270.4)**	**868.3**
Non-current assets held for sale	4.4	0.0	0.0	4.4	6.5	0.4	-	6.9
Inventories	29.0	10.6	-	39.6	35.4	8.2	0.0	43.6
Trade other accounts receivable	102.0	25.6	(25.6)	102.0	93.7	27.8	(32.5)	89.0
Income tax	0.9	0.6	-	1.5	0.9	0.5	-	1.5
Other current assets	6.5	0.6	(0.7)	6.5	3.5	0.1	(0.0)	3.6
Hedging derivatives	4.0	-	-	4.0	0.0	-	-	-
Short-term financial assets	9.8	0.0	0.0	9.8	9.6	0.0	(0.0)	9.6
Cash and cash equivalents	141.9	90.1	-	232.0	112.1	97.8	-	209.9
Total current assets	**298.5**	**127.5**	**(26.2)**	**399.8**	**261.7**	**134.8**	**(32.5)**	**364.0**
TOTAL ASSETS	**1,169.8**	**380.8**	**(300.0)**	**1,250.6**	**1,141.1**	**394.2**	**(302.9)**	**1,232.3**
Equity	**650.5**	**149.3**	**(198.6)**	**601.2**	**609.2**	**151.0**	**(198.6)**	**561.6**
Non-current borrowings	307.0	100.1	-	407.1	308.7	107.2	0.0	416.0
Long term intercompany debt	-	75.2	(75.2)	-	0.0	71.8	(71.8)	-
Non-current derivatives	-	6.0	-	6.0	4.0	7.8	-	11.7
Liabilities for deferred tax	19.4	2.8	-	22.2	17.9	3.2	-	21.1
Non-current provisions	5.7	0.4	-	6.1	5.8	0.3	(0.0)	6.2
Other non-current liabilities	8.1	1.1	-	9.3	8.5	1.2	0.0	9.7
Total non-current liabilities	**340.3**	**185.6**	**(75.2)**	**450.7**	**345.0**	**191.5**	**(71.8)**	**464.7**
Liabilities linked to non-current assets held for sale	-	-	-	-	-	-	-	-
Current borrowings	8.6	14.1	(0.0)	22.7	8.0	13.8	0.0	21.8
Current derivatives	0.2	2.7	0.0	2.9	11.7	3.1	(0.0)	14.7
Trade payables and other	157.5	28.2	(26.2)	159.5	159.9	34.8	(32.5)	162.2
Income tax	6.2	0.9	(0.0)	7.1	0.1	(0.0)	0.0	0.1
Current provisions	6.5	0.0	-	6.6	7.2	0.0	-	7.3
Total current liabilities	**179.0**	**45.9**	**(26.2)**	**198.7**	**186.9**	**51.7**	**(32.5)**	**206.1**
TOTAL EQUITY AND LIABILITIES	**1,169.8**	**380.8**	**(300.0)**	**1,250.6**	**1,141.1**	**394.2**	**(302.9)**	**1,232.3**

4.3. Cash flow statement

Figures in €Mn	1H17 Pulp	1H17 Energy	1H17 Adjustments	1H17 Consolidated	1H16 Pulp	1H16 Energy	1H16 Adjustments	1H16 Consolidated
Consolidated profit/(loss) for the period before tax	**43.5**	**7.7**	**(8.0)**	**43.2**	**14.0**	**(1.4)**	**-**	**12.6**
Depreciation	28.1	7.2	-	35.3	24.3	5.5	-	29.8
Changes in provisions and other deferred expense	2.7	1.4	-	4.1	0.4	2.8	-	3.2
Impairment of gains/(losses) on disposals intangible asset	(4.1)	0.2	(0.0)	(3.9)	(0.5)	0.2	-	(0.3)
Net finance costs	9.4	3.1	-	12.4	8.3	2.7	-	11.1
Government grants taken to income	(0.6)	(0.1)	-	(0.7)	(0.8)	(0.0)	-	(0.8)
Adjustments to profit	**35.5**	**11.8**	**-**	**47.3**	**31.8**	**11.1**	**-**	**43.0**
Inventories	5.6	(2.5)	-	3.1	(1.9)	0.2	-	(1.7)
Trade and other receivables	(18.4)	(2.1)	-	(20.5)	(0.2)	(4.8)	-	(5.0)
Current financial and other assets	(0.1)	-	-	(0.1)	(2.6)	-	-	(2.6)
Trade and other payables	1.2	0.2	-	1.4	(4.1)	0.3	-	(3.8)
Changes in working capital	**(11.8)**	**(4.4)**	**-**	**(16.2)**	**(8.8)**	**(4.3)**	**-**	**(13.1)**
Interest paid	(7.7)	(4.4)	1.5	(10.7)	(8.1)	(4.7)	1.4	(11.4)
Interest received	1.7	0.2	(1.5)	0.5	1.3	0.3	(1.4)	0.1
Income tax received/(paid)	(2.0)	(1.3)	-	(3.3)	(0.6)	(0.1)	-	(0.8)
Other cash flows from operating activities	**(8.1)**	**(5.5)**	**-**	**(13.6)**	**(7.5)**	**(4.6)**	**-**	**(12.1)**
Net cash flow from operating activities	**59.1**	**9.7**	**(8.0)**	**60.8**	**29.6**	**0.8**	**0.0**	**30.4**
Property, plant and equipment	(19.7)	(1.9)	0.0	(21.6)	(27.8)	(1.1)	-	(28.9)
Intangible assets	(0.4)	(0.3)	-	(0.7)	(3.9)	(0.0)	(0.0)	(3.9)
Other financial assets	0.8	1.1	-	1.9	1.0	0.1	-	1.1
Disposals	**2.7**	**-**	**-**	**2.7**	**7.3**	**-**	**-**	**7.3**
Net cash flow from investing activities	**(16.7)**	**(1.1)**	**-**	**(17.8)**	**(23.4)**	**(1.0)**	**-**	**(24.4)**
Free cash flow	**42.4**	**8.6**	**(8.0)**	**43.0**	**6.2**	**(0.2)**	**0.0**	**6.0**
Buyback/(disposal) of own equity instruments	(0.1)	-	-	(0.1)	(1.1)	-	-	(1.1)
Proceeds from and repayments of financial liabilities	(0.9)	(8.2)	-	(9.1)	(13.4)	(1.4)	-	(14.8)
Dividends payments	(11.6)	(8.0)	8.0	(11.6)	(24.9)	-	-	(24.9)
Translation differences	-	-	-	-	-	-	-	-
Group and Associated companies	-	-	-	-	-	-	-	-
Net cash flow from financing activities	**(12.6)**	**(16.2)**	**8.0**	**(20.8)**	**(39.3)**	**(1.4)**	**(0.0)**	**(40.7)**
Net increase/(decrease) in cash and cash equivalents	**29.9**	**(7.7)**	**-**	**22.2**	**(33.1)**	**(1.6)**	**(0.0)**	**(34.8)**

5. KEY DEVELOPMENTS

Approval of the Company's dividend policy

At its meeting on 26 July, the Board of Directors approved the dividend policy that will be applicable from the current fiscal year and whose main characteristics are as follows:

- The Board of Directors will propose a dividend per share against each fiscal year results equivalent to approximately 50% of the earnings per share obtained;
- The payment of said dividends will be agreed according to the following schedule:
    - Two interim dividends: one agreed upon at the end of the first semester and another agreed in November of each year;
    - A final dividend to be proposed to the Ordinary General Shareholders' Meeting of the Company;
- The dividend policy is subject to compliance with the criteria of financial discipline established in the Strategic Plan and the legal and contractual obligations of the Company.

Resolution to pay an interim dividend from 2017 earnings

At the meeting held on 26 July, the company's Board of Directors resolved to pay an interim dividend from 2017 profits of €0.061 per share (before withholdings) on 6 September.

Cancellation of 4 million own shares

The deeds to the capital decrease ratified at the Annual General Meeting of 30 March 2017, whose execution was approved by the Board of Directors on 26 April 2017, were filed with the Madrid Companies Register on 11 May.

The company's share capital was reduced by cancelling 4 million own shares held as treasury stock in the wake of the share buyback programme carried out in 2016.

As a result, the company's share capital is now made up of 246,272,500 shares with a unit par value of €0.90, represented by book entries and all belonging to a single class.

Payment of the 2016 final dividend

The company paid out a final dividend against 2016 profits of €0.047 per share (before withholding tax) on 18 April 2017.

This dividend, coupled with the interim dividend of €0.032 per share paid out on 1 December, implies a total dividend from 2016 profits of €0.079 per share (before withholdings).

S&P affirms Ence's credit rating

On 6 April 2017, Standard and Poors affirmed Ence's BB- rating, assigning it a a stable outlook.

Forward sale agreements covering 100% of pulp production in 2017

In early 2017, Ence secured forward sale agreements covering 975,100 tonnes of pulp production.

As a result, the company has locked in the sale of up to 100% of its annual production target (a higher percentage than it locked in in 2015).

APPENDIX 1: WORKING CAPITAL AND CAPEX IN THE BALANCE SHEET

Figures in €Mn	Jun-17	Dec-16	Δ%	Mar-17	Δ%
Inventories	39.6	43.6	*(9.2%)*	39.8	*(0.6%)*
Trade and other receivables	102.0	89.0	*14.5%*	103.4	*(1.4%)*
Other current assets	6.5	3.6	*81.7%*	5.6	*14.8%*
Trade and other payables	(159.5)	(162.2)	*(1.7%)*	(166.0)	*(3.9%)*
Income tax	(5.6)	1.3	*n.s.*	(2.9)	*93.4%*
Current provisions	(6.6)	(7.3)	*(9.8%)*	(7.3)	*(9.8%)*
Working Capital	**(23.6)**	**(31.9)**	***(26.2%)***	**(27.2)**	***(13.4%)***

The reported negative working capital balance decreased by €8.3m between year-end 2016 and 30 June 2017 due mainly to the €15.9m increase in trade receivables and other current assets, which was partially eroded by the €6.9m increase in tax payables and the €4m decrease in inventories.

Figures in €Mn	2Q17	2Q16	Δ%	1Q17	Δ%	1H17	1H16	Δ%
Maintenance capex	4.4	3.0	*46.7%*	2.6	*73.4%*	6.9	12.2	*(43.8%)*
Environmental capex	1.1	2.3	*(52.5%)*	0.5	*97.9%*	1.6	4.3	*(62.6%)*
Efficiency and expansion capex	2.8	14.9	*(81.1%)*	2.9	*(2.1%)*	5.8	22.1	*(73.7%)*
Pulp business capex	**8.3**	**20.2**	*(58.8%)*	**6.0**	*39.2%*	**14.3**	**38.7**	*(63.0%)*
Maintenance and environmental capex	1.1	1.6	*(30.1%)*	0.6	*91.6%*	1.8	1.7	*3.1%*
Efficiency and expansion capex	0.3	-	*n.s.*	0.4	*(39.3%)*	0.6	-	*n.s.*
Energy business capex	**1.4**	**1.6**	*(14.3%)*	**1.0**	*37.2%*	**2.4**	**1.7**	*40.8%*
Total capex	**9.7**	**21.9**	***(55.5%)***	**7.0**	***38.9%***	**16.7**	**40.4**	***(58.6%)***

Capitalised capex amounted to €16.7m in 1H17, €14.3m of which corresponded to the Pulp business and €2.4m, to the Energy business.

In the Pulp business, investments in efficiency and expansion work totalled €5.8m, largely related with energy efficiency upgrade work and the preparatory work for the addition of 30,000 tonnes of capacity at the Pontevedra complex planned for 1Q18. Maintenance capex amounted to €6.9m, while environmental capex totalled €1.6m and was largely related to the Zero Odours projects at both the Pontevedra and Navia complexes.

In the Energy business, growth capex amounted to €0.6m, related to the development of the new 40-MW plant in Huelva. Maintenance capex in this business totalled €1.8m.

APPENDIX 2: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S FACILITIES

Facility	Type of facility	MW	Remuneration to investment 1H17 (Ri; €/MW)	Type of fuel	Remuneration to operation 1H17 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Black liquor	35.141	-
	Biomass generation	36.2	115,095	Agroforestry waste	59.922	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Black liquor	35.168	-
			27,654	Agroforestry waste	60.967	6,500
Huelva 41MW	Biomass generation	41.0	123,133	Agroforestry waste	66.084	6,500
Huelva 50MW	Biomass generation	50.0	133,226	Agroforestry waste	58.263	6,500
Mérida 20MW	Biomass generation	20.0	146,789	Agroforestry waste	57.241	6,500
C. Real 16MW	Biomass generation	16.0	131,813	Olive marc	44.921	6,500
			-	Agroforestry waste	-	6,500
Jaen 16MW	Biomass generation	16.0	131,813	Olive marc	44.921	6,500
			-	Agroforestry waste	-	6,500

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

Power plants that are 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:

- The **remuneration on investment (Ri)** guarantees an annual return of 7.4% on the estimated cost of building a 'standard' plant. 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

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

  Income from operations = (Ro + pool) * MWh

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 adjusting the Ri 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

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.

APPENDIX 3: ENVIRONMENTAL PLEDGE

Each of ENCE's Operations Centres, located in Huelva, Navia, Pontevedra, Merida, Ciudad Real and Jaen holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass. These permits define the environmental criteria for operating an industrial facility. The goal is to prevent, or at least minimise, and control the impact of the Group's business operations on air, water and soil contamination with a view to protecting the environment as a whole. Accordingly, the permit sets 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 legislative. 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, the Group has established targets with a clear environmental focus aimed specifically at:

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

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

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

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

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 94% and 79%, respectively, as of the June 2017 close.

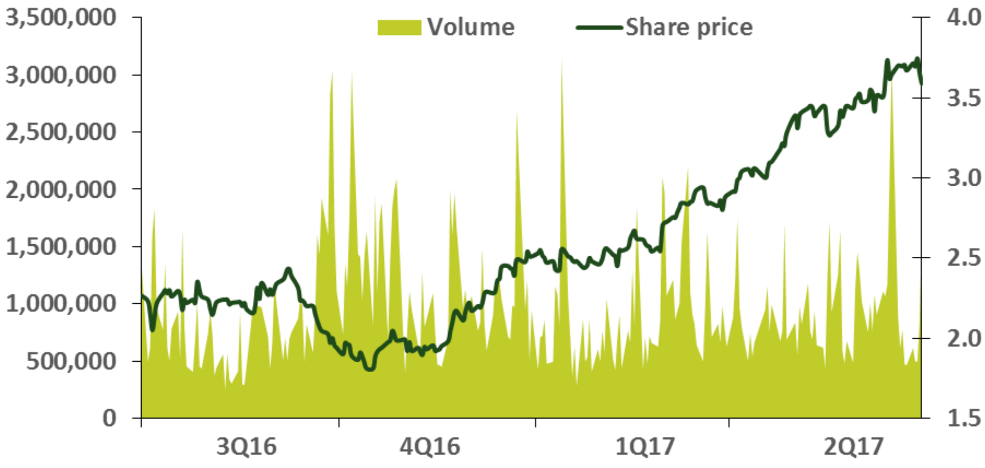
As for the sustainability of biomass as a fuel, Ence has once again emerged as a pioneer, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew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

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

APPENDIX 4: 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 Small Cap, Ibex Top Dividendo and FTSE4Good stock indices.

Ence's share price ended June at €3.59, implying a cumulative gain of 43% in 1H17. During the same period, the company's sector peers saw their share prices increase by 8.51% on average (*).



Source: Bloomberg

	2Q16	3Q16	4Q16	1Q17	2Q17
Share price at the end of the period	2.15	1.94	2.51	2.89	3.59
Market capitalization at the end of the period	529.5	477.8	618.1	711.7	884.1
Ence quarterly evolution	(27.5%)	(9.8%)	29.4%	15.1%	24.2%
Daily average volume (shares)	1,387,907	887,938	1,159,686	883,525	951,483
Peers quarterly evolution *	(20.5%)	2.1%	31.5%	1.9%	5.3%

(*) Altri, Navigator, Fibria and Suzano.

Ence issued €250m of 5.37% bonds due 1 November 2022 on 30 October 2015. The coupon is payable twice-yearly. The bonds are traded on the EuroMTF exchange in Luxembourg.

	2Q16	3Q16	4Q16	1Q17	2Q17
Share price at the end of the period	105.32	103.63	105.78	107.14	107.15
Yield to worst at the end of the period*	4.02%	4.39%	3.52%	2.41%	1.90%

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

The issuer and issue credit ratings assigned to Ence and the bond issue as of the June close are shown below:

	CORPORATE			ISSUE
	RATING	OUTLOOK	DATE	2016 BOND ISSUE
Moody's	Ba3	Stable	01/12/2016	Ba3
S&P	BB-	Stable	06/04/2017	BB-

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